

Report

Cabinet

Part 1

Date: 13 January 2025

Subject **2025/26 Budget and Medium-Term Financial Plan (MTFP)**

Purpose To highlight key issues affecting the development of the Council's 2025/26 budget and Medium-Term Financial Plan (MTFP) and present the second tranche of budget savings proposals for the 2025/26 budget. Cabinet is asked to agree consultation on all aspects of the draft budget proposals included in this report or, for those budget savings taken under delegated authority, approval to implement. Consultation results will be reported back to Cabinet in February 2025, when Cabinet will agree a final budget to recommend to full Council.

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Ward All

Summary This report presents the draft budget proposals for 2025/26.

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 draft local government settlement was announced on the 11th December, and confirmed that Newport City Council will receive the largest percentage increase in core funding across Wales, significantly higher than planning assumptions back in February 2024.

The 2025/26 budget gap before savings is £4.329m (£21.375m over the medium term). The Council is required to manage this shortfall to both produce balanced annual budgets, which also deliver sustainable future finances that ensure the Council continues to deliver services to residents in Newport and meet its priorities.

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

This report, along with the appendices, sets out the draft budget proposals including pressures and investments, budget savings and an increase in local council tax.

Section:

- 1 Background
- 2 Context
- 3 The Budget Gap
- 4 Budget savings
- 5 Budget process and consultation
- 6 Risk, reserves, and financial resilience
- 7 Report review and statutory comments

Appendix:

Appendix 1	Medium term financial projections
Appendix 2	Budget investments
Appendix 3	Results of consultation
Appendix 4	New budget savings for consultation
Appendix 5	New budget savings implemented under delegated authority
Appendix 6	Fees & charges for consultation
Appendix 7	Corporate risk register – 2024/25 Quarter 2
Appendix 8	Financial resilience ‘snapshot’
Appendix 9	Projected earmarked reserves
Appendix 10	New budget savings for consultation – proposals

Proposal

1. Cabinet agrees the following draft proposals for public consultation:

- i) Budget savings proposals in Appendix 4 (summary table) and Appendix 10 (detailed proposals).
- ii) A council tax increase of 6.7%, a weekly increase of £1.29 - £1.72 for properties in Band A to C, the most common bands in Newport, as set out in paragraphs 3.7.
- iii) Proposed fees and charges in Appendix 6.
- iv) The budget investments shown in Appendix 2, including those for schools.

2. Cabinet approves:

- v) The use of the Transformation Reserve to fund the implementation costs of the proposals listed in Appendix 5, totalling £199,000.

3. Cabinet notes:

- i) The savings implemented under delegated authority in Appendix 5.
- ii) The position on developing a balanced budget for 2025/26, noting that the position will be subject to ongoing review and updates between now and the February Cabinet when the final budget is agreed.

Action by Executive Board / Heads of Service

Timetable Immediate:

Decisions subject to consultation include investments (Appendix 2), savings (Appendix 4 – summary, and Appendix 10 – detailed proposals), fees and charges (Appendix 6), 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 2024/25 budget report, presented in February 2024, identified a potential budget gap (before savings) of £21.081m in 2025/26. 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 £4.329m.
- 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 current position to the position reported February 2024, in relation to the 2025/26 budget. The Council's Medium Term Financial Plan is shown in Appendix 1.

Table 1: Budget Gap before cost reduction plans

	February 2024 £'000	Current £'000	Significant movements
Funding			
RSG	(460)	(25,266) 3,419	5.6% increase from 0% Less teacher's pension funding increase
Council Tax	(2,958)	(5,859)	Increased to 6.7%, from 4% base assumption
Anticipated funding for National Insurance pressure – NCC staff	n/a	(4,541)	Neutral to budget gap as matched off with increased costs
Cost Pressures			
Inflation/Increased costs	19,861	25,325	Employers' national insurance increase +£8,369k Lower energy inflation -£1,329k
Budget Investments / Pressures	4,473	12,957	Homelessness costs +£2,000 Transfer of grants in RSG +£1,260 Home to School Transport +£1,529k Asset pressures +£812k ALN Local Provision +£651k
Use of earmarked reserves	165	(1,706)	£1.871m to support temporary Children Services pressure (Eliminate Agenda)
Budget Gap	21,081	4,329	

- 1.3 This report explains the key assumptions and issues that impact on the above current position.

2 Context

- 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-cost increases.

UK Autumn Budget

- 2.2 The Autumn Budget took place on the 30th October 2024, and included a significant increase in public spending, financed by a combination of tax rises and higher borrowing. The following outline the key messages and issues which impact on Local Government, and the Council's budget planning:
- (i) The Welsh Government will receive an additional £774m in 2024/25 (although a large share of this is pre-committed to fund public sector pay deals agreed this year), and a further £930m in 2025/26. This means that the Welsh Government will receive £1.7bn more in

funding for 2025/26 than previously expected. This has significant implications for its budget, and therefore its ability to fund local government in Wales, through the revenue support grant, as detailed below.

- (ii) Employers National Insurance contribution rate will increase from 13.8% to 15%, and the earnings threshold at which that rate applies will reduce from £9,100 to £5,000. This will materially increase the Council's own staff costs, and potentially impacts certain external contracts. The additional cost relating to the Council's own staff is estimated to be £4.5m, and this budget assumes that will be funded in full. Some budgetary provision has been made for the potential impact on the cost of commissioned services, however, it is the Council's expectation that these costs are absorbed by suppliers as far as possible.

Ministers have confirmed that the UK Treasury will fund the cost of directly employed staff, but the detail of this funding is unlikely to be confirmed before the Council sets its final budget in February 2025. There is therefore a potential risk that funding will be less than the £4.5m required, creating an in-year budget overspend in 2025/26.

- (iii) The National Living Wage will increase to £12.21 per hour from April 2025, a 6.7% 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 drives significant pay inflation within the Council's budget planning and assumptions. Newport City Council is committed to paying employees the 'real living wage' and therefore, within the NJC pay structure, pay levels locally meet the 'real living wage' which is now £12.60 per hour, a 5% increase.

Budget assumptions also include an increase in social care commissioned services budgets to allow for at least the 'real living wage' level to be paid in those sectors. This drives 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.

- 2.3 The Autumn Budget set departmental allocations for 2025/26, and 2-year spending review will follow in Spring 2025, setting allocations for 2026/27 and 2027/28. Welsh Government Ministers have indicated that this would allow for indicative multi-year local government settlements. This would improve the Council's ability to plan over the medium term. Until then, the outlook beyond 2025/26 is uncertain, however, analysis from the Wales Fiscal Analysis suggests that funding for public services will again become challenging.

Economic and demand issues

- 2.4 The continuation of 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 inflation on council supplies and services; affecting both the Council's own direct costs and that of its key suppliers and service providers. Whilst the headline Consumer Price Inflation (CPI) rate has recently fallen from the historic peaks seen in recent years to just over 2%, it is expected to rise modestly over the next year as the baseline effects of falling energy prices fade away, and persistent domestic factors (e.g. wage growth) take over.

As outlined above, the Council is committed to ensuring that its social services commissioned care partners pay at least the real living wage to their staff. The living wage foundation has announced that the real living wage will rise by 5%, which causes significant pressure on the Council's budget.

- **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 social services and housing services.

3 The Budget Gap

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

These issues, starting with the Council's funding for 2025/26 and then cost issues are explained below.

The Council's funding

Revenue Support Grant (RSG)

- 3.2 The provisional local government settlement was received on 11th December, which confirmed a cash increase of £25.266m for Newport City Council. However, £4.754m of the increase relates to the transfer of funding received via specific grants in 2024/25, into the RSG. Therefore, on a like-for-like basis, the provisional settlement provides the Council with additional funding of £20.512m for 2025/26.
- 3.3 The RSG is the largest element of all Welsh Council's funding and typically equates to c70%-75% of net expenditure; at Newport City Council, this is currently 77% with Council Tax contributing the remaining 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 areas 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) work is on-going to understand the full implications of it. The provisional settlement does not indicate there will be any significant reductions to specific grant funding for 2025/26 (at the all-Wales level), however, a number of grants are yet to be confirmed (e.g. Housing Support Grant).

In most cases, the Council's individual allocations for specific grants will be confirmed over the next few months.

In addition to this, a review of the potential RSG increases will be undertaken for future years beyond 2025/26. Currently, in line with current analysis from the Wales Fiscal Analysis in October 2023, a 0.7% increase is assumed for 2026/27, and 1.4% in 2027/28 plus £2m each year for demographic changes. 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 as the UK Spring budget is announced.

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 2025/26 and it will increase by 1.4% to 62,214.31. This tax base is net of a 2.86% non-collection allowance. This practice is consistent with all councils across Wales. The overall

increase in the tax base appears relatively large compared to the previous year (0.6%), and this is because it now reflects the Council's policy to charge premiums on long term empty properties and second homes, which has increased the effective tax base by 725 for 2025/26. The net increase in available funding from the growth in the tax base, after adjusting for council tax premiums already accounted for in the Council's existing base budget is £601k, based on the current rate of Council Tax. This is reflected in the MTFP for 2025/26.

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. Newport's current year band D council tax rate is 10% lower than the Welsh average, which represents approximately £8.6m in lower funding levels to the Council.
- 3.7 The budget position and figures set out within this report are based on a Council Tax increase of 6.7% for 2025/26, and 4% thereafter. The 2025/26 increase provides £5.258m and 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 2025.
- 3.8 For contextual purposes, the table below shows the weekly increases in council tax based on a 6.7% 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 6.7% increase

Bands	A	B	C	D	E	F	G	H	I
Increase per year	£66.89	£78.03	£89.18	£100.33	£122.62	£144.92	£167.21	£200.66	£234.10
Increase per week	£1.29	£1.50	£1.72	£1.93	£2.36	£2.79	£3.22	£3.86	£4.50

- 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 £1.29 - £1.72 per week based on the proposed increase.

Increasing costs and demand

- 3.10 Financial pressures and demands on our services continue to grow significantly both for 2025/26 and over the medium term. The main elements of this are:

Inflationary Increases

- Although the headline measure of inflation – the Consumer Price Index (CPI) – has fallen, this continues to be a key issue in the Council's budget setting process. Unavoidable pay and other inflationary cost increases, including schools, are estimated to be £25.3m in 2025/26 and £54.8m over the three-year period to 2027/28. The table below describes the main elements of this:

Table 3: Analysis of inflationary pressures

Inflationary cost pressure	2025/26	2026/27	2027/28	3-Year Total
	£'000	£'000	£'000	£'000
Teachers Pay	4,031	2,849	2,703	9,583
NJC Pay	4,035	3,449	3,536	11,020
Employers National Insurance (Teachers)	1,646	Nil	Nil	1,646
Employers National Insurance (NJC Staff)	2,895	Nil	Nil	2,895
Employers LGPS	930	560	Nil	1,490
Commissioned care fees	3,588	3,768	3,956	11,312
Energy costs	nil	nil	nil	nil
Other contract costs	8,200	4,210	4,437	16,847
Total	25,325	14,836	14,632	54,793

- Commissioned care costs and pay (including the impact of changes to employers National Insurance contributions) are the most significant inflationary pressures within the MTFP. Staff costs account for almost half of all council revenue costs. Our planning assumptions for pay are the following:
 - NJC pay award of 3% from April 2025, and 2.5% annually thereafter
 - Teacher's pay award of 3% from September 2025, and 2.5% annually thereafter. The large pressure above for 2025/26 also includes the impact of the 5.5% September 2024 pay award, which has now been agreed.

Change to employers' national insurance contributions equate to a cost pressure of £4.541m in 2025/26.

Increases to the Newport City Council's contribution rate to the Local Government Pension Scheme equate to £930k in 2025/26 (an additional 1.0 percentage points) and £560k in 2026/27 (an additional 0.6 percentage points).

- Whilst energy costs remain elevated compared to historic levels, current market forecasts suggest prices will remain flat over the medium term, and our planning assumptions reflect that.
- Significant income budgets under the Council's decision making are inflated at 4% as standard and services can adjust as needed as budget pressures (to go lower) or savings (to go higher).

Service Demand

- The Council is experiencing exceptional levels of demand and cost pressure in some areas, most significantly in children services 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.
- For 2025/26 specifically, the Council is currently planning to invest £12.957m in the draft budget over and above an allowance for pay and pricing inflation. More details on proposed investments are included in Appendix 2 and some of the key items include:
 - £1.840m to address budget pressures within housing services. The main issue is the continuing demand for temporary accommodation, due to the lack of suitable long term accommodation options. This has resulted in the significant use of hotel and bed and breakfast accommodation which comes at a much higher cost than more traditional options. Housing benefit subsidy for short term accommodation is capped at the Local Housing Allowance rate, and therefore, the additional cost falls to the Council.

This investment is a net figure. It includes the impact of the service area implementing its current transformation plan to reduce the current year budget pressure by c£1m, and make

further savings of £160k within 2025/26 by increasing the supply of temporary accommodation across the city.

- £1.402m to account for the reduction in specific grant income into the Revenue Support Grant. This has a neutral impact on the budget gap, as it is offset by a corresponding increase in RSG funding.
- £1.871m temporary investment to enable Children Services to establish additional in-house provision in compliance with Welsh Government's Eliminate policy. The draft budget assumes this will be funded from as yet unspecified reserves. The provisional local government settlement confirmed revenue grant funding will be available in 2025/26 to support this agenda, however, the Council's individual allocation of this funding has not yet been confirmed. The final budget recommendation will hopefully be able to confirm if this cost will be funded from the Council's own reserves or the WG specific grant.
- £1.240m to address pressures within the ALN and Special School Transport service.
- £777k to account for the loss of net income resulting from the closure of the landfill site in 2025/26.
- £651k to meet additional demand within ALN local provision, avoiding the cost of more expensive out of county placements.
- £500k to increase the capital annual sums budget.

3.11 Detailed investment 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 further savings proposals, funded from current reserves.

Capital programme and financing

3.12 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'.

3.13 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.

3.14 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 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 challenging. At this time therefore, given the context described above, the draft revenue budget for 2025/26 and the MTFP do not include any revenue provision for new unfunded capital expenditure. Any new capital expenditure requirements from 2025/26 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.

Schools funding

- 3.15 The MTFP identifies pressures relating to schools amounting to £11.1m in 2025/26, which equates to an increase of 8% on the current schools' budget. This is based on an assumed level of pay and non-pay inflation as noted above in paragraph 3.8, and other cost pressures as highlighted in paragraph 3.9 including new and expanding schools. For the full three-year MTFP period, assessed school pressures amount to c£22m, 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. The table below sets out the detailed school budget pressures over this MTFP period.
- 3.16 No savings are included in the 2025/26 draft budget for schools. Therefore, at this point, the schools budget will increase in cash terms by £11.1m, or 8%, in 2025/26.

Table 4: School budget pressures 2025/26 to 2027/28

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Teaching Staff – pay award assumption	5,677	2,849	2,703
Non-teaching staff – pay award assumption	2,844	1,359	1,196
Contract/Income inflation	650	352	366
New & growing schools	1,377	1,424	544
Other school investments	587	290	0
Total	11,135	6,275	4,809

Summary of key budget position

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

Table 5: Summary of key assumptions

	2025/26 Actual	2026/27 Budget Planning Assumption	2027/28 Budget Planning Assumption	Sensitivity Analysis +/- 1% change
RSG Increase	£21.8m	£2.3m	£4.6m	£3.0m
RSG Increase – data changes		£2.0m	£2.0m	n/a
Council Tax – 6.7% 25/26 and 4% thereafter	£5.3m	£3.5m	£3.6m	£0.8m
Council Tax – increased base	£0.6m			n/a
NCC staff pay – National Insurance	£4.5m			n/a
Total Funding Increase	£32.2m			
Pay inflation (NJC Staff) – 3% 2025/26 and 2.5% thereafter	£4.0m	£3.4m	£3.5m	£1.3m
Pay inflation (Teaching Staff) – 3% Sept 2025/26 and 2.5% thereafter	£4.0m	£2.8m	£2.7m	£0.6m
Contract inflation – various	£12.0m	£7.8m	£8.2m	e.g. Care Providers £0.7m

- 3.20 Whilst the Council's overall increase in its funding is high; there is an unprecedented increase in costs pressures in 2025/26 too, coming from not only local issues such as demand pressures for services but also external issues, in particular pension and national insurance cost increases. The current position on the Council's MTFP for 2025/26 is a relatively low balance in hand of £599k, in the context of the increased funding available for 2025/26.

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 2025/26. Cabinet considered the first tranche of savings proposals at its November meeting, and these are summarised in the table below.

Table 6: Summary of savings proposals considered by Cabinet 13 November 2024

Saving Decision Type	2025/26 £'000	2026/27 £'000	2027/28 £'000	Impact on posts FTE
Budget savings agreed for public consultation	128	0	0	3.66
Budget savings approved for implementation, not requiring public consultation	4,005	789	0	4.68
Total	4,133	789	0	8.34

The results of the public consultation for this first tranche of proposals are included in Appendix 3. These will be considered alongside responses to proposals included in this report at the Cabinet's February meeting when they will agree their final budget recommendations.

- 4.3 Further savings totalling £564k have now been identified for Cabinet's consideration. The table below provides a summary of the new savings by decision over the 3-year planning horizon.

Table 7: Summary of new budget savings

Saving Decision Type	2025/26 £'000	2026/27 £'000	2027/28 £'000	Reduction in Staff FTE	Implementation Cost £'000
Budget savings for full Cabinet consideration requiring public consultation (Appendix 4)	222	0	0	1.5	146
Budget savings made under delegated authority, not requiring public consultation (Appendix 5)	342	0	0	3.0	199
Total	564	0	0	4.5	345

- 4.4 Appendix 4 lists the new budget proposals that require public consultation for Cabinet's consideration, totalling £222k. The detailed proposals are included in Appendix 10.

The remaining proposals have been implemented under delegated authority and do not require public consultation given their detail/context. These are listed in Appendix 5 and total £342k.

- 4.5 As the table above shows, there are one-off costs associated with the implementation of these savings and Cabinet are asked to approve the use of the Transformation Reserve to fund these. The available balance in the reserve is currently £2.584m.
- 4.6 This takes the total of savings identified for 2025/26, including those previously agreed, to £4.928m.

Fairness and Equality Impact Assessments (FEIAs)

- 4.7 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 2025/26 budget. The report asks Cabinet to note:
- the position on developing a balanced budget for 2025/26, 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 4 and 10
 - proposed fees and charges in Appendix 6
 - the position regarding the proposed school funding for 2025/26 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. A total of 872 responses were received and the results of this survey are included in Appendix 3. 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.

Below is this year's timetable for consulting on and approving the 2025/26 budget:

Table 8: Budget consultation timetable 2025/26

Cabinet agrees draft budget proposals as a basis for consultation	13 Jan 2025
Consultation period	13 Jan 2025 to 5 Feb 2025
Cabinet considers feedback from consultation and agrees final budget recommendations to Council, including Council Tax rate	12 Feb 2025
Deadline for members / groups written amendments on budget proposals for Council consideration to be received by the 'proper officer' (Head of Law & Standards)	5.00pm 17 Feb 2025
Council approves the 2025/26 budget and Council Tax rate	25 Feb 2025

Members and groups who may wish to consider any amendments to the budget proposals are recommended to discuss these with the Heads of Finance and Law & Standards at the earliest opportunity.

6 Risk, reserves, and financial resilience

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 2025/26 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 identifies 15 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 with the issues set out within the economic context and earlier sections of this report. Appendix 7 sets out the current risks included within the register.

6.4 The table below details the budget investments/pressures included in this draft budget which have a direct and positive impact on the specific risks identified within the corporate risk register:

Table 9: Corporate Risk Register and the draft budget

RISK	DRAFT BUDGET
Demand for education Additional Learning Needs / Special Education Needs support Education out of county placements	Budget pressures included in the draft budget
School Finance / cost pressures	No savings included for schools in the draft budget Budget inflation for pay fully funded to afford the 2024/25 pay award and estimated award for 2025/26 Funding of increased school pupil numbers in the draft budget
Pressure on housing and homelessness	Budget pressure included in the draft budget
Newport Council's Property Estate	Budget pressure included in the draft budget
Stability of social care providers / Pressure on Adult services	Budget inflation fully funded to maintain at least a living wage level to care providers staff in the draft budget
Pressure on delivery of children's service / Eliminate Profit from Social Care	Budget inflation fully funded to maintain at least a living wage level to care providers staff in the draft budget Investment of £1.871m to allow the service area to establish increased in-house provision in compliance with Welsh Government's Eliminate policy.

- 6.5 In the context of the above and other severe risks in the Councils corporate risks register, the draft budget here provides mitigation to those shown above and further mitigation will come from the Council's capital programme and the following areas:
- existing revenue contingency budget;
 - existing revenue budget (capital financing) providing further contingency to manage revenue budget risks in the short term;
 - specific reserves earmarked for budget risks;
- 6.6 The Head of Finance 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 8 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council. The following are key considerations for the Head of Finance in fulfilling his section 151 officer responsibilities in this regard:

- Close monitoring of a number of key indicators relevant to financial resilience:
 - The relatively low Council funding due to low Council Tax
 - 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 a high-interest rate environment, diminishing cash reserves and reserves and which are forecasted to continue reducing over the short to medium term.
- *Earmarked & General Reserves*: Earmarked reserves are forecast to reduce by £21.5m in 2024/25 to £102.4m (projected earmarked reserves are detailed in Appendix 9). While this is still relatively high, most are earmarked for specific purposes. However, as a last resort they can provide one-off mitigation within the budget, albeit at the expense of their original purpose. This approach delays the identification of recurring savings to meet the budget gap and may result in a new budget pressure to build those reserves up again.
- *Revenue Contingency budget & General Reserves*: The (i) contingency base budget and other (ii) 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 now too low relative to the size of the Council's budget which has increased significantly over the last 5 years as WG funding increased. The Cabinet and Council needs to increase this over the short to medium term but currently, this can be managed 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 finances*: The school reserves position improved over the Covid period, however, the forecast overspend against school budgets this year will see them reduce to c£8.7m by the end of 2024/25. Although this is partly due to one-off expenditure items, the level of recurring pressures within the secondary and special school sectors is a concern.
- *Current budget savings & demands on the revenue budget*: The Council has identified and continues to monitor budget reductions of c£5m in 2024/25 and whilst delays in delivery is evident, Heads of Service continue to confirm they can and will be implemented. 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 has been provided by contingencies and non-service underspends to date but the ability for this to continue is reducing significantly for 2025/26.

- *Employers National Insurance contributions:* As detailed above, the UK Autumn Budget included changes to employer national insurance contributions. Funding for these changes is yet to be confirmed, and this will need to be reviewed as the final budget recommendation is confirmed in February 2025.

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 continue 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.

The draft budget includes funding for most of the budget challenges facing the Council, including Children Services and Homelessness. Inherently unavoidable risks remain in the budget, specifically (i)

funding for the impact of the changes to national insurance announced in the UK Autumn Budget in respect of directly employed staff, and (ii) the potential impact on the cost of commissioned services. Welsh Government have confirmed that additional funding for directly employed staff will be provided, however, the value of this funding is unknown at this time.

A formal assessment of the robustness of the budget will be made in February alongside the Cabinet's final budget proposals.

Comments of Monitoring Officer

Each year, the Council is required to set a balanced budget for the following financial year. The purpose of this report is enable the Cabinet to adopt and approve a draft budget which can be published for consultation. The Cabinet will have the opportunity to consider any responses to the consultation at its next meeting before recommending a budget for adoption by Full Council. The setting of the Council's base budget is a matter reserved to Full Council.

The Cabinet is also asked to approve a number of budget saving measures identified within the report and to note other such measures which have already been determined by officers and Cabinet members under their delegated authority.

In setting its draft budget, the Cabinet must have regard to the advice of the Head of Finance, as set out in this report, and any fairness and equality impact assessments, in order to ensure compliance with the Public Sector Equality duty and other associated provisions of the Equality Act 2010.

Comments of Head of People, Policy and Transformation

The report to Cabinet on the Council's MTFP and second round of Budget proposals for 2025/26 is in line with the Council's Well-being Objectives. The principles of the Well-being of Future Generations (Wales) Act 2015 and its five ways of working are supported, with the report showcasing the medium-term approach for financial planning aimed at bridging the gap between longer-term strategic aspirations and immediate pressures of setting a balanced budget. Alongside the wider public consultation, any impacted Council staff and recognised Trade Unions will be formally consulted with.

A Fairness and Equalities Impact Assessment was not required for this report directly, but individual assessments will be undertaken on specific proposals and further amendments made following the consultation. The HR team are also supporting senior officers and staff members during this period and will continue to do so during the consultation period.

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 2024 Revenue Budget Monitor
2024/25 Budget and Medium-Term Financial Plan (MTFP)

Dated: 7 January 2025