

Report

Cabinet

Part 1

Date: 14 December 2022

Subject **2023/24 Budget and Medium-Term Financial Plan (MTFP)**

Purpose To highlight key issues affecting the development of the Council's 2023/24 budget and Medium Term Financial Plan (MTFP) and present the draft proposals for the 2023/24 budget. Cabinet are 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 2023, when Cabinet will agree a final budget and recommend the corresponding council tax level to full Council.

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Ward All

Summary This report presents the draft budget proposals for 2023/24.

Budget preparations this year have presented a distinct set of challenges, building on the unprecedented circumstances of the last few years and the drastic recent economic changes over a relatively short period of time. Councils are dealing with pressures on a scale never seen before. Inflation, soaring energy bills and increasing demand are resulting in significant budget shortfalls over the immediate and medium term.

As a result, the 2023/24 budget shortfall presented to Council in March 2022 has increased from £1.9m (£3.6m over the medium term) back then to £27.6m prior to cost reduction plans (£55.8m over the medium term) now, requiring the consideration of all potential solutions to balance the budget shortfall. Whilst the Office for Budget Responsibility predicts that inflation will start to fall sharply from the middle of next year, the unprecedented increases in inflation are expected to have a lasting impact as prices are not expected to return to previous levels.

Whilst the recent UK Government budget confirmed increased funding for public services over the next two years, the medium term outlook remains uncertain as it is unclear what, if any, of that increase will be passed onto Local Councils in Wales for 2023/24. The scale of the budget challenges will very likely still significantly outweigh funding increases, therefore, consideration must be given to how the Council is able to continue operating effectively for the residents of Newport whilst maintaining financial sustainability. With savings totalling circa £80m having already been identified over the last decade, it will not be possible to balance the 2023/24 budget through efficiencies alone. This means that required savings will impact upon front line service delivery.

Details on the draft 'Revenue Support Grant' (RSG) will not be confirmed until 14th December. Therefore, any updates to current funding assumptions will be provided to Cabinet in their February meeting.

The budget timetable has been adjusted to maximise the time available for consultation. Residents, service users and stakeholders, such as the independent Fairness Commission, will have seven full weeks to take part in the consultation.

Details of the budget are shown within this report. 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:

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- 3 Financial planning assumptions
- 4 Budget savings
- 5 Budget process and consultation
- 6 Risk, financial resilience, and performance
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- Appendix 4 Demand models for social care
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- Appendix 6 Financial resilience 'snapshot'
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Proposal

- 1. Cabinet agrees the following draft proposals for public consultation:**
 - i) Budget savings proposals in Appendix 2 (summary table) and Appendix 10 (detailed proposals).
 - ii) As a starting point a council tax increase of 9.5% will be consulted upon, a weekly increase of £1.55 - £2.07 for properties in Band A to C, the most common bands in Newport, as set out in paragraphs 3.12 to 3.15.
 - 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 2023/24, 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 in 2023/24.

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 2022/23 budget report, presented in March 2022, identified a potential budget gap of £1.9 million (m) in 2023/24 and £3.9m over the period 2023/24 to 2024/25. This report provides an update to reflect more recent information and the key planning assumptions made over the medium term. In addition, the report provides an overview of the Council's proposals for addressing the identified budget gap.
- 1.2 The external considerations impacting on the Council are key in the Council's financial planning. Budget preparations have presented a distinct set of challenges not only building on the unprecedented circumstances of the last few years but also the drastic economic changes over the last 12 months. This has meant that the budget gap estimated in March 2022 is unrecognisable in comparison to the budget gap that the council now faces. The key emerging cost challenges 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. Examples include the cost of food and fuel. The latest published CPI inflation rate is 11.1%. This is forecast to be 10.2% for Q1 2023 and 8.9% for Q2 2023;
 - **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 National Joint Committee (NJC)) as well as awards that will be passed on to the Council's commissioned services, e.g., the care sector;
 - **Energy crisis** – this is expected to have one of the most significant cost implications for Council services in particular schools, street lighting, residential care, and the wider council estate;
 - **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; in particular social care;
 - **Increasing demand** - for services and therefore costs stemming from legacy issues coming from the pandemic period as well as population and demographic/ societal changes. These are most acute in the usual budget areas of social services and education; but also, now, housing services.
- 1.3 The impact of rising costs due to the rapid increase in inflation has led to the significant recalculation of the estimated costs faced by the Council in 2023/24. The table below outlines the key movements to the 2023/24 budget gap since March 2022.

Table 1: 2023/24 budget updates since March 2022

	2023/24		
	March 2022 £'000	Updates £'000	Revised £'000
Pricing - pay inflation & increments	5,391	6,312	11,703
Pricing - contract/ income	3,435	18,475	21,910
Demand - schools	1,561	(776)	785
Demand - social care	1,065	2,263	3,328
Demand - homelessness	0	3,500	3,500
Other	2,465	1,571	4,036
WG Revenue Support Grant	(10,046)	(1,815)	(11,861)
Council tax	(2,477)	(3,848)	(6,325)
Reserves transfer	563	0	563
Budget Gap	1,957	25,682	27,639

- 1.4 A key component of the Council's budget is the core grant funding received from Welsh Government, known as 'aggregate external finance' or more commonly as the 'Revenue Support Grant' (RSG). Whilst indicative allocations for 2023/24 were provided as part of the 2022/23 settlement, the draft RSG allocation for 2023/24 will not be known until 14th December. However,

despite this delay, it is evident that the financial outlook has drastically worsened since the budget position was shared with Council in March 2022 for the reasons outlined above.

- 1.5 The Council has recently approved its new Corporate Plan, and this will be supported by a Transformation and other key plans for delivery of the key outcomes within it. A review of these is now required to identify what, if any, additional financial impacts on current budgetary provision is required for delivery. Whilst the scale of the financial challenge creates some practical and other challenges here, it does not mean that these priorities cannot be met.
- 1.6 In balancing the budget over the last decade, savings have consistently been a large contributory factor to bridging the gap with around £80m of savings made over this period (£25m over the last 5 years). The need to identify and deliver such significant levels of savings become increasingly challenging at this stage because:
 - lower levels of funding, from low relative council tax; means budgets are already lower than most other comparative councils, coupled with,
 - high levels of deprivation and a growing city is resulting in high demand for services and,
 - the ability to identify new savings, without significant service impacts, becomes more difficult against the backdrop of sustained savings requirements over recent years.

2 Economic Challenge

- 2.1 This section outlines the key contextual areas and events, which influence the Council's medium term financial planning and within that, next year's budget. This year has brought some new and significant challenges over and above previous years, and this report highlights the continued volatility. The key contextual areas which have shaped the preparation of the draft proposals include:
 - the economic challenge, in the context of major cost and demand pressures. This includes the UK national context, the annual spending review and what this means for WG funding
 - the local, Newport City Council, context given the draft RSG funding is yet to be confirmed
 - the Council's Corporate Plan, which drives priorities. These factors are explained in more detail below.

National Context

- 2.2 The UK government's Autumn Budget and Spending Review 2022 announced on 17th November confirmed that the Government will deliver a plan to tackle the cost of living crisis and rebuild the UK economy.
- 2.3 The Office for Budget responsibility (OBR) confirm that global factors are the primary cause of current inflation. Although it is predicted that inflation will start to fall sharply from the middle of next year, the unprecedented increases in inflation are expected to have a lasting impact, as prices are not anticipated to return to previous levels. The Chancellor, during the announcement, confirmed that the economy is likely to shrink next year before recovering thereafter.
- 2.4 The key headlines, for local government, as set out within the Chancellor's Autumn Statement include:
 - Existing departmental spending under the 2021 spending round would be maintained. Then departmental spending growth would slow significantly to 1% a year in the three years that follow.
 - Schools budget will increase by an extra £2.3bn a year in both 2023/24 and 2024/25.
 - There will be a £3.3bn increase in NHS funding over the next two years.
 - Although the government's energy price guarantee will be kept for a further 12 months, it has been confirmed that this assistance will not be available for public sector organisations.
 - The National Living Wage will rise by 9.7% next year to £10.42 an hour.

Based on the above and how 'consequential funding' for devolved governments works:

- Devolved administration funding would be increasing by around £3.4 billion over 2023/24 and 2024/25. This includes £1.2 billion for the Welsh Government, though on a ‘consequential cash term’, is lower at circa £800m. The extra funding are consequentials of the increased funding, in England, of NHS, Schools and Social Care services.
- 2.5 In summary, at an UK level, the Budget and Spending Review outlined a scenario which:
- Maintained the 2021 spending round increase funding, and increased them further in the areas of health, education, and social care for the next two years, but still not at a level which keeps up with current inflation/price increases.
 - Thereafter, slows down the growth in public sector funding significantly from 2025/26 onwards, which, even though inflation/price increases will have significantly reduced themselves, will continue to make for a very challenging scenario.
- Keeping this in mind and thinking over the medium term will be key to creating a budget and transformation strategy which ensures sustainable services and financial stability.
- ### **Local Context**
- 2.6 The 2021 Comprehensive Spending Review (CSR) set out a 3-year Government spending plan. The impact of that at an all-Wales level was funding increases for local government of +3.5% and +2.4% for the period covering 2023/24 to 2024/25. This announcement was made at a time when the economic and fiscal situation was very different and although the Autumn budget confirmed that the CSR assumptions will remain unchanged, it is evident that this is now significantly inadequate, even with the potential prospect for further increases announced in the CSR outlined above.
- 2.7 In addition, an estimate for some additional share of the total LG funding has been assumed given Newport’s growing population, as evidenced by the 2021 Census data. The 2023/24 RSG funding distribution will be first to reflect the 2021 Census data and Newport is one of three Councils where it confirmed actual population was higher than the estimates used for previous year distributions. School pupil numbers continue to increase too. Both sets of data are key drivers of the distribution of the RSG, estimated at circa £2.6m and which is over and above the ‘average’ +3.5% increase outlined above. This is reflected in the MTFP and 2023/24 budget position.
- 2.8 The outcome of the draft announcement will be pivotal to agreement of the Council’s 2023/24 draft budget as this accounts for the largest part of councils’ funding. In Newport, the RSG funding makes up 77% of its net budget, with council tax at 23%. Given the Council’s reliance on RSG, what happens to this grant is crucial, as any reductions cannot be easily offset by an increase to council tax. The scale of the budget challenge is very sensitive to changes, both current and future, to RSG funding as shown in table 5 and although multi-year settlements reduce the uncertainty, the constantly changing economic climate has the potential to make this a little more changeable. The fact that the draft settlement will not be known at the point of finalising this report increases the risk of the budget gap being impacted by the announcement, in particular with increased funding being available to the WG, following the recent Autumn Budget.
- 2.9 The Head of Finance (HoF) has set the council tax base (i.e. the number of Band D equivalent properties) for 2023/24 and it will increase by 0.21%. This council 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 £140k and is reflected in the MTFP for 2023/24. The increase in the tax base may impact upon the share of WG funding received by the Council, as a consequence of the equalisation process that WG undertake. This will be confirmed at the draft settlement stage and will be reflected in the final budget to be considered by Cabinet.

Implementing the Corporate Plan

- 2.10 The Council has recently approved its new Corporate Plan, and this will be supported by a Transformation and other plans to achieve the outcomes within it. The transformation plan is in the development stage and whilst this will form a key part of the strategy for addressing the budget gap it will not in itself deliver the quantum of savings required over the medium term. Therefore, further work is required to build a detailed delivery and implementation plan with potential savings.
- 2.11 As part of the Council's transformation plan, the Council are reviewing how we utilise our operational estate in the light of the changes implemented during the pandemic. The Council operates services from 73 assets throughout the City. These assets range from care homes to depots to Civic buildings, but do not include schools.
- 2.12 We also have commercial and non-operational buildings and land, and educational establishments/ schools. Of these there are several that are deemed to be essential and must remain within the estate. The remaining assets provide opportunities, including:
- disposal to achieve a capital receipt and revenue savings,
 - disposal to community groups or third sector organisations,
 - amalgamating services into one asset to create efficiencies,
 - repurposing to maximise an asset's use to the Council.
- 2.13 The rationalisation programme would seek to identify and maximise its effect by prioritising those assets which would provide the greatest returns. These include buildings such as the Civic Centre and Mansion House. The Civic Centre has an annual revenue cost in excess of £750k in 22/23 rising to in excess of £1million in 23/24. Prior to the pandemic desk occupancy at the Civic had reduced and the building remains underutilised, and there is potential to accommodate other services, or to change its use.
- 2.14 As an example, the Mansion House, which currently houses the Registrar's Office, provides an opportunity for significant capital receipt as it is situated in a highly sought-after part of the City and would achieve circa £1million if disposed on the open market. To achieve this the Council would need to relocate those staff and services effected into another appropriate asset. This will not deliver revenue savings in the initial move but would deliver other efficiencies as buildings are used more effectively.
- 2.15 The Council will own other buildings which would also offer a potential capital receipt and reduce further maintenance and spending commitments. This would also support the Council's Climate Change Plan. It is proposed to progress with a programme of asset and estate rationalisation

Addressing the budget gap

- 2.16 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 of £27m. This includes a review of all aspects of the budget. Ultimately, however, most of the budget gap will need to be identified through budget savings. Building on the levels of savings identified over the past decade (in the region of £80m) it will not be possible to balance the 2023/24 budget through efficiencies alone and so there will be a requirement for savings that impact upon service delivery.

3 Financial planning assumptions

- 3.1 Whilst the above highlights the context for the Council's medium term financial plan, this section deals with the key assumptions affecting the MTFP and the budget for next year.

Increasing costs and demand

3.2 Financial pressures and demands on our services have escalated significantly during the current financial year and, cumulatively, the pressures over the medium term are significant. The main issues include:

Inflationary Increases

- With inflation forecast to be 10.2% for Q1 2023, this is possibly one of the most important considerations in the setting of this budget. Unavoidable pay and inflationary cost increases, including schools, equate to £33.61m in 2023/24 and £76.91m over the three-year period to 2025/26;
- Aside from pay, key areas of concern are energy, fuel, and food. Forward purchasing arrangements for energy have largely protected the Council from the impact of energy price increases in the current year. That said, indicative increases for 2023/24 are substantial – 245% for gas and 137% for electricity. The position remains volatile and subject to change, however, based on current units purchased to date, there will be an estimated cost increase of £7.9m 2023/24.

Staff Costs

- Staff costs account for over half of all council costs. Sustained levels of high inflation have placed upward pressure on such costs as shown by pay awards in the current year exceeding the budgeted level of 4%. For 2022/23, the NJC pay award (which encompasses most Council staff), is an uplift of £1,925 across all pay scales, representing an average increase of 6.4%. An additional cost of £3.6m has been factored into the base budget for the 2023/24 budget to make good this shortfall.
- For NJC staff, a pay award of 4% has been assumed for 2023/24.
- An additional cost of £0.6m has been included in the base budget for 2023/24 to fund a 3.5% pay award for teachers agreed from September 2023 (+1% over and above existing budget provision for 2023/24).
- In September 2022, the new Real Living Wage (RLW) rate was announced at £10.90, which is a 10.1% increase. From April 2023, this will not be a significant cost as the pay award uplift at the bottom of the pay structure is comparable in percentage terms.
- Providers of commissioned services, such as social care and transport, are facing the same cost pressures as those faced by the council, and in the context of a ‘fragile market’, will need sufficient/appropriate funding. This is especially likely to be the case where National Living Wage is paid, which will rise to £10.42/hour following the recent UK budget.

Service Demand

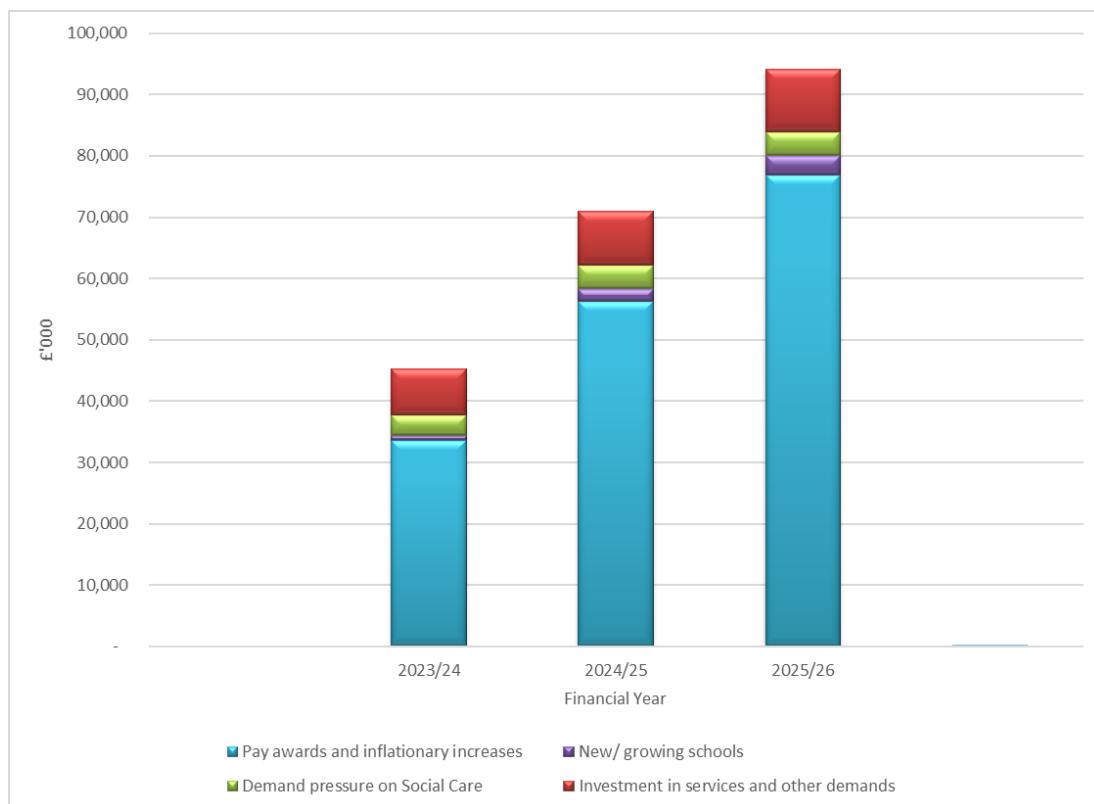
- Alongside inflationary pressures, the Council is experiencing exceptional levels of demand and cost pressure in some areas; most significantly in Children’s services linked to the number and complexity of ‘in year placements’ for children looked after. Demand pressures will need to be closely monitored across a range of services including homelessness and adult social care.
- The pandemic has exacerbated many of the existing challenges within social care including increasing demand for services coupled with significant workforce pressures. The fragility of the social care market and the ability to deal with such levels of demand is an issue.
- Significant pressures are evident in relation to homelessness. The main issues being the continuing large number of individuals/ households accommodated in temporary accommodation, partly as a legacy of the Covid period, and the lack of suitable accommodation options resulting in significant use of hotel and B&B options at a much higher cost than more traditional options. This is compounded by 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.

3.3 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.

3.4 For 2023/24 specifically, the Council is currently planning to invest around £11.6m 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:

- £1,951k investment in school budgets - £368k funding for new schools, £417k net increase in pupil funding and £1,166k for teachers pay and pension
 - £3,360k for increasing demand in social care for both children and adult services and investment in children looked after
 - £3,500k for homelessness provision to support WG directive to ensure that there are no rough sleepers in Newport.
- 3.5 Detailed investments will be agreed 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 approve one-off investments, such as in relation to implementation costs arising from savings proposals, funded from current reserves.

Chart 1: Cumulative pressures by source



- 3.6 The financial pressures facing the Council continue to accelerate over the three-year period with pricing and inflation accounting for £77m or 81% of total investment required over the next three years.

Capital programme and financing

- 3.7 Unfunded capital expenditure undertaken by the Council gives rise to a long-term and fixed commitment to fund the associated revenue costs for the provision of the repayment of that borrowing (Minimum Revenue Provision (MRP)) and interest costs – together called ‘capital financing costs’.
- 3.8 The current capital programme, which includes previously approved contributions towards the Cardiff Capital Region City Deal, is coming to an end, with a new five-year programme to be set for 2023/24. This new programme will be approved by Council alongside the revenue budget for 2023/24. The capital financing costs arising from the existing 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. It is important to note that a significant amount of slippage has occurred in delivering the existing programme and, as a result, a number of schemes are expected to be completed during 2023/24 and 2024/25. This means

that delivering anything in addition to those existing schemes, during the early part of the new programme window, would be challenging from a capacity perspective.

- 3.9 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) where it is prudent, affordable, and sustainable to do so. In light of the incredibly challenging revenue budget situation 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. Therefore, the draft revenue budget for 2023/24 and the MTFP do not include any revenue provision for new unfunded capital expenditure. Any new capital expenditure requirements from 2023/24 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

- 3.10 The MTFP identifies pressures relating to schools amounting to £10,395k in 2023/24, which equates to approximately 8.5% of the current schools' budget. This is based on an assumed level of inflationary pay award and non-pay increase as noted above plus the additional costs of new/ expanding schools. For the full three-year MTFP period, assessed school pressures amount to £28m, 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 2 below sets out the detailed school budget pressures over this timeframe.
- 3.11 Given the size of school's budgets relative to the overall budget, Cabinet are aware that protecting the school budgets in its entirety would be extremely challenging on all other Council services. In that sense, the school's budgets will need to contribute to balancing the overall Council budget. However, mindful of the additional funding the Welsh Government has received following the recent UK Autumn budget, in part a consequential of increased Education funding, this will be announced at the meeting on the 14th December when the draft settlement is known. This will allow a more considered view to be taken on this part of the Council's budget, representing as it does, the single largest part of the overall budget.

Table 2: School budget pressures 2023/24 to 2025/26

	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
Teaching staff - pay award - 3.5% Sept 23 and 2.5% thereafter	3,628	3,217	4,337
Non Teaching school staff - pay award - 4% in 23/24 and 2.5% thereafter	875	899	921
Contract & Income Inflation	3,941	3,463	1,745
New and growing Schools	368	1,345	1,278
Secondary School Transitions	417	(124)	(114)
Other School investment	1,166	566	566
	10,395	9,366	8,734

Council Tax

- 3.12 It is well documented that Newport's council tax is low compared to others in Wales, generating 23% of the Council's income. This council's current year band B council tax rate is 15% lower than the Welsh average.
- 3.13 A range of council tax increases are being consulted upon although the position and figures set out within this report are based on a 9.5% increase within the MTFP in 2023/24. A 4% planning assumption for council tax increase remains thereafter. This is subject to consultation and a final recommendation to Council on the council tax level and will be confirmed in the Cabinet's February 2023 meeting.

- 3.14 For contextual purposes, the table below shows the weekly increases in council tax based on a 9.5% 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 3: Scenarios illustrating weekly Council Tax increases

Band	A	B	C	D	E	F	G	H	I
Annual increase based on 9.5% increase	£80.56	£93.99	£107.41	£120.84	£147.69	£174.55	£201.40	£241.68	£241.68
Weekly increase based on 9.5% increase	£1.55	£1.81	£2.07	£2.32	£2.84	£3.36	£3.87	£4.65	£4.65

- 3.15 Given that over half of Newport's chargeable properties are banded A – C, most households would see an increase of between £1.55 and £2.07 per week based on a 9.5% increase.

Summary of key budget assumptions

At this point, the following assumptions are included.

Table 4: Summary of key assumptions

	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
RSG increase +3.5%, +2.4% and +2.95% in line with WG multi-year settlement figures included within RSG	(9,296)	(6,598)	(8,304)	(24,198)
Increased share of the total RSG due to data changes showing increased relative spending need	(2,565)	-	-	(2,565)
Council tax increase +9.5% in 2023/24 and 4% thereafter	(6,325)	(2,853)	(2,968)	(12,146)
Budget pressures/ investments (appendix 1)	45,262	25,634	23,240	94,136

Resulting budget position and sensitivity of assumptions

- 3.16 Given the significant inflationary and demand pressures identified during recent months, coupled with the currently unchanged indicative funding allocations, it is unsurprising that the MTFP gap over the medium term has grown significantly since the last update. The budget position in the current draft MTFP (Appendix 7) is unprecedented, certainly compared to previous years. Should any of the underlying assumptions change, there is scope for the position to change. The table below outlines the potential impact that changes to key elements could have:

Table 5: Sensitivity analysis – key projections

RSG Sensitivity	£'000
RSG growth +/- 1%	2,656
Council Tax Sensitivity	£'000
Council tax change +/- 1%	652
Pay Sensitivity	£'000
Pay inflation - NJC staff +/- 1%	1,100
Pay inflation - Teachers and soulbury +/- 1%	494
Contract Inflation Sensitivity	£'000
Contract inflation - +/- 1%	5,889

4 Budget savings

- 4.1 The identification of significant new savings is a requirement to balance the budget for 2023/24. The draft proposed savings identified for 2023/24 to date total £11,561k. The table below provides a summary of the savings by decision over the 3-year planning horizon.

Table 6: Summary of projected savings

Savings Decision Type	2023/2024 £'000	2024/2025 £'000	2024/2025 £'000	Staff Impact FTE
Budget savings for full Cabinet decision (appendix 2)	5,649	245	0	75.93
Budget savings delegated to officers (appendix 3)	5,912	39	0	20.1
Total Budget Savings	11,561	284	0	96.0

- 4.2 Under the constitution and our scheme of delegation, the Cabinet takes some budget decisions collectively. These proposals total £5,649k for 2023/24 and £5,894k 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 £5,912k for 2023/24 and £5,951k over the life of the MTFP are listed in Appendix 3.

Fairness and Equality Impact Assessments (FEIAs)

- 4.3 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](#).
- 4.4 The identification of significant new savings is a requirement to balance the budget for 2023/24.

5 Budget process and consultation

- 5.1 This report presents the draft proposals for the 2023/24 budget. The report asks Cabinet to note:
- the position on developing a balanced budget for 2023/24, 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 1;
 - proposed savings in Appendix 2 (summary table) and Appendix 10 (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 In the wake of the pandemic and a general change to the way everybody works and lives, the approach to engagement has had to change. Traditional engagement methods are no longer as effective as they were, and levels of engagement have reduced. Despite this, a pre-budget engagement exercise was completed to establish citizens' views on the prioritisation of council

spending over the medium term. Almost 900 responses were received, and the results indicated that the public continues to place significant emphasis on: schools and education, children's services, city services, adult services, and homelessness support, but are increasingly concerned with the cost of living and climate action and community safety.

- 5.4 The proposed investments set out in this report have been identified with 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 the previous year, the Council 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 2023/24 budget:

Table 7: Budget consultation timetable 2023/24

Cabinet agrees budget proposals as a basis for consultation	14 December 2022
Consultation period	14 December 2022 to 2 February 2023
Cabinet considers feedback from consultation and agrees final budget proposals and recommends resulting overall budget and council tax required to full Council	15 February 2023
Council approves the 2023/24 overall budget and resulting council tax level required	28 February 2023

6 Risk, financial resilience, and performance

- 6.1 A key driver in our 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 2023/24 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 2 corporate risk register reported to December Cabinet identified 16 risks that are considered to have a significant impact on the achievement of the Council's objectives and legal obligations. Overall, 8 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 Three current risks with significant uncertainty are (i) stability of social services providers, (ii) pressures on adult services and (iii) pressure on delivery of children services and in the case of challenges facing social care have already been considered earlier in this report.
- 6.5 In the context of the challenging economic climate, whilst there are potential options to manage these risks, the likelihood is that the following areas if 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.
- 6.6 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

- 6.7 A robust view is taken in managing budget risks and protecting the financial health of the Council. In that respect, the Council's financial resilience is a key consideration and Appendix 6 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council currently. Key headlines include:
- *Earmarked Reserves*: Although the Council's reserves have increased in recent years, 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 at this point 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, this is likely to be a temporary improvement due to significant one-off grants being awarded at the end of last financial year. The forecast net spend against school budgets this year will see reserve balances reduce to £10,141k the end of this financial year, though this could change in the last quarter as so often is the case with new grants received.
 - *Current budget savings-managing the revenue budget – demands on the revenue budget*: The Council has identified and continues to monitor budget reductions of £800k in 2022/23 and whilst understandable delays in delivery is evident, HoS have confirmed they can and will be implemented. This is alongside delivering outturns within and under budget over recent years, despite the delivery of £25m savings over the last 5 years. This needs to be viewed within the context of continued significant demands which are faced by service areas, namely children's social care and schools, which have been highlighted throughout the year as part of the budget monitoring process.

The Council is developing a strategic transformation programme and has its 'transformation plan fund' (previously invest to save) reserve to fund the one-off cost of change. The programme is integral to developing ongoing financial sustainability whilst also ensuring key services can be delivered.

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	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	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	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 budget savings, with final decisions on these to be made in the February meeting, and to approve others for immediate implementation by Heads of Service. The totality of savings is very significant and are required because of the challenges which all parts of the economy, including public services, are under, both in scale and speed. The scale of the challenges is explained in detail within the report.

As the report confirms, there is no budget saving attributable to schools budget at this time of writing and will be announced at the meeting, when the draft settlement is known. There is a prospect of further funding compared to what is included in this report, though can't be confirmed at this time. In assessing

this and the school's position at the meeting, the Cabinet must be cognisant of other pressures and issues, including feedback from the consultation, which this provides flexibility to address.

The current 2023/24 budget proposals included in this report is not 'balanced' with a residual budget gap of nearly £16.1m. The contribution to be potentially made by school's budget is not yet included and this should decrease when included / announced. An un-balanced budget at this stage, whilst not best practice, is in-itself, not an issue, but the Cabinet must agree a balanced budget in their February meeting and any residual budget gap that may exist then would need to utilise reserves to achieve that. In this and other general respects, a number of key considerations is recommended to be borne in mind in moving to a final budget in February, including; the importance of taking a medium-term view, the budget gaps which already exist in 24/25 and beyond, the potential prospect for reducing funding increases in future years, the time limited benefits and the impact of utilising reserves to generally balance the budget, the current relative low Council Tax level in Newport, within the aspiration of the Council's new Corporate Plan and the cost of living challenges. Of particular importance is

Delivering a more medium term, strategic approach to identify budget savings will be more important than ever in the context of the on-going challenges facing Local Government and this Council in particular. The development of the Council's Transformation Plan and associated implementation plans is key to this though it will need to be augmented by other approaches and plan to help ensure we deliver essential local services which are financially sustainable.

The Welsh Government will announce Councils 'Aggregate External Finance' on the 14th December and there is the real prospect, but no certainty at time of writing, of additional funding to that assumed at this stage given the increased funding received by the Welsh Government. If this was to happen, it will allow choices as the budgets moves to its final stage in February, given a 1% change is c£2.6m.

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 23/24 and as the basis for public consultation, where the relevant business cases will have an impact on service delivery and are not operational 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 23/24. 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 23/24 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 2023/24 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 Unions 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 does have to make redundancies. 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

October Revenue Budget Monitor

2022/23 Budget and Medium Term Financial Plan (MTFP)

Dated: 8 December 2022