

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**CORPORATE LEADERSHIP TEAM'S
REPORT TO**

Cabinet
10 September 2024

Report Title: Medium Term Financial Strategy 2025/26 to 2029/30

Submitted by: Service Director for Finance (Section 151 Officer)

Portfolios: Finance, Town Centres and Growth

Ward(s) affected: All

| <u>Purpose of the Report</u> | <u>Key Decision</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
|--|----------------------------|---|-----------------------------|
| To present an update regarding the financial pressures facing the Council for the period 2025/26 to 2029/30. | | | |
| <u>Recommendation</u> | | | |
| <p>1. The funding pressures of £1.429m in 2025/26 and £5.251m over the 5-year period covered by the Medium-Term Financial Strategy (MTFS) be noted.</p> <p>2. Agree the approach regarding the development of savings and income generation proposals in the medium-term.</p> <p>3. Note the continued uncertainty regarding the medium-term impact of local government funding.</p> | | | |
| <u>Reasons</u> | | | |
| To ensure that the Council meets its statutory duty to set a balanced budget in February 2025. | | | |

1. **Background**

1.1 Full Council agreed a Medium-Term Financial Strategy (MTFS) for the period 2024/25 to 2028/29 in February 2024 as part of the budget setting process. This report updates the assumptions regarding financial pressures facing the Council from that time and sets out the strategy for development of the 2025/26 budget and MTFS for 2025/26 to 2029/30.

2. **Issues**

2.1 The MTFS provides an overarching framework for the allocation of resources to the Council's key priorities as set out in the Council Plan.

2.2 The financial strategy will continue to focus on the need for the Council to become self-sustaining through developing a strong and growing tax base, making best use of its resources, promoting an 'everyone's responsibility' culture in which there is widespread internal ownership of the Council's financial position, a robust financial position and a fair funding settlement for Newcastle-under-Lyme.

- 2.3 The MTFS assumes that the new Government will press ahead with plans for a business rates retention reset which would see the accumulated growth built up since 2013/14 being redistributed across the system. As a member of the Staffordshire Business Rates Pool the Council currently saves £0.814m per annum in levy payments which would be payable to the Treasury if the Council ceased to be part of a pooling arrangement. In addition to this, growth within the Borough has enabled a further £2.705m of business rates income to be retained by the Council (this has been recognised in previous savings) over and above the funding baseline set by Central Government. In the event that a reset goes ahead strong lobbying will be required to ensure that appropriate transitional arrangements are in place to cushion the impact locally.
- 2.4 The Council has been successful in securing resources required to regenerate the Borough via Town Deals and Future High Street Fund funding. It is important that the Council continues to work, including closely with partners, to secure inward investment in the Borough to drive growth and employment opportunities for local people.
- 2.5 The current MTFS approved by Council as part of the budget setting process in February 2024 forecast a budget gap of £6.885m over the period 2024/25 to 2028/29 (including £1.557m for 2025/26). The MTFS is being rolled forward by a year and assumptions are constantly revisited. The current forecast around financial pressures facing the Council is for a gap in 2025/26 of £1.429m and over the 5-year period of the MTFS, £5.251m. Further details are shown in Appendix A.
- 2.6 The revised budget gap provides for a 3.5% pay award in relation to 2025/26. It also provides for a £1,290 per FTE pay award in relation to 2024/25 as per the latest employers offer, this was not budgeted for in full for 2024/25. This pay offer is an increase when compared to the 3.5% previously built into the MTFS.
- 2.7 Considerable pressure will continue to be placed on the Council's finances in the medium term as a result of a number of national issues. These include the proposed Local Government pay award offer, inflation and interest rates that place pressure on the Council in terms of fuel and utilities, contractor costs, supplies and services and borrowing costs and the continuing rising costs of temporary and supported accommodation that the Council is required to provide for vulnerable and homeless residents.
- 2.8 Work on the detail of the 2025/26 budget including investment and savings proposals is underway and is being overseen by an Efficiency Board chaired by the Leader of the Council. Draft budget proposals will be presented to Cabinet and the Finance, Assets and Performance Scrutiny Committee (FAPSC) in December.
- 2.9 Based on this work, key themes for further exploration are anticipated to include digital transformation, the One Council programme, commercial opportunities and asset management.
- 2.10 A full risk assessment is being carried out on the Council's reserves. A preliminary assessment suggests that the current General Fund reserve of £2.257m will be required to provide sufficient cover for potential risks. Further consideration of the levels of other reserves held will be considered as part of this assessment.
- 2.11 The Council agreed a 10 year Capital Strategy in February 2024. The Capital Strategy sets out how the Council will invest capital resources to support service delivery and facilitate the achievement of key objectives. The strategy has been reviewed and updated including expected capital receipts from asset disposals.

2.12 The capital financing requirement is estimated to increase to £41.557m by 2034/35 based on the current capital programme and the revenue implications have been reflected in the revised MTFS. It is anticipated that the current borrowing revenue budget of £0.902m will need to be increased by £0.045m to provide for borrowing costs that may be incurred during 2025/26.

2.13 The table below sets out the key dates of the events to take place before the budget for 2025/26 is finally approved:

| Event | Committee | Date |
|--|---------------------------------|-------------------|
| Draft MTFS | FAPSC | 18 September 2024 |
| First draft savings proposals | Cabinet | 3 December 2024 |
| Budget consultation | Proposed to run during December | |
| Scrutiny of first draft savings proposals | FAPSC | 5 December 2024 |
| Approval of final MTFS & consideration of draft budget proposals | Cabinet | 7 January 2025 |
| Scrutiny of draft budget proposals | FAPSC | 16 January 2025 |
| Final budget proposals recommended for approval by Full Council | Cabinet | 4 February 2025 |
| Full Council to approve budget | Full Council | 12 February 2025 |

3. **Proposal**

3.1 That Cabinet note the funding gap of £1.429m in 2025/26 and £5.251m over the life of the MTFS.

3.2 That Cabinet agree the approach regarding the development of savings and income generation proposals in the medium term.

3.3 That Cabinet note the continued uncertainty regarding the medium-term impact of local government funding.

4. **Reasons for Proposed Solution**

4.1 The Council has a statutory duty to set a balanced budget by February 2025. Best practice is for financial planning to take place over a 5-year period in the form of a Medium-Term Financial Strategy that sets out how the Council plans to allocate resources to meet its objectives.

5. **Options Considered**

5.1 None.

6. **Legal and Statutory Implications**

6.1 The MTFS is not a statutory document but it is considered best practice.

7. **Equality Impact Assessment**

7.1 Local authorities have a responsibility to meet the Public Sector Duty of the Equality Act 2010. The Act gives people the right not to be treated less favourably due to protected characteristics. It is important to consider the potential impact on such groups and individuals when designing or delivering services and budgets. Budget proposals requiring changes or

new services and policies will be subject to Equality Impact Assessments including consultation with affected people and organisations.

8. **Financial and Resource Implications**

8.1 These are addressed in the body of the report.

9. **Major Risks**

9.1 Section 25 of the Local Government Acts 2003 places a duty on the Section 151 Officer to report on the robustness of the budget. The main risks to the budget include spending in excess of budget; income falling short of the budget (including capital receipts from disposal of assets); and unforeseen elements such as changes to Government funding. In the context of the cost-of-living crisis and uncertainty regarding Government funding reforms there are significant budget risks that will need to be managed. It will be essential the Council has sufficient reserves to call on if required.

10. **UN Sustainable Development Goals (UNSDG)**

10.1 In shaping detailed budget proposals consideration will be given to the need for investment in order to deliver the Council's Sustainable Environment Action Plan.



11. **Key Decision Information**

11.1 Final approval of the MTFS as part of the budget setting process will be a key decision.

12. **Earlier Cabinet/Committee Resolutions**

12.1 None

13. **List of Appendices**

13.1 Appendix A – MTFS 'Gaps'

14. **Background Papers**

14.1 None

Appendix A – 2025/26 to 2029/30 MTFS ‘Gaps’

| Detail | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 | 2028/29 £'000 | 2029/30 £'000 | Description |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|--|
| Employees: | | | | | | |
| Increments | 60 | 60 | 60 | 60 | 60 | Employees due an increment |
| Pay awards | 594 | 520 | 540 | 561 | 583 | 3.5% pay award assumed for all years plus £1,290 per FTE re. 2024/25 |
| Superannuation increases | 144 | 128 | 132 | 137 | 142 | 22% of increase in salaries |
| Superannuation lump sum increases | 41 | 43 | 45 | 45 | 45 | Net increase of lump sum pension payment |
| National Insurance | 90 | 80 | 83 | 86 | 89 | National insurance on increase in salaries (increments and pay awards) |
| Premises: | | | | | | |
| Business Rates | 26 | 27 | 28 | 29 | 30 | Inflationary increase in business rates payable (per CPI) |
| Utilities | 127 | 31 | 33 | 34 | 35 | Inflationary increase in gas and electric (per CPI), additional pressure in 2025/26 to reflect current costs |
| Transport: | | | | | | |
| Fuel | 11 | 12 | 12 | 12 | 13 | Inflationary increase in fuel (per CPI) |
| Hydrotreated Vegetable Oil | 8 | 8 | 8 | 9 | 9 | Inflationary increase in HVO (per CPI) |
| Financing: | | | | | | |
| Borrowing costs | 45 | 185 | (20) | 38 | 228 | Borrowing costs regarding the financing of capital expenditure |
| New Pressures: | | | | | | |
| ICT software | 16 | 10 | 10 | 10 | 10 | ICT costs re. systems maintenance and software licences |
| Restructuring | 100 | - | - | - | - | Potential additional resource requirements |
| Income: | | | | | | |
| Fees and charges | -326 | -338 | -349 | -362 | -374 | 3.5% increase in fees and charges |
| Business Rates Retention reset | 500 | 500 | 500 | - | - | To allow for a reset of the Business Rates Retention scheme in 2027/28 |
| Business Rates baseline funding level | -107 | -110 | -112 | -115 | -118 | Inflationary increase in baseline funding level (per CPI) |
| Income pressures | 100 | 100 | 100 | 100 | 100 | General income shortfalls |
| TOTAL GAPS | 1,429 | 1,256 | 1,070 | 644 | 852 | |