

Report

Cabinet

Part 1

Date: 10th January 2024

Subject **2024/25 Budget and Medium-Term Financial Plan (MTFP)**

Purpose To highlight key issues affecting the development of the Council's 2024/25 budget and Medium-Term Financial Plan (MTFP) and present the draft proposals for the 2024/25 budget. Cabinet is asked to agree the proposals in order to commence the budget consultation process for this year. Consultation results will be reported back to Cabinet in February 2024, when Cabinet will agree a final budget to recommend to full Council.

Author Head of Finance

Ward All

Summary This report presents the draft budget proposals for 2024/25.

Budget preparations this year have continued to be challenging, building on the unprecedented circumstances of the last few years. The Council, like others, are dealing with significant budget pressures. Cost increases and increasing demand are resulting in significant budget shortfalls over the immediate and medium term.

The timing of the draft budget and consultation has been changed this year so that the Council's draft financial settlement was known beforehand. Whilst there is still further work to complete before the final budget proposals can be completed; it does result in reducing a significant budget uncertainty. The 2024/25 budget shortfall before savings is £3,805k (£42,085k over the medium term), at this point though more analysis is required on certain elements of the Council's financial settlement. The Council is required to manage these shortfalls to both produce balanced annual budgets and which also delivers sustainable future finances to ensure the Council continues to deliver services to residents in Newport and meet priorities.

The Council received its draft 'Revenue Support Grant' (RSG) on 20th December and budget details included in this report include that. More detail on the settlement is included in this report.

Residents, service users, scrutiny committees, school forum and stakeholders, such as the independent Fairness Commission will have the opportunity to provide feedback for Cabinets consideration before they recommend their final budget proposals to full Council.

The report, along with the appendices, set out the draft budget pressures and investments, budget savings and increase in local council tax, which are key elements of the proposed budget.

Section:

- 1 Background
- 2 Context
- 3 The Budget Gap
- 4 Budget savings
- 5 Budget process and consultation

- 6 Risk, financial resilience, and performance
- 7 Report review and statutory comments

Appendix:

- Appendix 1 Budget investments
- Appendix 2 New budget savings for consultation
- Appendix 3 New budget savings implemented under delegated authority
- Appendix 4 Demand models for social care
- Appendix 5 Fees & charges for consultation
- Appendix 6 Financial resilience 'snapshot'
- Appendix 7 Medium term financial projections
- Appendix 8 Projected earmarked reserves
- Appendix 9 Corporate risk register summary - Quarter 2
- Appendix 10 New budget savings for consultation – proposals
- Appendix 11 New budget savings implemented under delegated authority - proposals

Proposal

1. **Cabinet agreed the following draft proposals for public consultation:**
 - i) Budget savings proposals in Appendix 2 (summary table) and Appendix 10 (detailed proposals).
 - ii) A council tax increase of 8.5%, a weekly increase of £1.50 - £2.01 for properties in Band A to C, the most common bands in Newport, as set out in paragraphs 3.8.
 - iii) Proposed fees and charges in Appendix 5.
 - iv) The budget investments shown in Appendix 1, including those for schools.
2. **Cabinet approves:**
 - v) Implementation of the delegated decisions in Appendix 3 (summary table) and Appendix 11 (detailed proposals) by Heads of Service with immediate effect, following the usual Council decision making processes.
3. **Cabinet notes:**
 - vi) The position on developing a balanced budget for 2024/25, noting that the position will be subject to ongoing review and updates between now and the February Cabinet when the final budget is agreed.
 - vii) The current position in the development of a 'Transformation Plan' for the Council and the HoF comments on the importance of that in relation to the medium/long term budget challenge and contributing to sustainable financial footing for services.
 - viii) Further work is required to specifically review and manage the financial impacts of some key risks coming out of the draft settlement for 2024/25.

Action by Executive Board/ Heads of Service

Timetable Immediate:

Decisions subject to consultation include investments set out in Appendix 1, savings set out in Appendix 2 (summary table) and Appendix 10 (detailed proposals), fees and charges (Appendix 5), and schools funding position (section 3). These, along with the proposed council tax increase will form the basis of the consultation process.

This report was prepared after consultation with:

- Leader of the Council
- Chief Executive
- Strategic Directors
- Head of Law and Standards
- Head of People, Policy and Transformation

Signed

1 BACKGROUND

- 1.1 The Medium-Term Financial Plan (MTFP) included within the Council's 2023/24 budget report, presented in March 2023, identified a potential budget gap of £15,170k in 2024/25. This report provides an update to reflect the on-going work undertaken on the Council's budget, MTFP and saving proposals to balance the budget gap which currently stands at £3,805k.
- 1.2 A significant number of factors are considered when reviewing the Council's budget and MTFP. These factors are influenced by both internal and external issues with the latter itself affected by local, Welsh and UK wide considerations. The table below compares the position back in March 2023 and currently in relation to the 2024/25 budget. The Council's Medium Term Financial Plan is shown in Appendix 7

Table 1. Budget Gap

	March 2023	Current	Significant movements
Funding			
RSG	+10,188	+13,450	Impact of demographic changes and up to date population numbers in particular
Council Tax	+ 2,827	+6,454	Increased to 8.5%, from 4%
Anticipated Teacher's pension increased funding		+3,419	Neutral to budget gap as matched off with costs
Cost Pressures			
Inflation/Increased costs	25,139	17,678	Energy costs reduction -£8,019k
Budget Investments / Pressures	3,046	9,450	Teachers' pensions increase +£3,419k Homelessness demand increases +£600k Children's services- placements +£2,664k
Budget Gap	15,170	3,805	

- 1.3 This report explains the key assumptions and issues which impact on the above factors thereby explaining the position. External considerations and issues drive a large part of the budget preparation, and these are explained first in this section.

2 CONTEXTS

- 2.1 The external considerations impacting on the Council are key aspects in the Council's financial planning. Budget preparations have continued to present significant challenges not only building on the unprecedented circumstances of the last few years but also the continuation of economic issues such as relatively high inflation rates.

UK Autumn budget and spending review 2023

- 2.2 This took place on the 22nd November and did not change the landscape of future public sector funding significantly from the current assumptions though there were some changes and announcements which have an impact on the Council's budget planning. The following outline the key messages and issues which impact on Local Government:
- (i) Minimum wage increased to £11.44 per hour, a 9.7% increase. This impacts on the Local Government National Joint Committee (NJC) pay structure which must meet this minimum at its lowest pay points and then impacts on all pay points above that in the overall pay structure. This brings about significant pay inflation into the Council's budget planning and assumptions. Newport City Council is committed to paying employees the 'foundation living wage' and therefore, within the NJC pay structure, pay levels locally meets the 'foundation wage' minimum levels which is now £12 per hour, a 10% increase itself.

As well as for its own staff, the budget assumptions include an increase in social care commissioned services budgets which allows for at least this foundation living wage level to be paid in those sectors, which historically have paid less than this level in many instances. This

has also resulted in significant contract price inflation in these service areas. The social services commissioning team who contracts with the care market are responsible in ensuring all contracted services providers commit to and pay at least this level.

- (ii) extended the cash freeze in capital spending for a further year meaning the WG block grant for core capital spending would fall by 6% in real terms.

Whilst not directly impacting on the Council's budgets, the Autumn budget also announced

- (iii) Local Housing Allowance increased to the 30th percentile of local rent levels which will increase the housing benefits limits available to those who rent in the privately owned housing sector. These benefits are administered by councils.
- (iv) Small business rates multiplier was frozen and the current retail, hospitality, and leisure business relief of up to 75% was extended for one year. In its own budget, the WG confirmed it too would extend the scheme by a further one year but at a rate of 40%. These reliefs are administered by councils.

- 2.3 The biggest impact of the Autumn budget was the confirmation that councils' funding outlook beyond the 2024/25 budget next year would potentially become very challenging. The budget confirmed the impact on the Welsh Government funding which would deliver a £305m consequential increase in funding over the three years to 2026/27, of which £167m would be for 2024/25. Given relatively high inflation levels persisting over the medium term; this equates to significant reduced Welsh Government funding levels in real terms over this period. This creates a potentially very significant funding challenge to Local Government in Wales in that if they were to "pass on" the additional funding to the NHS, schools, and pre-school childcare (the causes of the consequential increases above), spending outside of these areas could see cuts in funding.

Economic and process and demand issues

- 2.4 The continuation of relatively high price inflation and service demand continues as the Council's current year budget monitoring and the Autumn statement outlined above confirms. Key issues include:

- **Increasing inflationary costs** – the impact of specific elements of the consumer prices index (CPI) on council supplies and services; affecting both the Council's own direct costs and that of its key suppliers and service providers. Whilst inflation rates have recently fallen, they are still high by historical levels. As a foundation wage employer, the Council also increases its social care commissioned services contracts as outlined above. The significant rise in the foundation wage levels increase the budget inflation required here by significant amounts and it makes up most of the Council's contracts inflation uplifts.
- **Pay awards** – the impact of high inflation on actual and future potential pay awards. This relates to the Council's own pay awards (teachers and (NJC)) and as outlined above, the increase required in the Council's pay spine structure gives rise to significant pay budgets inflation.
- **Cost of living crisis** – the fall in real disposable income experienced since late 2021 has led to increasing requests for government support and demand on local services.
- **Labour market** – labour market challenges are increasing the cost of commissioned services in areas affected by labour shortages, such as social care and technical/professional roles.
- **Increasing demand** - for Council services which increase the Council's costs. These stem from legacy issues coming from the pandemic period as well as population and demographic/ societal changes. These are most acute in the budget areas of social services and housing services.

3 THE BUDGET GAP

3.1 The budget gap arises due to the Council's funding increase being insufficient to meet the cost increases being experienced and assumed by the Council. Cost increases come predominantly from pay/contract inflation and additional costs from service demand increases as explained in the previous section, and investments in services to meet priorities.

The Council's funding

Revenue Support Grant (RSG)

3.2 This was received on 20th December and confirmed an increase in funding of £13,450k. The following summary analysis explains the drivers behind the increase:

- base increase of 3.1% average across Wales	£8,707k
- increased funding to reflect NCC's greater share of the overall funding due to growing population, pupil numbers and other 'needs based' assessment	£4,552k
- other	£ 191k

The increases above are available to contribute to the Council's budget and the needs-based element is particularly high for 2024/25 due to the distribution formula finally including the full impact of the last census data.

3.3 the RSG is a crucial element in all Welsh Council's budgets and typically contributes c70%-75% of their core funding and at Newport City Council, this is currently 77% with Council Tax at 23%. Given all Council's significant reliance on RSG funding, what happens to this grant is crucial, as any reductions or below inflation increases cannot be easily offset by an increase in Council Tax. It also particularly impacts high growth area like Newport where there are significant cost pressures associated with that growth.

3.4 Whilst the overall core settlement was positive for the Council (it received the highest percentage increase across Wales) there is still outstanding work on-going to understand the full impacts of it. In particular, the settlement confirmed, at an all-Wales level, a significant reduction in a number of key specific grants which will have an impact on the Council's budgets, given that many of these are used for day-to-day service provision. These include:

- All Wales reduction in homelessness related grant - £11,500k
- All Wales reduction in social care workforce grant - £10,000k
- All Wales reduction in school related grants - £2,761k
- All Wales reduction in communities for work+ grant - £10,434k

Services are working through the potential reduction in Newport's element of these grants and any budget issues resulting from that will need to be incorporated, as needed, in the Cabinet's final budget recommendations.

In addition to this, a review of the potential RSG increases will be undertaken for future years beyond 2024/25. Currently, in line with current analysis of the Chancellor's Autumn budget, a nil increase is assumed but this requires further analysis and will be updated in time for the Cabinet's final budget in February and as always, reviewed thereafter from there.

Council Tax base

3.5 The Head of Finance (HoF) has set the Council Tax base (i.e. the number of Band D equivalent properties) for 2024/25 and it will increase by 0.6% to 61,329. This tax base is net of a 2% non-collection allowance. This practice is consistent with all councils across Wales and Newport's 'budgeted collection rate' is one of the highest in Wales. The net increase in available funding from the increased tax base is £488k based on the current rate of Council Tax and is reflected in the MTFP for 2024/25.

Council Tax increase

- 3.6 It is well documented that Newport's Council Tax is low compared to others in Wales, generating only 23% of the Council's net budget funding. This council's current year band D council tax rate is 10% lower than the Welsh average which represents about £8.2m in lower funding levels to the Council.
- 3.7 The budget position and figures set out within this report are based on an 8.5% increase within the MTFP in 2024/25 and 4% thereafter. The 2024/25 increase is subject to consultation before the Cabinet confirms their final recommendations on the Council's budget and required Council Tax increase to the Council in February 2024.
- 3.8 For contextual purposes, the table below shows the weekly increases in council tax based on a 8.5% increase. Given the low starting point on Newport's council tax, it will still be lower than most (if not all) of the neighbouring authorities, even if they have a lower level of increase. Newport City Council's proposed tax increase would maintain its position as one of the lowest in Wales.

Table 2: Scenarios illustrating weekly Council Tax increases based on an 8.5% increase.

Bands	A	B	C	D	E	F	G	H	I
Increase per year	£78.21	£91.24	£104.28	£117.31	£143.38	£169.45	£195.52	£234.62	£273.73
Increase per week	£1.50	£1.75	£2.01	£2.26	£2.76	£3.26	£3.76	£4.51	£5.26

- 3.9 The low starting point on Newport's council tax also means that, in cash terms, the increase is more modest than the percentage increase suggests. Given that over half of Newport's chargeable properties are banded A – C, most households would see an increase of between £1.50 and £2.01 per week based on this percentage increase.

Council cost increases assumptions

Several areas are explained in this report.

Increasing costs and demand

- 3.10 Financial pressures and demands on our services continue to grow significantly both for next year 2024/25 and over the medium term. The main issues include:

Inflationary Increases

- With inflation continuing to be relatively high, this is a key area in the setting of this budget. Unavoidable pay and inflationary cost increases, including schools, equate to £17,678k in 2024/25 and £58,279k over the three-year period to 2026/27;
- Commissioned care costs and pay are key areas. Whilst energy remain volatile, we have seen costs reduce since budgets were set for the current year and significant savings are included for those and explained later in this report.
- Significant Income budgets under the Council's decision making are inflated at 4% standard and services can adjust as needed as budget pressures (to go lower) or savings (to go higher) as needed.

Staff Costs

- Staff costs account for over half of all council costs. For the current and previous financial years, pay awards have been based on a cash increase to all pay points in the NJC pay structure, resulting in high percentage increases lower down in the pay grades and lower in the higher grades. Teacher's pay has been based on a more traditional percentage increase across the pay scales. Our planning assumptions for NJC and Teacher's pay assume the continuation of these albeit at lower levels to the previous two years.

- NJC pay award assumption is a £1,340 cash increase (£1,925 in 2022/23 & 2023/24) for pay points up to point 43, equivalent to an average 4.2% across this range, and 2.6% on pay points thereafter. This follows the pattern/structure of the last two year's pay awards, albeit at lower levels.
- Teacher's pay award assumption is a 4.0% increase (from September 2024)

As noted above, the minimum wage and real living wage both increased significantly recently, and these have largely driven the above assumptions.

Service Demand

- The Council is experiencing exceptional levels of demand and cost pressure in some areas, most significantly in Children's and housing services. Demand pressures are closely monitored as part of the Council's 'risk based' financial management arrangements and these provide information to assess demand alongside other considerations.
- Increasing demand is also exacerbated with significant workforce pressures in the social care sector and fragility of the care market.
- In housing service, the main issue is the continuing large number of individuals/ households accommodated in temporary accommodation, due to the lack of suitable accommodation options. This has resulted in significant use of hotel and B&B options at a much higher cost than more traditional options. This is because of the inability of housing benefit subsidy to cover these costs as it is capped for short term accommodation; therefore, the additional cost falls to the council.

3.11 Detailed demand models for social care have been included within Appendix 4 and form the basis of the investments proposed for inclusion within the medium-term projections.

3.12 For 2024/25 specifically, the Council is currently planning to invest around £9,021k in the draft budget over and above an allowance for pay and pricing inflation. More details on proposed investments are included in Appendix 1 and some of the key items include:

- £3,419k for increasing teachers' pension costs and £393k for increasing Additional Learning Needs both within Newport schools and outside.
- £3,074k for increasing demand (£2,774k) and other pressures (£300k) in social care for both children and adult services and investment in children looked after
- £600k for increasing demand in homelessness provision.
- £500k for capital annual sums

3.13 Detailed investments proposals will be finalised in the Cabinet's February meeting and will be done so considering feedback from the public consultation. As well as the permanent investment in the revenue budget, the Cabinet will also propose one-off investments, such as in relation to implementation costs arising from savings proposals, funded from current reserves.

3.14 The financial pressures facing the Council continue to come from pricing and inflation pressures over the three-year period, accounting for nearly £56m or 76% of total investment required over the next three years.

Capital programme and financing

3.15 Unfunded capital expenditure (i.e. not from external grants, capital receipts or reserves) undertaken by the Council gives rise to a need to borrow funds. This results in a long-term and fixed commitment to fund the associated revenue costs that come with this for the repayment of that borrowing (Minimum Revenue Provision (MRP)) and interest costs – together called 'capital financing costs'.

- 3.16 The Council's capital programme moved to a rolling 5-year programme starting from the current 2023/24 financial year. No new schemes funded from Council borrowing have been added to it and the current programme is made up of slippage from the previous 5-year programme and new schemes funded from grants and capital reserves. The capital financing costs arising from the existing schemes in the programme were fully funded as part of the 2021/22 revenue budget and, therefore, there is no requirement to make new revenue budget provision in connection with the current programme.
- 3.17 As outlined in the Council's Capital & Treasury Management Strategy, and in accordance with its legal obligations, the Council should only commit to unfunded capital expenditure (i.e. that funded via borrowing and, ultimately, the revenue budget via MRP/interest costs) where it is prudent, affordable, and sustainable to do so. Considering the significantly challenging revenue budget outlook facing the Council over the medium term, it would be difficult to argue that any new capital financing commitments, driven by new unfunded capital expenditure, would meet these criteria. In saying that, the Council will inevitably face unavoidable capital commitments from such events as building failures, with unavoidable and immediate impacts and other issues where there are no alternative choices. These will need to be assessed as and when they arise, though the financial impact of approving these are potentially very serious and challenging. At this time therefore, given the context described above, the draft revenue budget for 2024/25 and the MTFP do not include any revenue provision for new unfunded capital expenditure. Any new capital expenditure requirements from 2024/25 will need to be fully funded from external or existing resources, such as capital receipts or WG grants. In addition, service changes requiring capital investment, could be funded from savings or re-prioritised budgets which may come about as part of those changes.

School's funding

- 3.18 The MTFP identifies pressures relating to schools amounting to £9,454k in 2024/25, which equates to an increase of 7.3% on the current schools' budget. This is based on an assumed level of inflationary pay award and non-pay increase as noted above in paragraph 3.10, cost pressures highlighted in paragraph 3.12 and the additional costs of new / expanding schools. For the full three-year MTFP period, assessed school pressures amount to nearly £24m, based on current assumptions. These will, like other MTFP assumptions, need to be reviewed regularly and any actual proposed funding increases confirmed through the budget process. Table 3 below sets out the detailed school budget pressures over this timeframe.
- 3.19 The draft budget includes budget provision for an increase in teacher's pension costs at £3,419k and it is assumed and expected that further funding will be made available from the Welsh Government for this. At this time, the Welsh Government is waiting on confirmation from the UK Government on consequential funding to its budget for this which will be distributed to councils. It therefore remains a potential risk at this time for funding and an update on the position will be included in the final budget proposals in February.

Table 3: School budget pressures 2024/25 to 2026/27

	2024/25 £k	2025/26 £k	2026/27 £k
Teaching Staff – pay award assumption	4,026	3,367	3,066
Non-teaching staff – pay award assumption	2,404	1,621	1,550
Contract/Income inflation	(669)	1,018	1,142
New & growing schools	(37)	1,273	1,360
Teachers' Pension increases	3,419		
Other school investments	311	519	

Summary of key budget assumptions

- 3.19 The budget gap results from the various factors outlined above. The table below summarises these and provides a sensitivity analysis for the assumptions, for information.

Table 4: Summary of key assumptions

	2024/25 Actual	2025/26 Budget Planning Assumption	2026/27 Budget Planning Assumption	Sensitivity Analysis +/- 1% change
RSG Increase - core	13,450k	-	-	£3,000K
RSG Increase – data driven changes		500k	500k	n/a
Council Tax – 8.5% 24/25 and 4% thereafter	7,195k	3,521k	3,662k	£711K
Pay inflation – average 4% 2024/25 and 3% thereafter	10,153k	8,026k	7,528k	Teacher's - £550k NJC - £1,150k
Contract inflation – various	6,717k	10,008k	10,787k	Energy- £110k Care providers - £666k

4 Budget savings

- 4.1 The Council is required by law to set a balanced budget every year. Therefore, there has been a need to consider all potential options for addressing the budget gap. Given the very real potential prospect for significant funding shortfalls over the last two years of the current MTFP, it is important to agree a sustainable and prudent budget to provide a solid foundation to move on from.
- 4.2 The identification of significant new savings is a requirement to balance the budget for 2024/25. The draft proposed savings identified for 2024/25 to date total £5,130k, of which £4,417k are new savings with £713k being full year impact of already agreed savings as part of the current 2023/24 financial year. The table below provides a summary of the new savings by decision over the 3-year planning horizon.

Table 5: Summary of projected savings

Saving Decision Type	2024/25 £K	2025/26 £K	2026/27 £K	Impact on posts FTE
Budget savings for full Cabinet recommendation. (Appendix 2)	592	55	0	0.6
Budget savings delegated to officers. (Appendix 3)	3,825	126	126	12.5
TOTAL BUDGET SAVINGS	4,417	181	126	

- 4.3 The Cabinet takes some budget decisions collectively for Council consideration. These proposals total £592k for 2024/25 and £647k over the life of the MTFP. Some lower level, operational and efficiency type budget proposals are delegated to Heads of Service for decision and implementation. These proposals, totalling £3,825k for 2024/25 and £4,077k over the life of the MTFP are listed in Appendix 3.

Fairness and Equality Impact Assessments (FEIAs)

- 4.4 All budget proposals have been reviewed against our Equality and Welsh language duties, and, where appropriate, have had an initial Fairness and Equality Impact Assessment completed. The initial FEIA identifies potential negative or positive impacts in relation to protected characteristics, as defined by the Equality Act 2010, and on Welsh language. These FEIAs will be further informed as a result of public consultation and developed in line with the new Socioeconomic Duty. FEIAs for all proposals requiring one can be found [here](#).

5 Budget process and consultation

5.1 This report presents the draft proposals for the 2024/25 budget. The report asks Cabinet to note:

- the position on developing a balanced budget for 2024/25, acknowledging that the position will be subject to ongoing review and updates.

5.2 The report also asks Cabinet to agree a series of proposals for public consultation. This includes:

- proposed budget investments in Appendix 2.
- proposed savings in Appendix 2 and 3 (summary tables) and Appendix 10 and 11 (detailed saving proposals).
- proposed fees and charges in Appendix 5.
- the position regarding the proposed school funding for 2023/24 in section 3

Budget engagement

5.3 As part of a cycle of engagement to inform budget setting and Council spending, pre-budget engagement is undertaken every year. This year, as part of the work on the community safety Strategic Needs Assessment a public survey was undertaken in the summer. The opportunity was taken to ask respondents to give their views on how community safety and community cohesion compares to other local issues in terms of Council services and spending. We received almost 300 responses which indicated the high importance the public attach to both community safety and cohesion. These findings are made available to senior decision makers as part of the budget setting process.

5.4 The proposed investments set out in this report have been identified with previous public engagement in mind, and citizens will now be invited to give their views on the draft budget and medium-term financial plan during the consultation period. Unlike during the Covid-19 pandemic, the Council again faces severe financial pressures, and this is reflected in the consultation, which will focus on the proposed cost savings and proposed increase to council tax which are needed to balance the budget.

Below is this year's timetable for consulting on and approving the 2024/25 budget:

Table 6: Budget consultation timetable 2023/24

Cabinet agrees draft budget proposals as a basis for consultation	10 January 2024
Consultation period	11 January 2024 to 9 February 2024
Cabinet considers feedback from consultation and agrees final budget recommendations to Council including Council Tax rate	14 February 2024
Final time / date for members / groups written amendments on budget proposals for Council consideration to be received by the 'proper officer' (Head of Law & Standards)	5.00pm, 21 st February 2024
Council approves the 2024/25 budget, service funding and Council Tax rate	29 February 2024

6 Risk, financial resilience, and performance

6.1 A key driver in the Council's budget strategy and MTFP framework is the need to manage the Council's general and financial risks, its financial resilience and performance. This next section looks at these issues and identifies how they are dealt with, whilst considering how they influence the Council's 2024/25 budget and medium-term projections.

Risk

6.2 The Council maintains a corporate risk register, which is regularly reviewed by the Corporate Management Team and Cabinet, as well as the Governance & Audit Committee from a procedural / risk management framework viewpoint. The Council's budget strategy and MTFP framework needs to reflect risks and incorporate appropriate financial mitigation, where required.

6.3 The quarter 1 corporate risk register reported to September 2023 Cabinet identified 15 risks that are considered to have a significant impact on the achievement of the Council's objectives and legal obligations. Overall, 9 of these risks are severe and, in many cases, link the issues set out within the economic context and earlier sections of this report. In some cases, it is increasingly difficult for the Council to effectively prepare and quantify the financial impact of some of these risks until outcomes are known. There are several risks identified in the risk register that to fully mitigate would be unaffordable. In these cases, the risk is identified, and the Council needs to consider and assess how best to mitigate and continue lobbying WG to provide more funding in these areas, as these risks are not unique to Newport. These areas do, however, continue to be monitored closely to ensure that where information is available these risks are considered and where appropriate factored into the Council's financial planning.

6.4 Four current risks with significant uncertainty are (i) stability of social services providers, (ii) pressures on adult services (iii) pressure on delivery of children services and (iv) pressure on housing and homelessness services and in the case of challenges facing social care have already been considered earlier in this report.

6.5 A number of budget investments /pressures are included in this draft budget which directly impact positively on some current risks in the corporate risk register:

Table 7 – Corporate Risk register and the draft budget

RISK	DRAFT BUDGET
Demand for education Additional Learning Needs / Special Education Needs support	budget pressure included in the draft budget
Education out of county placements	
School Finance / cost pressures	no savings included for schools in the draft budget core funding for pay currently funded via grant which is stopping and funding of increased school pupil numbers in the draft budget
Pressure on housing and homelessness	budget pressure included in the draft budget
Stability of social care providers	budget inflation fully funded to maintain at least a living wage level to care providers staff in the

Pressure on adult services	draft budget
Pressure on delivery of children's service	budget inflation fully funded to maintain at least a living wage level to care providers staff in the draft budget budget pressure for increased demand and investment in the safeguarding hub included in the draft budget
Welsh Government net zero carbon target by 2030	The budget saving for reduced energy costs for 2024/25 is 'net' of £500k which has been earmarked / invested for annual match funding for WG funding streams in relation to net zero projects

6.6 In the context of the challenging economic climate, whilst there are potential options to manage these risks, the likelihood is that the following areas of mitigation will be required to support the challenges set out above. Appendix 9 sets out the current risks included within the register.

- existing revenue contingency budget;
- existing revenue budgets not yet committed and could, in whole or part, be set aside to manage revenue budget risks in the short term;
- specific reserves earmarked for budget risks;
- investment in revenue budgets to mitigate risks on an on-going basis.

6.7 The HoF is required to independently assess and report on the adequacy of the budget (and council tax level as an integral part of this) and reserves in the context of the financial issues and risks facing the Council. The assessment of the risks mentioned here and how we plan and utilise the above options are key to this.

Financial Resilience

6.8 A robust view is taken in managing budget risks and protecting the financial health of the Council. The following are key considerations for the HoF in fulfilling his s151 responsibilities in this regard:

- Close monitoring of a number of key indicators relevant to financial resilience. A 'snapshot' of these are shown in Appendix 6 showing an overview of the health of the Council currently. Key headlines include:
 - The relatively low funding levels for the Council due to low Council Tax.
 - A relatively high level, by historical standards, of unachieved savings.
 - Increasingly high levels of service area overspending which has been mitigated by contingencies and non-service underspends to date but the ability for this to continue is reducing significantly from 2024/25 onwards.
 - A growing 'Capital Financing Requirement' and 'Liability Benchmark' which measures the Council's underlying need for borrowing.
 - A relatively large internal borrowing position in the context of high interest rate environment, diminishing cash reserves and reserves which are reducing over the short to medium term.
- *Earmarked & General Reserves*: In line with planned use, earmarked reserves are forecast to reduce by c£26m in the current 2023/24 year and whilst the total remaining is still relatively high at c£112m, nearly all of these are earmarked for specific purposes. However, as a last resort they do provide some mitigation but use of them means that the original purpose would be affected and/or would result in a budget pressure to build those reserves up again, as well as delaying the identification of recurring mitigation for the identified budget gap.

- *Revenue Contingency budget – General Reserves:* The contingency base budget and other specific risk reserves held by the Council are taken into consideration when assessing the level of the general reserve and help to mitigate the risk to the Council. The general reserve is increasingly becoming too low, as the Council's net budget increases each year but can be maintained at that level due to the overall level of reserves which, in the last resort, provide more than adequate financial mitigation, albeit with resulting impacts as noted above.
- *School budgets- Reserves:* Although the position in relation to school reserves has improved over the last couple of years, there is a forecasted large reduction in these in 2023/24 as they spend additional grants received over those years and more worryingly, overspending in their day-to-day activities. The forecast net spends against school budgets this year will see reserve balances reduce by nearly £5m to £9.8m at the end of this financial year.
- *Current budget savings-managing the revenue budget – demands on the revenue budget:* The Council has identified and continues to monitor budget reductions of nearly £12m in 2023/24 and whilst understandable delays in delivery is evident, HoS continue to confirm they can and will be implemented though are high, by historical standards at this point. This needs to be viewed within the context of continued significant demands which are faced by service areas, namely children's social care and homelessness, which have been highlighted throughout the year as part of the budget monitoring process. Mitigation for these have been mainly provided from planned savings on the Council's 'capital financing budgets' but this will reduce from 2024/25 onwards as the capital programme is delivered. Whilst financial management is increasingly challenging in some areas, all services need to ensure they spend at their approved budget levels and the budget investments provided in the budget will assist in this respect.
- *Transformation Programme -* The Council has yet to finalise a developed and costed strategic transformation programme and work on that is on-going. Several individual projects have already started but some of these and key projects in Children's social care and homelessness, which have not yet started have yet to finalise business cases. The development of a costed programme, with target savings and an appropriate governance structure to support and review progress is key to the future financial sustainability of the Council. The Council has its 'transformation plan fund' (previously invest to save) reserve to fund the one-off cost of change and Cabinet have already been recommended to invest the current year's underspend back into this reserve to ensuring on-going sustainability of this reserve which is key. The programme is integral to developing ongoing financial sustainability whilst also ensuring key services can be delivered.
- *Loss of specific grants and worsening homelessness finances –* The settlement was received on the 20th December and confirmed potentially large reductions in several key grants streams, some of which fund demand led services. The Cabinet will need to consider and where needed, address these in the final budget recommendations. As noted earlier in this report, a significant investment in homelessness provision is already included in the budget but at this time, further pressures are also evident and will also need further consideration and addressing in the final budget. Lastly here, funding for the teacher's increased pension costs is still outstanding and this will need to be reviewed as the final budget recommendation is conformed in February 2024.

6.8 The HoF will need to consider all of the above when a final budget is proposed to the Council. It is evident that whilst finances have been managed very robustly in recent years, the on-going challenges in services managing within budgets, delivery of savings and managing future borrowing requirements will be difficult in the forthcoming MTFP period and all done within an environment of low funding coming from relatively low Council Tax and increasing demand on services.

7 Report review and statutory comments

7.1 Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Planning parameters around inflation are incorrect	H	H	<ol style="list-style-type: none"> 1 Use of contingency, where required 2 Use of reserves, where appropriate 	Head of Finance Exec Board
Planning parameters around Welsh Government revenue grant are incorrect over medium term	H	M	<ol style="list-style-type: none"> 1. Use of contingency, where required 2. Keep the assumptions under constant review 3. Use of conservative assumptions 	Head of Finance
Increasing budget pressures over medium term	H	M	<ol style="list-style-type: none"> 1. Manage demand, where possible 2. Keep MTFP under constant review 3. Exec Board review all budget pressures within MTFP 	Exec Board

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The overall aim of the budget and MTFP is to ensure resource allocation is based on priorities, supports the delivery of the Council's soon to be developed change programme, saving proposals and protects the financial health of the Council.

Options Available and considered.

There are few options available as the Council is required to consult on its budget where decisions do not fall under delegated authority and therefore needs to agree the basis of its consultation.

Preferred Option and Why

To consult on the new medium-term package of investments and savings to ensure a sustainable offering deliverable over the medium term.

Comments of Chief Financial Officer

The budget report is seeking Cabinet approval to begin consultation on a range of draft budget proposals. Cabinet will agree final proposals in their February meeting after considering consultation feedback. Final proposals will be considered by full Council in their February meeting and a budget agreed, alongside a Council Tax rate, at that point.

There are outstanding issues that remain to be worked through between this time and the final budget proposals as officers work through the detailed issues of the settlement, in particular specific grants and other issues like levies. These will inevitably lead to considerations of further budget investments / pressures and savings as it does every year.

In the context of potential real terms reductions in RSG funding from 2025/26 onwards, delivering a robust budget is important as it provides a solid foundation to move into those future years. The draft budget here does not rely on a general use of reserves to 'balance the budget' and that is important in

this respect. Similarly, developing a more medium term, strategic approach to identify budget savings will be more important than ever. Whilst a number of corporate wide transformation projects are on-going, there is still a need for further plans in other areas, in particular Children's services and housing services to manage the demand and cost issues impacting on these areas. A key requirement will also be to identify financial savings from these projects as soon as practically possible and appropriate governance arrangements to support and monitor progress.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report at this stage. Cabinet is being asked to approve the draft savings proposals and council tax rate set out in the Report in order to deliver a balanced budget for 24/25 and as the basis for public consultation, where the relevant business cases will have an impact on service delivery and are not matters delegated to Heads of Service. Cabinet will then take the final decisions on those business cases in the light of the responses to the public consultation, prior to full Council approval of the annual revenue budget and council tax rate for 24/25. Relevant business cases have been the subject of fairness and equality impact assessments to ensure that the Council has regard to its public sector equality duties under the Equality Act and is acting fairly in terms of the impact of the proposed changes on service delivery. In addition, where specific proposals require more focussed consultation with staff and key stakeholders, this will be carried out prior to the implementation of any proposed changes. The setting of the overall base budget and council tax rate for 24/25 is a matter for full Council as these are non-executive reserved matters under the Constitution.

Comments of Head of People, Policy and Transformation

This report describes the challenging financial position facing the council, its residents, staff, and businesses. The financial position for 2024/25 reflects the increasingly challenging situation in the medium term which is expected to impact on service delivery and meeting our public sector duties. Officers across service areas are working closely to support actions to enable a balanced budget across the council.

Public consultation will take place on the proposals as outlined in the report. Any direct impact on Council staff will require formal consultation with those staff impacted and the relevant recognised Trade Union Officers. The Human Resources team are supporting senior officers and staff members during this period and will continue to do so during consultation period. Minimising the impact on staff will be a priority, however the scale of budget challenge will likely mean that the Council may have to make redundancies though the numbers are low by historical levels, especially on posts which are currently occupied. Feedback from consultation, both public and staff, will be included in the report to Cabinet in February and decision making around proposals will consider relevant feedback.

The Fairness and Equalities Assessments undertaken will be amended following consultation with due consideration for ensuring we meet our public sector equality duties with all decisions.

Scrutiny Committees

The constitution requires that Scrutiny Committees be consulted on Cabinet's draft budget proposals.

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

Long term - The medium-term approach that is in place for financial planning within the Council is intended to bridge the gap between longer-term strategic aspirations and sustainable development concerns with the more immediate pressures of setting a balanced budget each year.

Prevention – Taken as a whole, the proposed investments are geared towards sustaining preventative type services and focussing on some of the most vulnerable groups which should have the greatest impact over the longer term and will help to prevent negative outcomes getting worse.

Integration – The budget and medium-term financial plan has the overall aim of balancing resource allocation across services to support the range of strategic priorities and the delivery of the Council's change programme whilst ensuring financial sustainability.

Involvement – The budget is informed by insight gained from public engagement work, including previous budget consultations. Pre-budget public engagement on the relative prioritisation of Council services has informed the proposed budget investments. Newport Fairness Commission along with other stakeholders will be engaged as part of the consultation.

Collaboration – Whilst the budget and medium-term financial plan is a Council owned document it recognises that services are increasingly delivered in a collaborative public sector landscape with a greater emphasis on regional working e.g. through Corporate Joint Committees, Gwent-wide and South East Wales based partnerships.

Consultation

Details included within body of the report.

Background Papers

November Revenue Budget Monitor
2023/24 Budget and Medium-Term Financial Plan (MTFP)

Dated: 4 January 2024