



Northumberland

County Council

CABINET

18 NOVEMBER 2021

Budget 2022-23 and Medium-Term Financial Plan 2022-2025

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Richard Wearmouth, Portfolio Holder for Corporate Services and Deputy Leader

Purpose of report

This report provides an update on the development of the 2022-23 Budget and the Medium-Term Financial Plan (MTFP) covering the period 2022 to 2025. This report also details budget proposals for 2022-23 to meet the budget gap, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement 2022-23 in December 2021.

Recommendations

Members are requested to:

- 1. Note the revisions to the assumptions within the 2022-23 Budget.**
- 2. Approve the budget balancing measures for 2022-23 totalling £9.704 million, as a basis for budget consultation, prior to the receipt of the Local Government Finance Settlement 2022-23.**
- 3. Note that further work is required to refine the Medium-Term Financial Plan and that there are still budget balancing measures required to be identified over the term of the Medium-Term Financial Plan.**
- 4. Note the budget consultation strategy.**

Link to Corporate Plan

The Council's budget and Medium-Term Financial Plan are aligned to the priorities outlined in the Corporate Plan 2020-21 "A Council that Works for Everyone".

Key issues

1. Local government is operating in a period of significant financial uncertainty brought about by ongoing significant budget pressures (including social care, special educational needs, and disability services), as well as other unfunded pressures arising from demographic and pay and price inflation. Forecasting the ongoing impact of Covid-19 upon the Council's expenditure, income and Government funding levels adds a further layer of complexity and uncertainty. The financial outlook for the Council will continue to be extremely challenging for the foreseeable future.
2. There continues to be significant uncertainty in terms of the financial settlement for local government and how the available funding will be shared between local authorities through the funding formula.
3. The Government published a Comprehensive Spending Review (CSR) in November 2020 covering one year only; 2020-21. This CSR prioritised the Government's response to the Covid-19 pandemic. Further to this the Government has published CSR 21 (for consultation) on 27 October 2021, covering the three-year period 2022 to 2025. CSR 21 determines the overall amount the Government intends to spend on departments and public services. The Government announced that it would be providing a multi-year settlement and an average real-terms increase of 3% a year in core spending power for local government. The implications of this for each local authority will be announced in December as part of the Local Government Provisional Finance Settlement.
4. It was previously expected that the outcome of the Fair Funding Review (FFR), including the move to 75.00% Business Rate Retention, would have been implemented during 2021-22. However, this has been delayed due to the impact of the coronavirus pandemic. No announcement was made about the government's plans for funding reform or a reset of the Business Rates Retention (BRR) system, both of which were originally expected to be implemented in 2019-20, but which have been delayed a number of times. This adds further uncertainty and complexity to medium term financial planning.
5. The lack of clarity in relation to the CSR and FFR is exacerbated by uncertainties in relation to future funding of the Improved Better Care Fund, short term funding provided to local authorities for adult and children social care pressures, and the upcoming white paper on social care funding which was announced by the Prime Minister in his statement to the House of Commons in September this year. This level of uncertainty makes financial planning extremely difficult and requires the Council to be flexible and adaptable as it considers setting the 2022-23 Budget and the Medium-Term Financial Plan. Robust financial planning arrangements within the Council will ensure that the Council is well placed to react effectively to any outcome.

However, planning with this level of uncertainty is not conducive to effective long-term decision making.

6. CSR 21 was helpful in that it advised that the council tax referendum limit would be set at 2.00% for the three years 2022-23 to 2024-25. It also advised that councils could increase the precept in relation to Adult Social Care at a rate of 1.00% per annum over the next three years.
7. At this stage it has been assumed that there are no net long term financial impacts from Covid-19; This applies to both increased cost pressures and loss of income. The exception to this is where the Council anticipates an increase over the medium term in relation to waste disposal costs as more people work from home. These costs have been included as a non-recurrent pressure within the MTFP and it is proposed that these costs are funded from reserves. This position will be kept under review and assumptions will be amended if it becomes apparent that there will be a budgetary impact in 2022-23 and over the timeline of the MTFP.
8. To ensure the MTFP can be developed effectively, and savings targets delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.
9. The current MTFP forecast, that the Council agreed on 24 February 2021, covered the three-year period 2021-22 to 2023-24. It is recommended at this stage that the MTFP covers a three-year period 2022-23 to 2024-25 and this will be presented to full Council in February 2022. Planning across the medium term in this way ensures that decisions can be made in the knowledge of the likely financial position of the Council and provides a basis for effective decision making whilst taking account of the best estimates of income and expenditure.
10. Details of the local government financial settlement are expected to be announced by Government in late December 2021. The settlement will cover the three years 2022-23 to 2024-25. Work will continue on the MTFP to incorporate the outcome of the financial settlement, and this will be presented to full Council in February 2022.
11. In line with previous practice the Budget for the next year and the MTFP model has been reviewed. A savings requirement of £9.704 million has been identified as required to balance the budget for 2022-23, and a provisional savings requirement of £28.000 million has been calculated as necessary for the following two financial years. This will continue to be reviewed as the MTFP is updated, and early identification and planning for savings required in the later years of the MTFP will be essential.
12. This report sets out budget savings proposals totalling £9.704 million identified for 2022-23. Work will continue to identify proposals over the following three years of the MTFP.

13. Savings proposals have been and will continue to be developed using the following principles:
- a) Setting a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax.
 - b) Investing to save; recognising that one-off resources can be used to generate future savings that will pay back the investment.
 - c) Ensuring that service and financial planning is fully aligned with the Corporate Plan.
 - d) Continuously reviewing services in order to keep reductions to front line services to a minimum.
 - e) Maintaining the Council's strong financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of outcomes.
 - f) Maintaining a commercial focus and maximising income generation while at the same time managing risk.
 - g) Ensuring the Council can demonstrate value for money in the delivery of its priorities.

Background

1. Medium-Term Financial Plan 2022-23 to 2024-25

- 1.1. The Medium-Term Financial Plan was presented to Council on 24 February 2021 when the budget was set for 2021-22. The report set out a number of assumptions and identified a gap of £31.241 million from 2021-22 to 2023-24.
- 1.2. The MTFP is currently being updated to cover the period 2022-23 to 2024-25. Savings of £9.704 million have been identified to balance the budget for 2022-23 and a further savings requirement of £14.000 million for each of the years covering the period 2023-24 to 2024-25 has also been identified.
- 1.3. The plan will continue to be updated to reflect changing circumstances and a revised MTFP will be presented to the Cabinet as the budget process develops.

2. Review of the Medium-Term Financial Plan

- 2.1. The financial outlook for the Council continues to be extremely challenging. The national finances are in a highly uncertain position due to Covid-19 and the impact of the UK exit from the European Union. The Government is indicating that tax rises are being considered but that unprotected Government departments could face further funding reductions.
- 2.2. The assumptions for the 2022-23 Budget and MTFP are currently as follows:
 - a) **Revenue Support Grant (RSG) and Fair Funding Review (FFR)**
 - (i) that the Council will receive a cash flat government settlement over the period of the MTFP;
 - (ii) that additional funding received for Adults and Children's Social Care in 2020-21 and 2021-22 will become recurrent;
 - (iii) that there will be no increase or decrease in the Better Care Fund;
 - (iv) that the council tax referendum level will be 2.00% over the MTFP period and that an increase to the Adult Social Care Precept of 1.00% will be applicable for the years 2022-23 to 2024-25. For 2022-23, this is in addition to 1.25% which was carried forward from the previous year. It has been assumed that council tax increases will be in line with the referendum level in each of the next four years.

At this stage any of the assumptions made could be subject to change as a result of the CSR, the FFR and the publication of the provisional local government finance settlement, which is expected in December 2021.

b) New Homes Bonus (NHB)

As in the previous MTFP it is assumed that the NHB legacy payments continue to reduce and cease after 2022-23. Furthermore, it is

assumed that there will be no further NHB allocations. On that basis it is presently forecast that NHB of £1.337 million will be received in 2022-23 (a reduction of £2.966 million when compared to 2021-22). Members are asked to note that the Government are currently reviewing the NHB scheme which could change this position.

c) **Council Tax and Business Rate Tax Base Increases**

Regular reviews are carried out in relation to tax base forecasts. The tax base is impacted by new builds, the incidence of uptake of discounts and exemptions, with a further major variable being the impact of the local council tax reduction scheme. At this stage a slight increase in the tax base is forecast in each year as a result of growth from new developments over the lifetime of the MTFP period. The forecast for the tax base for 2022-23 will be closely monitored in the coming weeks in what is a very volatile area.

d) **Pay Inflation**

The National Living Wage (NLW) has been included for social care budgets across the MTFP period. An annual pay inflation allowance of 2.25% has also been included for pay costs across the MTFP period in relation to national pay negotiations. The final determination of these pay inflation factors will impact on the MTFP assumptions.

When the 2021-22 budget was set, inflation for pay increases was included at 1.25%. Staff on NHS terms and conditions have since received a 3.00% pay increase and firefighters 1.50% increase. The pay increase for staff on local government terms and conditions is now estimated to be 2.00% as the employer's offer of 1.75% has been rejected. All of the costs over and above 1.25% have been added as a recurrent pressure to the budget and MTFP.

e) **Non-Pay Inflation**

Excessive increases in utility charges are being experienced nationally and this is applicable to local government and the Council too. Increases over and above "normal" inflationary increases will be funded from reserves for the first two years of the MTFP. The MTFP assumes that inflationary increases for utilities return to "normal" levels after this time.

f) **Pressures, Growth and Demographic Changes**

Money has been set aside for adult social care within the proposals to accommodate growth in the ageing adult population in Northumberland and to cover any additional costs following the transfer of NHS staff to the Council.

Children's services has continued to overspend due to an increase in numbers and there is a pressure within the service which it is considered prudent to address. The Council has also experienced an

increase in the number of special education needs pupils who require home to school transport. Two new children's homes are being built in order to keep Northumberland children in the county which will in turn reduce the cost of out of county placements.

Additional resources are to be made available to the library service over the next three years.

In recognition of the unprecedented demand for the planning service along with Northumberland Economic growth policies it is anticipated that over the next 3 years there will be a year-on-year increase in the volume of planning applications both small scale and strategic. In order to cope with this demand additional staffing resources are to be made available to the Planning Service.

As more houses are built within the county and more residents are changing the way in which they work additional investment is needed for refuse, bulky and garden waste collection services, and this has been factored into the budget, along with any associated income and contractual commitments which arise from this.

Changes made to the way in which the Council's employees work, that is working from home has put increased pressure on IT contracts and budgets which it is recommended are rebased.

When the 2021-22 budget was set inflation for pay increases was included at 1.25%. Staff on NHS terms and conditions have received a 3.00% pay increase and firefighters 1.50% increase. The pay increase for staff on local government terms and conditions is now estimated to be 2.00% as the employer's offer of 1.75% has been rejected. All of the expected costs over and above 1.25% have been added as a recurrent pressure to the budget and MTFP.

As a result of the Covid-19 pandemic it has not been possible to realise some of the savings originally identified over the last two years. It is considered prudent to rebase those budgets at this time.

- 2.3. It is important to note that at this stage it is assumed in the main that there is no net long term financial impact from Covid-19. The Council has faced significant additional costs due to Covid-19, however, these costs are dissipating. The exception to this is where the Council anticipates an increase over the medium term in waste disposal costs as more people work from home. These costs have been included as a non-recurrent pressure within the MTFP and it is proposed that they will be funded from reserves. In terms of income loss within service groupings it is assumed that income levels will be restored to pre Covid-19 levels by April 2022 or there are compensating reductions in expenditure to offset lost income. At this stage it is assumed that Government support through Covid-19 grants and compensation for lost income ends after the current financial year.

2.4. These assumptions will be kept under review and the MTFP refined as necessary.

3. Savings

3.1 Directorates were asked to assess the deliverability of agreed savings for both the current year (2021-22) and 2022-23. The assessment was carried out using the following principles:

- a) Original permanent planned savings for 2021-22 will be achieved or an alternative must be delivered on an on-going basis in 2022-23.
- b) Savings originally identified and verified as deliverable for 2022-23 will be achieved.

3.2 Work is ongoing to develop delivery plans for those savings that have not yet been realised, and Executive Directors have been asked to identify alternative proposals where necessary and possible. It is recognised that the delivery of savings in the current year has been extremely challenging and, in some cases not possible so the budgets have been rebased.

3.3 In order to ensure delivery of a balanced budget, work has commenced on identification and development of additional savings proposals. The recommended framework and MTFP principles surrounding the development of these plans is shown on page 3.

3.4 The following paragraphs provide an overview of the savings proposals:

Adults' Wellbeing

The Review and Independence team will continue to drive out savings via case review, contract review with providers and working on 1:1 packages. The service will undertake a review of the client transport process in order to generate savings. These proposals are expected to deliver savings of £3.261 million in 2022-23.

Children and Young People

The service will continue to manage demand and income opportunities in order to generate savings. A number of services will be reviewed, such as Transformation, Northumberland Adolescent Service, Early Help and Prevention, Family Time, Young Carers and Northumberland Safeguarding Children's Committee, in order to develop better models of delivery, without adversely impacting on front line service delivery. These proposals are expected to deliver savings of £1.482 million in 2022-23.

Community Services

Income opportunities and fee optimisation will continue to be developed across all service areas and the service will continue to manage staff budgets in relation to turnover and vacancies in order to generate savings. The proposals identified in this portfolio are expected to deliver savings of £0.364 million in 2022-23.

Corporate Services

The management of staffing and vacant posts, a review of the contingency and non-staffing budgets, and a renewal of contracts is expected to deliver savings totalling £1.179 million in 2022-23.

Healthy Lives

The Council will be working with its partner to develop efficiencies in service delivery and ensure that the fee to Active Northumberland for providing services is reduced. There are also contract savings in this area and overall, the savings total £0.170 million in 2022-23.

Local Services

Income opportunities and fee optimisation will continue to be developed across all service areas. It is envisaged that these proposals will deliver savings of £2.248 million in 2022-23.

Corporate and Cross Directorate Initiatives

All services have committed to new ways of working and reducing their carbon footprint. Wherever possible a reduction of 25% to travel and subsistence budgets has been identified. This equates to £0.283 million and is included in the savings figures shown above.

It is anticipated that the restructure of the Executive Team and Senior Management in the authority will generate savings of £1.000 million.

- 3.5 The budget planning process is a continuing and iterative process, and further additional savings will be required over the life of the MTFP. Work is also progressing in relation to the revenue cost of the capital programme and the financial implications of the transfer of NHS staff to the Council.
- 3.6 Work is ongoing to develop proposals for the savings required beyond 2022-23, and this will be supported by the Improvement and Innovation Team. However, it may be necessary for the Council to consider utilising some of its reserves non-recurrently to fund any gap.

4. Budget Consultation Strategy

- 4.1 The Council recognises that consultation is an important part of planning and delivering services that meet people's needs. This is set out in the Corporate Plan:
 - a. *".. we know that we still face tough decisions that will not be universally popular. We will not take these lightly and pledge that we will pay attention and act on your concerns."*
- 4.2 The purpose of the general budget consultation with residents and stakeholder groups is to communicate the budget challenge; ascertain an understanding of people's views on the way we plan to meet this challenge; and determine whether views differ for different groups. This will be used to help guide and inform the annual budget setting process. Where proposals will potentially have greater impact on the public or on groups protected by

equality law, services will carry out their own consultation on the detailed proposals and work closely with our most vulnerable residents to help them understand what changes to services may mean for them.

- 4.3 Budget consultation will commence on Friday 10 December 2021 and will run for six weeks to Friday 21 January 2022 to allow for full discussion and debate at local area councils; parish and town councils; and, with staff and the unions.
- 4.4 There will also be an on-line question and answer session with the Leader of the Council, Glen Sanderson.
- 4.5 Service areas will consult on their budget proposals directly with individual services users, partners, and key stakeholders.
- 4.6 Feedback on budget consultation will be online.
- 4.7 Consultation will be promoted primarily through local and social media channels, linking through the Council's budget website.

Implications

Policy	This is the first year of this Administration’s Medium-Term Financial Plan; and it fully supports the priorities outlined in the Corporate Plan 2020-21 - A Council that Works for Everyone.
Finance and value for money	The financial implications of the 2022-23 Budget and the Medium-Term Financial Plan are detailed within this report. Financial year 2023-24 and beyond will continue to be challenging.
Legal	The provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon and require the Council to set a balanced budget with regard to the advice of its Chief Finance Officer. The Act also states that the Council has got to set its budget before 11 March in the financial year preceding the one in respect of which the budget is set.
Procurement	There are no specific Procurement implications within this report.
Human Resources	The size of the financial challenge will have an impact on staffing levels across the Council. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible.
Property	The individual proposals will carefully consider the impact with regard to property requirements.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> <input type="checkbox"/>	<p>All individual budget savings proposals for 2022-23 are being, or will be, screened for potential equality implications, and where potential equality impacts are identified, specific impact assessments are being, or will be, carried out unless the final decision on whether to proceed with the saving will be taken after the budget round. In those cases, impact assessments will be carried out by the relevant Executive Director before final decisions are taken and could potentially lead to decisions that some savings should not be made in their currently proposed form but should be achieved in other ways. An overall assessment of the equality impacts of the budget proposals is in preparation; this will be updated as work on the budget proceeds, including taking account of the outcome of consultations on elements of the savings proposals. A final version will be presented to the Council alongside the final budget proposals in February 2022.</p> <p>At this stage, the amounts indicated for 2023-24 and 2024-25 are simply initial savings targets that are expected to be required, based on current information and assumptions. As proposals are developed to achieve the overall savings for these years, they will be screened for potential equality considerations and, where potential impacts are identified, specific impact assessments will be carried out before final decisions are taken.</p>

Risk Assessment	The risks associated with the budget proposals will continue to be reviewed up to and including implementation of the detailed proposals. Any efficiency proposals that are considered to represent a risk will be subject to a separate comprehensive risk appraisal process. The risk appraisal process is the responsibility of the relevant Executive Director and will continue up to the County Council and beyond as individual budget reduction measures are implemented.
Crime & Disorder	There are no specific Crime & Disorder implications within this report.
Customer Consideration	The individual proposals will carefully consider the impact upon both customers and residents of Northumberland.
Carbon reduction	The Council continues to develop proposals concerning the management of energy which are supported by the budget.
Health & Wellbeing	The Council's budget is founded on the principle of promoting inclusivity.
Wards	All wards.

Background papers:

Cabinet report: 9 February 2021 and Council Report 24 February 2021: Budget 2021-22 and Medium-Term Financial Plan 2021-24

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

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