

**Executive Board – 18 June 2024**

<b>Subject:</b>	2025/26 Budget Strategy
<b>Corporate Director(s)/Director(s):</b>	Ross Brown, Corporate Director for Finance and Resources (Section 151 Officer)
<b>Executive Member:</b>	Councillor Linda Woodings, Executive Member for Finance and Executive
<b>Report author and contact details:</b>	Shabana Kausar, Director of Finance (Deputy Section 151 Officer) <a href="mailto:shabana.kausar@nottinghamcity.gov.uk">shabana.kausar@nottinghamcity.gov.uk</a>
<b>Other colleagues who have provided input:</b>	Corporate Leadership Team Transformation Team Colleagues within Technical, Strategic and Commercial Finance Teams
<b>Subject to call-in:</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/>
<b>Key Decision:</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>Criteria for Key Decision:</b>	
(a)	<input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £750,000 or more taking account of the overall impact of the decision
<b>and/or</b>	
(b)	Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Type of expenditure:</b>	<input checked="" type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital If Capital, provide the date considered by Capital Board Date: n/a
<b>Total value of the decision:</b>	n/a
<b>Section 151 Officer expenditure approval</b>	Has the spend been approved by the Section 151 Officer? <input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> N/a Spend Control Board approval reference number:
<b>Commissioner Consideration</b>	Has this report been shared with the Commissioners' Office? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Any comments the Commissioners wish to provide are listed below.  The Commissioners are content with this report.
<b>Wards affected:</b>	All
<b>Date of consultation with Portfolio Holder(s):</b>	Throughout
<b>Relevant Council Plan Key Outcome:</b>	
Clean and Connected Communities	<input checked="" type="checkbox"/>
Keeping Nottingham Working	<input checked="" type="checkbox"/>
Carbon Neutral by 2028	<input checked="" type="checkbox"/>
Safer Nottingham	<input checked="" type="checkbox"/>
Child-Friendly Nottingham	<input checked="" type="checkbox"/>
Healthy and Inclusive	<input checked="" type="checkbox"/>
Keeping Nottingham Moving	<input checked="" type="checkbox"/>
Improve the City Centre	<input checked="" type="checkbox"/>
Better Housing	<input checked="" type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input checked="" type="checkbox"/>

**Summary of issues (including benefits to citizens/service users):**

The Council in March 2024 approved a 4-year Medium Term Financial Plan (MTFP) based on the best available information at the time. However, the financial environment within which the Council is operating is constantly evolving and its budget strategy and planning process needs to be accordingly refreshed to ensure it continues to meet its Best Value requirement to demonstrate continued financial sustainability.

The Council continues to face exceptional circumstances as best demonstrated by the 2024/25 General Fund Budget balanced only by taking all available saving options tabled to the executive Board and City Council in February 2024 and March 2024 respectively and the use of material sums of Exceptional Financial Support. The MTFP set out the current budget shortfall of c£172m across the period against the forecasted available resources of the Council. The predominate drivers of these exceptional pressures are a combination of both significant demographic, complexity of provision and inflationary pressures across wide range of areas.

This report represents the first stage in the Council’s annual budget planning process, seeking endorsement of the budget strategy and approach for the MTFP period 2025/26 to 2028/29.

At this time the working assumptions with regards to the forecasted budget gap remain same as those approved by City Council in March 2024 of c£172m of which £68.957m relates to 2025/26 including the carry forward of the 2024/25 budget deficit of £41.024m.

The proposed budget strategy and process will continue to be reviewed and as appropriate refreshed to reflect updated MTFP assumptions. Changes to the budget gap and updated MTFP will continue to be reported through the year in accordance with the timetable to the Executive Board.

**Does this report contain any information that is exempt from publication?**

No

**Recommendation(s):**

1. Note the lack of clarity regarding the timing of the Governments Spending Review and the lack of any indication as to the value of financial settlement to Local Authorities which makes budget planning, particularly in the current environment unnecessarily complex and challenging.
2. To note no change to the forecast budget gap for 2025/26 of c£69m with an indicative cumulative budget gap of c£172m over 3-year MTFP period (section 2 and 6) approved by City Council in March 2024.
3. To note an updated 4-year MTFP to be presented to the Executive Board in December 2024 for the period 2025/26 – 2027/28.
4. To endorse the Budget Strategy and Approach for 2025/26 (Section 4) and note the strategy and approach to be submitted to Department for Levelling Up, Housing and Communities (DLUHC), in order to comply with the condition of the Exceptional Financial Support (EFS).
5. Delegate to the Section 151 Officer, in consultation with Commissioners and the Executive Lead for Finance and Resources, to engage with DLUHC on EFS and possible Council Tax options with the latter to be considered by Council for approval as part of the annual budget report.

6. Agree that Corporate Directors prepare detailed plans and budget proposals in accordance with the proposed budget strategy objectives and principles (paragraphs 4.5), taking into account emerging expenditure and funding information and the proposed approach to savings and/or income identification (Section 5). Flowing from this budget proposals are to be brought back to the Executive and/or City Council for approval as part of the annual budget report.

7. Note the budget preparation timetable as set out in the report (section 7)

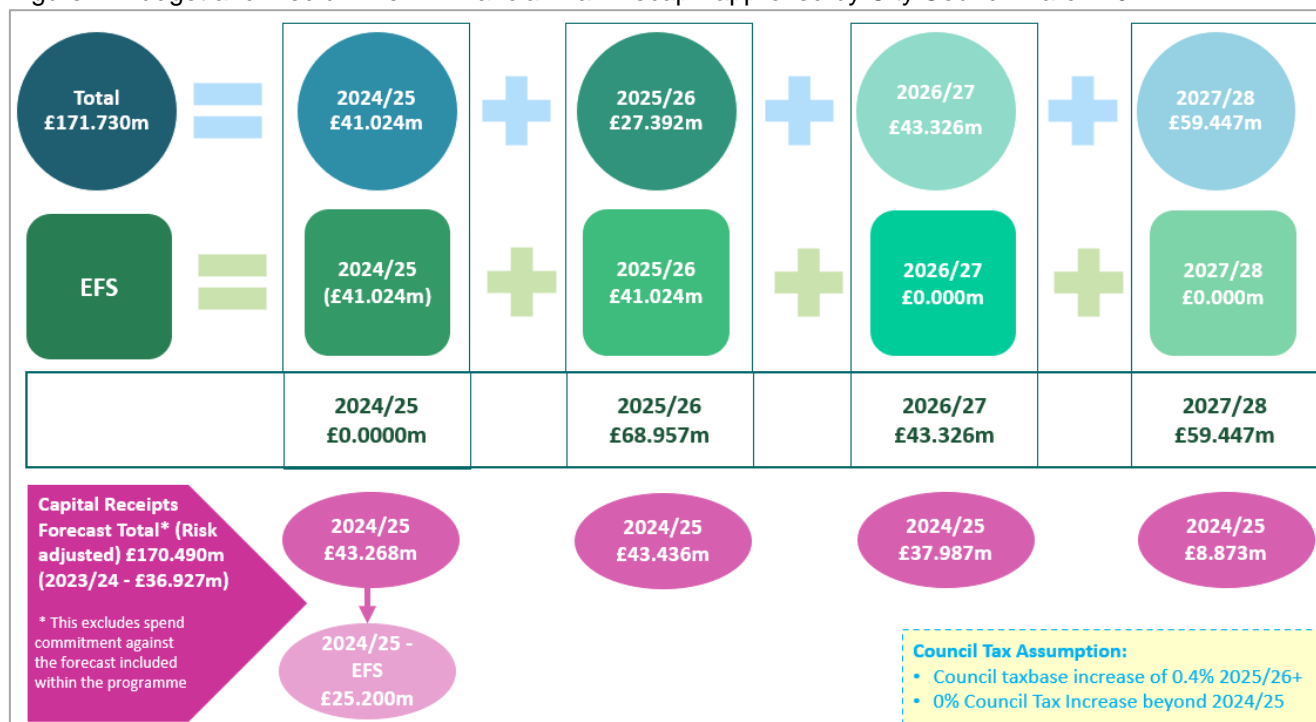
## 1. Reasons for recommendations

- 1.1 This report is part of the Council's annual budget setting and business planning process and seeks to agree the budget strategy for 2025/26 so that officers can work up detailed proposals and present these for member consideration as part of the annual budget setting cycle of the Council.
- 1.2 The overarching objective of our budget strategy is to ensure that the Council have set a priority-led budget over the medium term that is balanced and realistic supported by achievable saving plans. However, it must be recognised that the Council is currently facing the most significant budget challenge on record, which requires the Council to transform the way it delivers services and doing some things differently.
- 1.3 The Council continues to face significant budget pressures in future years and uncertainty, including the continuing level of support from Central Government, over the medium term. Due to an increased demand for services, the long-term impact of the pandemic, alongside the backdrop of the cost-of-living crisis including most notably the rising inflation and energy prices, council services continue to operate in a challenging resource environment where demand change can lead to material budget variances. This is further exacerbated by the current global and national political and economic environment and the prospect of reducing local government funding and support from government.

## 2. Background

- 2.1 The budget strategy and medium-term financial plan for 2024/25 to 2027/28 was approved by City Council on 4 March 2024. The illustration below sets out the estimated cumulative budget gap of c£172m approved by City Council in March 2024, of which the 2024/25 budget gap of £41.024m will be met from Exceptional Financial Support (EFS). The Council has only been able to set a balanced budget in 2024/25, discharging its legally duty through use of EFS as approved by the Department of Levelling Up, Housing and Communities (DLUHC) which was predicated on the Council approving the totality of officer developed proposals and increasing council tax by 4.99%.

Figure 1: Budget and Medium-Term Financial Plan Recap - approved by City Council March 2024



Source: 2024/25 Budget and Council Tax Resolution Report to City Council (4 March 2024) and working forecast of Capital Receipts per approved Capital Strategy (City Council 4 March 2024) and Asset Rationalisation programme.

- 2.2 As set out in figure 1 above and within the approved Capital Strategy (Appendix 6, 2024/25 Budget and Council Tax Resolution Report to March 2024 City Council), capital receipts form a key element of financing the EFS and continue to be a critical component of the Council’s budget strategy not only with regards to the EFS but also due to financing the Council Transformation Programme and priorities especially due to the Council having in place a voluntary debt reduction policy which stops it from borrowing to finance any investment with the exception of the EFS.
- 2.3 The significance of the budget gap over the medium-term financial plan of c£172m combined with the need to rely on substantial amounts of EFS should not be underestimated and although the EFS has allowed the Council to set a balanced budget in 2024/25, the Council has set itself a significantly higher hurdle to achieve in 2025/26. Therefore, it is essential that the Council looks to develop a budget strategy early in year that will support the Council achieving a financially sustainable budget over the medium-term financial plan period and in particular in meeting the conditions of the EFS and government intervention.
- 2.4 As part of approving the budget both the Executive and City Council in February and March 2024 respectively, took into account the conditions upon which the Section 151 Officer provided their statutory statement on robustness of budget estimates. Those relevant to 2025/26 are restated below:
- The Council continuing to assess, learn, report, and respond appropriately at the earliest point to the existing and emerging financial pressures across all aspects of its operations and for Corporate Leadership Team (CLT) leads to

identify and formulate corrective and mitigating actions in managing any pressures from within their service areas.

- A recognition in the medium-term planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. The Council needs to show a commitment to maintain reserves at a level which provides adequate cover for most identified risks during the planning period. This approach is pragmatic and shows a clear commitment to prudent contingency planning.
- 2024/25 budget is based on the current financial outturn forecast for 2023/24 and accounts yet to be audited for 2019/20 to 2022/23. Budget process for future years will need to reflect any impact of prior year accounting adjustments and 2023/24 outturn.
- Executive Leads, Chief Executive, Corporate Directors, and managers not exceeding their cash limits for 2024/25.
- No further calls on reserves other than for those risks that were identified as part of the MTFP, those risks that could not have reasonably been foreseen and cannot be dealt through management or policy actions. The exception to this is where the Section 151 Officer has approved otherwise, as it is not prudent to finance ongoing spending from one-off reserves.
- Where there is a draw-down on reserves, which causes the approved Reserves Policy to be off target, that this is replenished as part of a revised MTFP.
- That the Council has arrangements and resources in place to consider and assess value for money across the delivery of all its services and operations in preparation for future years' budgets.

## 2.5 Exceptional Financial Support

2.5.1 As set out above the Council has been granted with an EFS of up to c£66.143m (£25m in 2023/24 and £41.143m in 2024/25) subject to the Commissioners assessment of the following conditions being met:

- Delivery of the proposed savings identified in the 2024/25 budget as a result of the duties and powers exercise.
- Delivery of an enhanced medium term budget planning methodology by 22 June 2024 capable in the first instance of identifying options to bridge both the opening gap for 2025/26 and a mid-case view of a new budget gap that could arise in 2025/26.
- Delivery of an asset disposal strategy to identify and dispose of capital assets to:
- Minimise the need to undertake external borrowing to fund the in-principle capitalisation direction and /or capital programme, and;

- To continue to reduce overall external debt levels as per the Voluntary Debt Reduction Policy.

2.5.2 Due to the delay in the government appointing the commissioner for transformation, on behalf of the Council and in consultation with Commissioners the Chief Executive has sought and secured an extension from DLUHC to the submission of the Council's Improvement Plan by a month to end of July 2024. The Council's Improvement Plan will sit alongside both the Council's Budget Strategy (as set out in this report) and Commissioners Exit Strategy.

### **3. Financial Context and Overview**

#### **3.1 Spring 2024 Budget Statement**

3.1.1 On 6 March 2024, the Chancellor presented his Spring Statement to House of Commons which included the following key announcements:

- Further cut in employees National Insurance Contributions.
- Minor changes in forecasts and no change in future spending assumptions.
- Departmental expenditure plans will not be announced until spending review, which will be after the General Election.
- Push for improved productivity in public services, in return for no change in future spending plans (1% real-terms growth).
- Continuation of Household Support Fund for 6 months.
- Landfill tax rates for 2025/26 will be increased.
- £45m match funding to be provided to local authorities to build an additional 200 children's home placements and £120m to fund the maintenance of the existing secure children's home estate and rebuild Atkinson and Swanwick Secure Children's Homes.
- An initial £105m funding towards a wave of 15 new special free schools to create over 2,000 additional places for children with special educational needs and disabilities (SEND) across England.
- Numerous smaller funding pots, loosely linked to levelling-up, plus further round of devolution deals.

3.1.2 Overall, it was a low-key budget statement with very little new announcements directly relevant to local government (and no new funding), with possibility of further Budget Statement before the General Election. In addition, there is also risk that the grants within the Core Spending Power (CSP) may not be linked to inflation as they have previously which will impact the current estimates within the medium-term financial plan.

#### **3.2 General Election**

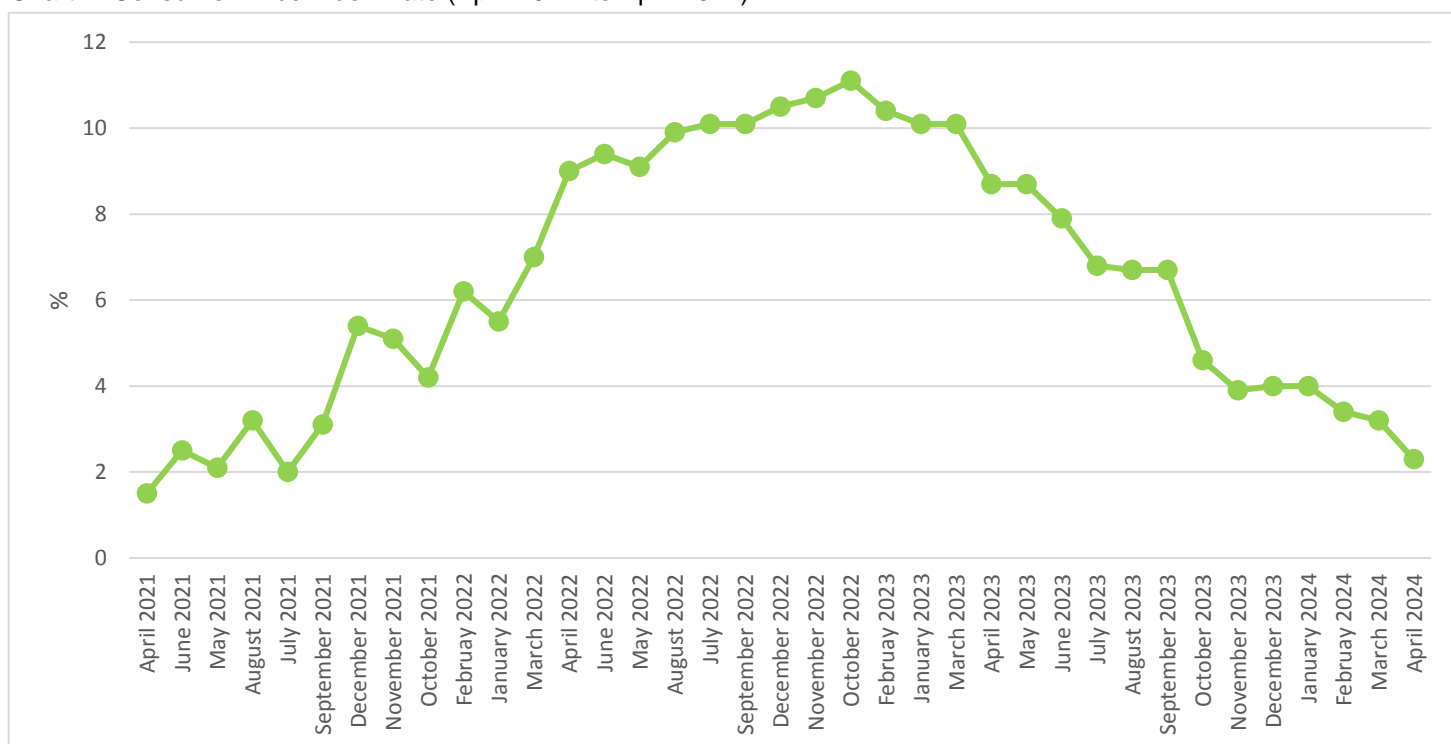
3.2.1 On 22 May 2024, the current Prime Minister issued a statement announcing general election on the 4 July 2024.

### 3.3 Economic Outlook - Inflation

3.3.1 Currently inflation stands at 2.3% (Consumer Price Index (CPI) April 2024) which is still 0.3% above the Bank of England inflation target rate of 2%. Although current inflation rate is lower than October 2022 when it peaked at 11.1%, the highest rate since the last 40 years, it continues to be relatively high. The Office for Budget Responsibility is currently forecasting inflation (as at 1 May 2024) to be at 2% in the second quarter of 2024, about a year earlier than their forecast in November 2023.

3.3.2 The chart below illustrates the high levels of monthly CPI inflation across recent years. As a result of the recent inflation volatility, it is hard to predict with any certainty the future impact on council services and therefore on council's medium-term financial plan.

Chart 1: Consumer Price Index Rate (April 2021 to April 2024)



Source: [Office for National Statistics - Consumer price inflation UK](https://www.gov.uk/economy/indicators/consumer-price-inflation)

3.3.3 Continued high inflation has significantly impacted both the local and national economy. Below is list of service areas or contracts which continue to be impacted by the economic context. In many cases the increases in prices are exacerbated by increases in demand due both to demographic changes, government policy changes and the cost-of-living crisis.

- a) Social care (adults and children) - expect increased costs in relation to higher fees to care providers to offset their rising costs. This is made worse by continued demographic demand pressures and market capacity including shortages in both the labour and placement markets.
- b) Home to school transport - cost increases driven by rising fuel prices and increases in demographic growth.

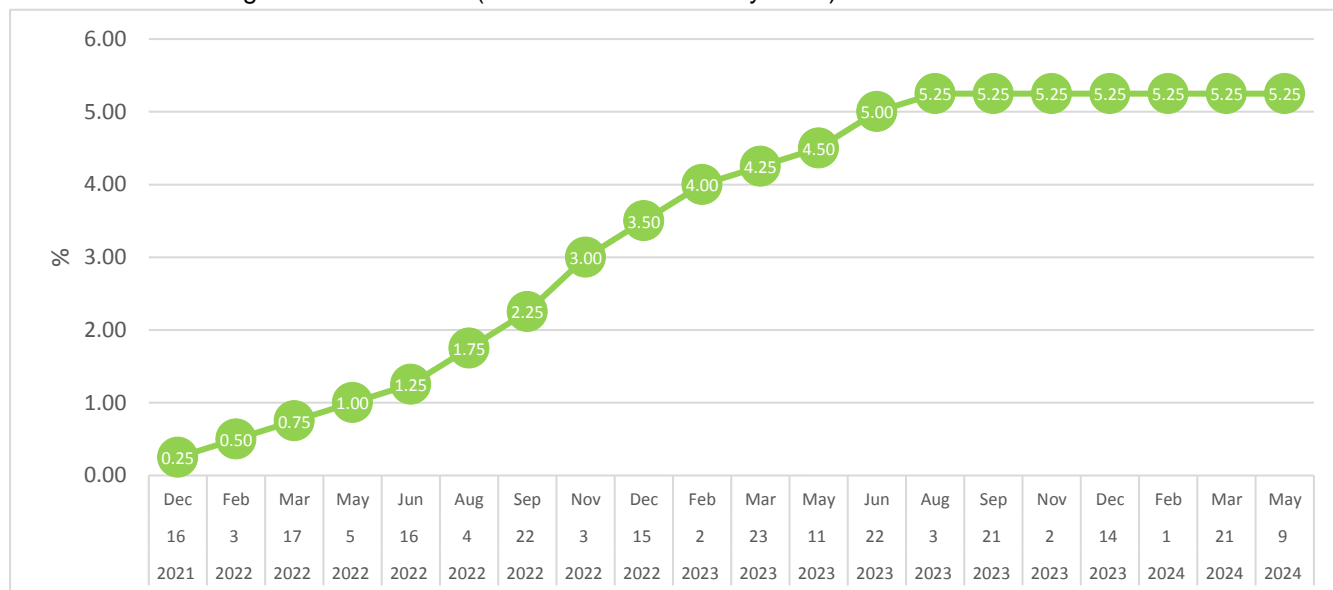
- c) Construction - the soaring cost of construction materials and labour shortages means the viability of capital projects is at risk and will impact both the General Fund and Housing Revenue Account (HRA) programmes.
- d) Private sector rental market/ homelessness/ loss of housing benefit subsidy - the availability of affordable private rented properties and the impact of the cost-of-living crisis on households and landlords (repayment of mortgages) could lead to increased homelessness caseload requiring temporary accommodation and use of bed and breakfast. If the Local Housing Allowance does not rise in line with inflation this could impact council budgets due to the differential between the rent income from housing benefits and cost of property lease in relation to temporary accommodation.
- e) Pay inflation – on 16 May 2024, the National Joint Council (NJC) for Local Government services issued the following offer to Trade Unions:
- An uplift of £1,290 to all pay spinal points for pay Grades B to J;
  - 2.5% uplift for all other pay grades
- Three of the NJC Trade Unions have responded to the NJC pay offer and are planning to undertake a consultative ballot of their members, recommending a rejection to the NJC Offer.
- f) Energy and fuel costs – due to the global impact of wars in Ukraine and the middle east there is continued risk of supply and thereby cost of oil and gas globally which could lead to impact on cost of energy and fuel used across range of council services including schools.

### 3.4 **Economic Outlook - Interest Rates**

- 3.4.1 Since 16 December 2021, the Bank of England has increased interest rates from 0.25% to an unchanged 5.25% as at 9 May 2024. The Monetary Policy Committee will review this next on 20 June 2024.



Chart 2: Bank of England Interest Rate (December 2021 to May 2024)



Source: [Bank of England - Interest rates and Bank Rate](#)

### 3.5 Local Government Financial Landscape

3.5.1 The financial landscape facing the sector including the Council is becoming increasingly challenging with an increasing number of councils, including noticeably those with social care responsibilities, give warnings about their ability to balance their budgetary positions in the coming years.

3.5.2 Many of the sectoral bodies (Local Government Association, County Councils Network, Society of County Treasurers and Special Interest Group of Municipal Authorities) published warnings in 2023 illustrating the current local government finance system is failing to tackle issues around social care funding (including children's), plus the continued impact of high inflation, have put many councils in a perilous financial position with many S151 Officers considering issuing of S114 reports for not being able to balance their budget over the next 12-24 months.

3.5.3 In a briefing from the Institute of Government published on 9 October 2023 there is an increasing incidence of councils issuing Section 114 reports due to significant financial viability issues. With most recently the Local Government Information Unit (LGIU) publishing its annual survey report '[State of Local Government Finance in England 2024](#)' on 28 February 2024, summary of which is set out below:

- The local government sector in England is increasingly in a state of financial crisis. Over half of respondents to the survey stated they were likely to declare effective bankruptcy in the next five years, 9% said they were likely to in the next financial year.
- Confidence in the sustainability of council finances across the sector has cratered from its previous low point of 14% in 2023, down to just 4% of respondents in 2024.
- Councils are pulling every lever to balance their books, including spending their reserves year-on-year.

- The central-local government relationship is in a critically poor state. Only 8% of respondents were happy with central government's performance in considering local government in wider policy decisions, and that was the highest level of satisfaction we measured.
- There are popular options for reform: multi-year financial settlements were favoured by 97% of respondents, ending competitive bids for funding and 100% business rates retention by three quarters. There is appetite for change, and proposals for fixing local government finance that command support across the sector.

3.5.4 Overall, the recent LGIU research reveals that, whoever forms the next government, they will have to reform local government funding or risk seeing up to half the councils in England becoming bankrupt over the next parliamentary term.

#### **4. Budget Strategy**

4.1 A budget strategy is integral to the development of the overall organisational health of the Council. Its aim is to set out the direction of travel to how the Council plans to finance its operations and meet its strategic council priorities. The intent of a budget strategy is to set out the themes and categories the Council will look to further develop as a means of delivering a balanced budget over the immediate and medium term and set out any underlying actions that need to be taken.

4.2 It should be recognised that the Council continues to be on a journey of improved financial monitoring and awareness but are not at this stage of maturity to have certainty on growth and saving estimates. Therefore, for 2025/26 the budget strategy will help the Council to continue its financial improvement journey in building a culture of strong and effective financial management, enabling it to become financially resilient over the longer term.

4.3 Good practice suggests that in considering its budget strategy a council should be able to ask itself whether it can balance its books without having to take significant risk(s) with local taxpayers' money. If the answer is no, then the Council needs to rethink its strategy to what is affordable and sustainable service level. This has been reflected in formulation of council's budget strategy.

#### **4.4 Budget Strategy Dependencies**

4.4.1 There is strong interplay between strategic plan, improvement plan, commissioners exit strategy and the budget strategy, as these set out council's direction of travel and how it plans to align its resources – 'live within its means'.

4.4.2 Set out below are the strategic and improvement plans which both feed from and feed into development of a budget strategy and the respective strategic plans.



4.4.3 Determining a coherent Budget Strategy without clarity on 1, 2, 3 and 4 above is both counterproductive and risks the Council's agenda being exclusively finance driven.

4.4.4 It is, therefore, vital that all of these individual connecting plans and strategies are viewed as a collective so that the interplays and interdependencies are understood and feed each element formulating a cohesive outcome.

4.4.5 The budget strategy set out in this report provides the budget framework and approach which the Council will adopt to support it in developing plans to achieve the transformation and service improvement required across the Council including the improvement in financial management and the financial resilience of the Council over the medium term.

## 4.5 Budget Strategy Objectives and Principles

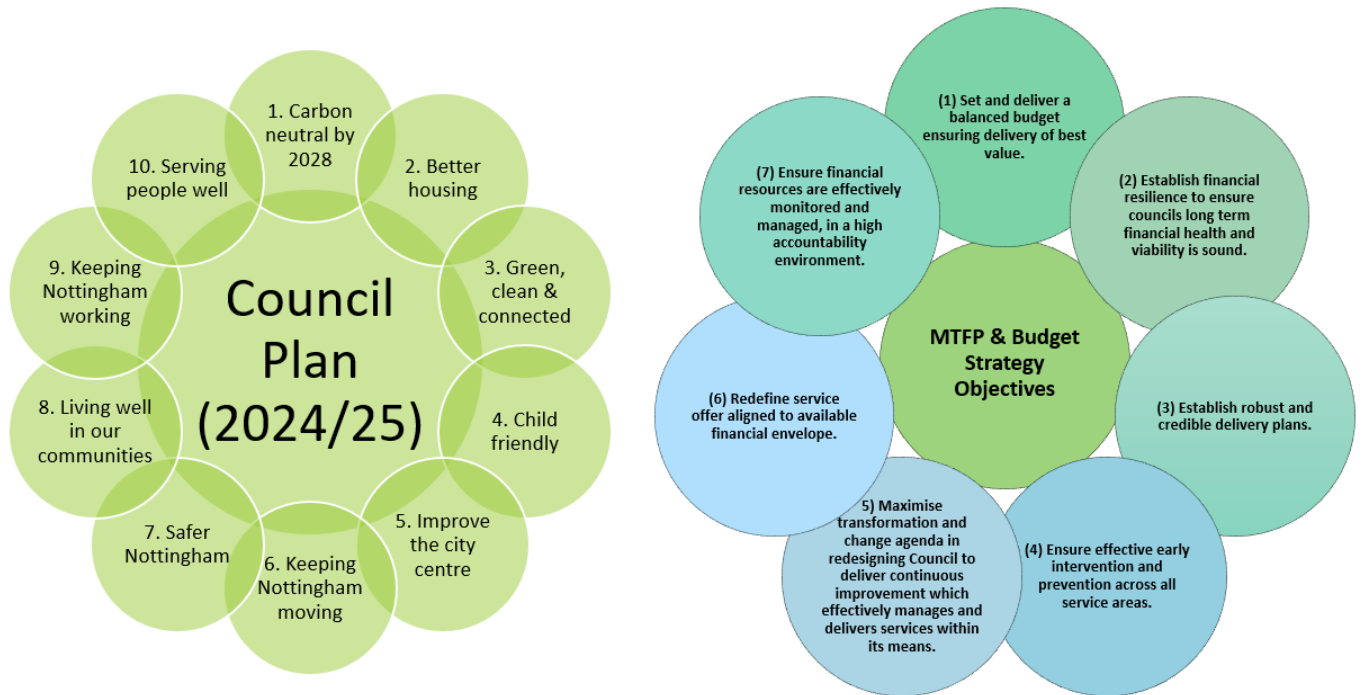
### Budget Strategy Objectives

4.5.1 The budget strategy has been formulated to reflect the financial management cycle and support outcomes expected to be delivered as part of the EFS and government intervention. All of which have been encompassed into the following seven objectives for the medium-term financial plan and budget strategy:

- 1) Set and deliver a balanced budget ensuring delivery of best value.
- 2) Establish financial resilience to ensure councils long term financial health and viability is sound.
- 3) Establish robust and credible delivery plans.
- 4) Ensure effective early intervention and prevention across all service areas.
- 5) Maximise transformation and change agenda in redesigning Council to deliver continuous improvement which effectively manages and delivers services within its means.
- 6) Redefine service offer aligned to available financial envelope.
- 7) Ensure financial resources are effectively monitored and managed, in a high accountability environment.

4.5.2 As set out above there is strong interplay between the budget strategy and the Council's strategic priorities as illustrated by the figure below:

Figure 1: Strategic Council Plan and Budget Strategy Objectives Interplay



### Budget Strategy Principles

4.5.3 The budget strategy objectives are underpinned by the following five principles:

Table 1: Budget Strategy Principles	
Budget Strategy Principles	Budget Strategy Objectives
1) Minimal ongoing reliance on Exceptional Financial Support	1) Set and deliver a balanced budget ensuring delivery of best value 4) Ensure effective early intervention and prevention across all service areas
2) Adopt a longer-term view to optimise delivery of strategic priorities	1) Set and deliver a balanced budget ensuring delivery of best value 2) Establish financial resilience to ensure councils long term financial health and viability is sound 4) Ensure effective early intervention and prevention across all service areas 5) Maximise transformation and change agenda in redesigning Council to deliver continuous improvement which effectively manages and delivers services within its means. 6) Redefine service offer aligned to available financial envelope delivering value for money.
3) Appropriate prioritisation of resources	1) Set and deliver a balanced budget ensuring delivery of best value 4) Ensure effective early intervention and prevention across all service areas 6) Redefine service offer aligned to available financial envelope delivering value for money.
4) Financial sustainability at the core of how the Council operates	1) Set and deliver a balanced budget ensuring delivery of best value 3) Establish robust and credible delivery plans.

<b>Table 1: Budget Strategy Principles</b>	
<b>Budget Strategy Principles</b>	<b>Budget Strategy Objectives</b>
	<ul style="list-style-type: none"> <li>5) Maximise transformation and change agenda in redesigning Council to deliver continuous improvement which effectively manages and delivers services within its means.</li> <li>6) Redefine service offer aligned to available financial envelope delivering value for money.</li> <li>7) Ensure financial resources are effectively monitored and managed, in a high accountability environment</li> </ul>
5) Maximise use of external funding and return on investment	<ul style="list-style-type: none"> <li>1) Set and deliver a balanced budget ensuring delivery of best value</li> <li>2) Establish financial resilience to ensure councils long term financial health and viability is sound</li> <li>6) Redefine service offer aligned to available financial envelope delivering value for money.</li> </ul>

## **5. Budget Approach**

5.1 The proposed budget strategy for 2025/26 will focus on the following budget themes to help it deliver a balanced budget over the medium-term financial plan.

<b>Service Redesign</b>	<ul style="list-style-type: none"> <li>• Service efficiencies, redesign and transformation including early intervention and prevention – benchmark driven</li> <li>• Delivery model assessment or equivalent / make or buy option</li> <li>• Commissioning and market making</li> <li>• Voluntary/Community Sector and EMCCA</li> </ul>
<b>Income and Debt</b>	<ul style="list-style-type: none"> <li>• Council Tax Increases (above precept)</li> <li>• Council Tax Support Scheme Review</li> <li>• Fees and Charges</li> <li>• Income and debt recovery</li> <li>• Early repayment of long-term debt / CFR reduction</li> </ul>
<b>Asset Rationalisation</b>	<ul style="list-style-type: none"> <li>• Asset utilisation</li> <li>• Service provision consolidation</li> <li>• Asset disposal pipeline</li> </ul>
<b>Transformation and Change</b>	<ul style="list-style-type: none"> <li>• Councils Operating Model</li> <li>• New Ways Of Working (NWOW)</li> <li>• Tiers and Spans</li> <li>• Supporting delivery programmes that aim to reduce the overall budget gap over the MTFP period</li> </ul>
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>• Digitalisation / automation of process / system optimisation</li> <li>• Consolidation / centralisation of functions</li> <li>• Reduce / stop discretionary spend</li> <li>• Procurement and commercial strategies</li> </ul>
<b>Technical Review</b>	<ul style="list-style-type: none"> <li>• Subsidiary Reviews – retain/invest/dispose</li> <li>• Review MTFP assumptions and Corporate Budget</li> <li>• Capital programme review</li> <li>• Pension Fund contributions</li> <li>• Reserve and balance sheet reviews</li> </ul>

5.2 The key activities identified for each of the budget theme areas, are planned to be undertaken over the medium-term financial plan period, with key focus of these to contribute to delivering a balanced budget for 2025/26. Appendix 1 sets these activities alongside the budget tools.

5.3 It should be noted that these activities are cross cutting and at times maybe a by-product of activity being undertaken in another budget theme area such as service redesign may have an outcome linked to asset utilisation.

5.4 The themes will be supported by various budget tools such as:

- Organisational redesign
- Benchmarking
- Outcome based budgeting
- Zero base budgeting
- Service lean reviews
- Business process reengineering
- Targeted use of external consultants

## 6. Medium Term Financial Plan

- 6.1 As set out above, the Medium Term Financial Plan (MTFP), covering the 4-year period 2024/25 to 2027/28, was approved by the Executive Board and City Council in February and March 2024 respectively. It MTFP reflects the impacts of central government funding decisions, analysis of advice and information from relevant organisations and the effects of the national and local economic context. It provides a robust financial framework to support achievement of the Council's overall objectives and delivery of services.
- 6.2 By necessity the MTFP is updated to reflect changing circumstances, updated priorities and ambitions, the latest financial situation and external factors such as Government funding settlements. Uncertainty regarding the impact of postponed local government funding reforms (business rates baseline funding reset and the Fair Funding Review), continued war in Ukraine and middle-east and recently announced general election present significant risks. This in turn creates a high degree of uncertainty both within and beyond 2024/25. As such the MTFP and budget strategy is being compiled in a period of financial uncertainty and any estimate beyond one-year is very much speculative.
- 6.3 The table below summarises the MTFP forecasts for 2024/25 to 2027/28 and confirms the forecast budget gap of c£172m for the period.

<b>Table 2: Medium Term Financial Plan 2024/25 to 2027/28 (incremental)</b>					
<b>Budget Item</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>	<b>cumulative £m</b>
Pay	24.288	11.374	11.261	10.318	57.241
Contractual Inflation	17.139	11.796	12.911	12.689	54.536
<b>Subtotal: Inflation</b>	<b>41.427</b>	<b>23.170</b>	<b>24.172</b>	<b>23.007</b>	<b>111.777</b>
Demographic / Service Pressures	57.390	35.143	36.277	43.577	172.387
Service Investments (growth funded from grant)	2.751	0.000	0.000	0.000	2.751
<b>Subtotal: Service Growth</b>	<b>60.141</b>	<b>35.143</b>	<b>36.277</b>	<b>43.577</b>	<b>175.138</b>
Technical Adjustments	(3.904)	3.379	0.186	(2.384)	(2.724)
Grants & Contributions	(11.204)	4.706	0.000	0.000	(6.498)
Reserve Movements	12.151	(10.067)	(0.005)	0.000	2.079
<b>Subtotal: Other Adjustments</b>	<b>(2.957)</b>	<b>(1.982)</b>	<b>0.180</b>	<b>(2.384)</b>	<b>(7.143)</b>
Previously Agreed Income & Savings	(11.149)	(12.416)	(12.672)	(0.278)	(36.515)
New Proposals – Consultation	(8.938)	(4.246)	(0.061)	(0.374)	(13.620)
New Proposals - Non-consultation	(13.189)	(8.955)	(0.562)	(0.021)	(22.728)
<b>Subtotal: Saving &amp; Income</b>	<b>(33.277)</b>	<b>(25.618)</b>	<b>(13.295)</b>	<b>(0.674)</b>	<b>(72.863)</b>
Estimated redundancy & investment	7.596	(7.596)	0.000	0.000	0.000
Use of reserve	(7.554)	7.554	0.000	0.000	0.000
<b>Subtotal: Investment to deliver proposals</b>	<b>0.042</b>	<b>(0.042)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Projected Budget Adjustments</b>	<b>65.377</b>	<b>30.671</b>	<b>47.335</b>	<b>63.526</b>	<b>206.909</b>
Business Rates, Top-up, S31 Grants & RSG	(13.075)	(3.314)	(3.380)	(3.448)	(23.216)
Council Tax	(8.456)	(0.632)	(0.629)	(0.632)	(10.348)

<b>Table 2: Medium Term Financial Plan 2024/25 to 2027/28 (incremental)</b>					
<b>Budget Item</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>	<b>cumulative £m</b>
Collection Fund	(2.822)	1.207	0.000	0.000	(1.615)
<b>Funding Adjustments</b>	<b>(24.352)</b>	<b>(2.738)</b>	<b>(4.009)</b>	<b>(4.079)</b>	<b>(35.179)</b>
<b>Budget Gap (+) / Surplus (-) to be funded from Exceptional Financial Support</b>	<b>41.024</b>	<b>27.932</b>	<b>43.326</b>	<b>59.447</b>	<b>171.730</b>
Exceptional Financial Support	(41.024)	41.024	0.000	0.000	0.000
<b>Net Budget Gap (+) / Surplus (-) after Exceptional Financial Support</b>	<b>0.000</b>	<b>68.957</b>	<b>43.326</b>	<b>59.447</b>	<b>171.730</b>

#### 6.4 MTFP Assumptions 2025/26 to 2027/28

6.4.1 The working assumption from a planning purpose is that there is no change to either the level of funding or costs at this stage from what was approved by the Executive and City Council in February 2024 and March 2024 respectively. Assumptions will continue to be stress tested against various scenarios in parallel to the budget process. Changes to the budget gap will continued to be reported in accordance with the timetable set out in section below.

6.4.2 Summarised below are the key assumptions which feed into the MTFP.

- a) Council tax increases
  - As the decisions to increase Council Tax is subject to City Council approval, no increase has been assumed beyond 2024/25.
- b) Council taxbase
  - Assumed council taxbase increase of 0.4% in 2025/26 and beyond
- c) Retained Business Rates
  - Future increases in Retained Business Rates and associated section 31 grants reflect only CPI inflation projections with working assumption of nil underlying growth.
- d) Government Grants
  - Where national increases are known for specific grants, an estimated future projection has been included based best available information.
  - Assume that all other specific grants will continue at their current level for all future years.
- e) Pay Inflation
  - Assumed pay inflation equivalent to 5% for 2025/26, 4.5% in 2026/27 and 4% in 2027/28 and beyond.
- f) Contract Inflation
  - No general increase for contractual inflation, the process entailed for Corporate Directors and their DLT leads to submit growth business case identifying specific inflationary needs.
- g) Service and Corporate Growth
  - The process entailed for Corporate Directors and their DLT leads to submit growth cases identifying specific demographic, service, and other pressures for consideration.
- h) General Risk Contingency



- Creation of one-off £4m contingency in 2024/25 has been reversed on 2025/26.

i) Reserves and Balances

- Payback of internal borrowing from earmarked reserves of £20.0m for building financial resilience in 2023/24 has been reprofiled to £2.3m per year over two MTFP cycles with the final repayment in 2031/32.
- Annual contribution of £1m to the General Fund Balance
- One-off £10m contribution to the Financial Resilience Reserve in 2024/25 reversed out on 2025/26.

6.4.3 All these budget assumptions will be subject to on-going review in light of changing circumstances.

## 6.5 Council Tax

6.5.1 A key component of the budget strategy requires the Council to consider and explore the option to increasing Council Tax above the referendum level. Referendum limit is the statutory limit set out in legislation which allows the Council to increase its local council tax above the maximum amount only when permission is sought from Secretary of State and potential to undertaking local referendum. For 2024/25 the referendum limit was 4.99% (2.99% core council tax and 2% adult social care precept), allowing Councils to set local council tax increases up to 4.99% without having to seek permission from the Secretary of State and undertaking local referendum – for example Woking, Slough, and Thurrock were allowed to increase to their Council Tax by 10%. For 2024/25 the Council, like most local authorities approved to increase council tax by 4.99%.

6.5.2 Due to the significant financial challenge being faced by the Council, it is prudent for all options to be discussed with DLUHC in consultation with Commissioners and Leadership, with any final decision on level of Council Tax increase to be brought back for members to take as part of the annual budget and council tax resolution decision scheduled for City Council in March 2025.

6.5.3 For illustrative purposes a 1% council tax increase equates to £1.489m (based on current council taxbase), therefore a 4.99% increase will equate to £7.429m whilst a 9.99% increase will equate to £14.879m. Any increase above the referendum limit will look to consider cost of additional support through the council tax support scheme and collection of debt.

6.5.4 It must be emphasised, that no discussions have been had within the Council on this issue, nor with DLUHC. This section is included here for information purposes only.

## 6.6 Council Tax Support Scheme

6.6.1 The Council operates a local council tax support scheme which takes the form of council tax discount. The amount that is estimated to be granted in 2024/25 is the equivalent of 19,429 discounts, equating to £32.2m of which the Councils share of cost is £27.4m.

6.6.2 The scheme is being reviewed in 2024/25 with view to consult on proposed changes in 2024.

6.6.3 Impact of any proposed increase to council tax above the referendum limit will need to be modelled to ascertain impact on the council tax support awards and thereby the collectable income.

## 7. Budget Process and Timetable

7.1 Due to the revised strategy and approach for 2025/26, a revised budget governance process is being established building and expanding on the 2024/25 budget process. The budget process will look to integrate financial and corporate planning to the improvement plan and Commissioners Exit Strategy to provide CLT and the Executive a wider understanding of changes required and their impact.

7.2 Set out below in the table below is the draft budget timetable.

<b>Table 2: Budget Timetable</b>	
<b>Month</b>	<b>Key Activities</b>
March 2024	<ul style="list-style-type: none"> <li>Engagement with Commissioners on the proposed Budget Strategy</li> </ul>
April / May 2024	<ul style="list-style-type: none"> <li>Engagement with CLT, Leadership and Executive on proposed Budget Strategy.</li> </ul>
June 2024	<ul style="list-style-type: none"> <li>Executive Board - 2025/26 Budget Strategy Report</li> <li>Submit Budget Strategy to DLUHC (<i>subject to approval by Executive Board</i>)</li> </ul>
July – October 2024	<ul style="list-style-type: none"> <li>Departments developing proposals</li> <li>DLT / CLT / Executive Member Challenge Sessions</li> <li>Engagement</li> </ul>
November 2024	<ul style="list-style-type: none"> <li>Member sign-off</li> <li><i>Autumn Budget Statement (tbc)</i></li> </ul>
December 2024	<ul style="list-style-type: none"> <li>Executive Board - 2025/26 Budget and Medium Term Financial Plan Report</li> <li>Executive Board report to approve HRA budget and 30-year business plan (provisional)</li> <li><i>Launch of Public Budget Consultation (tbc)</i></li> <li><i>Provisional Local Government Finance Settlement (tbc)</i></li> </ul>
January 2025	<ul style="list-style-type: none"> <li>Council Tax base and forecast collection fund surplus or deficit</li> <li>Corporate Scrutiny Committee: Budget consultation input (tbc)</li> <li>Schools Forum to approve Schools Budget (tbc)</li> </ul>
February 2025	<ul style="list-style-type: none"> <li><i>Final Local Government Finance Settlement (tbc)</i></li> <li>Audit Committee – Consider Treasury Management Strategy and Capital Strategy (tbc)</li> <li>Corporate Scrutiny Committee: Budget Report (tbc)</li> </ul>

<b>Table 2: Budget Timetable</b>	
<b>Month</b>	<b>Key Activities</b>
March 2025	<ul style="list-style-type: none"> <li>• City Council – 2025/26 Budget and Council Tax Resolution</li> </ul>

## **8. Other options considered in making recommendations**

8.1 With a significant financial challenge being faced by the Council in 2025/26 and beyond the Council needs to set a budget strategy providing a strategic financial framework and direction of travel for the Council to work within; even in the absence of having in place updated strategic council plan, council's improvement plan and commissioners exit strategy.

8.2 The budget strategy will not only allow the Council to meet the condition of the EFS but also to allow for the organisation to start developing and formulating credible plans that will allow the Council to set a balanced budget.

## **9. Consideration of Risk**

9.1 The Section 151 Officer is required to provide his statutory advice to Council on the robustness of the budget estimates and adequacy of reserves. More recently the Section 151 Officers' professional opinion was clearly set out in Appendix 1 of the budget report to City Council on 4 March 2024, setting out the risks and conditions for the 2024/25 budget, reasonably based on the best available information and assumptions at the time.

9.2 The Council has significant financial challenge ahead, even with the EFS the Council has to deliver c£41m of the budget gap it will be carrying forward in 2025/26 before it can look to fund new pressures. The uncertainties of the economic environment over the short to long term also present a high risk for the Council with regards to its ability to deliver a balanced budget over the medium term, and inevitably there remains potential for further, as yet unrecognised, risks.

9.3 It will be essential for CLT to continue to exercise firm financial management throughout this year and for the forthcoming year through the close monitoring of budgets and where needed, take appropriate action.

9.4 Given the unique operating context of Nottingham City Council, the following are most immediate risks for the budget process which need to be considered by the Section 151 Officer when determining adequacy of reserves and financial resilience:

- Organisational ability to develop and deliver
  - 2023/24 in-year General Fund balance budget following issuance of s114(3) report; and
  - the scale of change required in delivering the officer developed saving proposals, as presented within this report.
- Delivery record on approved savings programmes to date

- Likelihood of further in year variances (overspends) against approved budget in particular social care placement and temporary accommodation pressures, which continue to be partly mitigated by one-off spend controls and transformational cost reduction programmes which are closely monitored by Leadership and CLT
- Unforeseen shocks or circumstances resulting in financial cost spikes
- Subsidiary company risk - loans and risk of liabilities materialising
- Prior year accounts and historic accounting treatments & practice corrections
- Assumptions regarding debt collection and impact on the collection fund
- Economic factors such as inflation and interest rate environment
- Major project challenges and failure
- Capital receipts not being sufficient to meet existing capital obligations
- Unfunded income loss pressures as a result of the long-term impact of the pandemic and cost of living crisis, particularly in relation to Council Tax and Business rates income.

9.5 Given the Councils recent history, and in the context of the strategic risks set out above, it is reasonable and prudent to set aside appropriate amounts within reserves to provide for either a single or multiple scenarios manifesting, which will be considered by the Section 151 Officer when determining adequacy of overall reserves as part of the annual budget setting process.

9.6 As part of the 2024/25 budget report the Section 151 Officer recommended an increase to the General Fund balance including recurring contribution of c£1m over the MTFP period to remain and one-off contribution from 1 April 2024 to bring the General Fund balance close to the 7.5% level.

9.7 Given the uncertainties of the economic environment, impact of cost of living, inflation and interest rates, long-term impact of the pandemic and expenditure reductions of a significant scale required, there are inevitably significant risks involved in delivering balanced budgets over the medium term. Key strategic risks will continue to be;

- included in the Corporate Risk Register;
- regularly reported to Audit Committee; and
- reviewed through updated Budget and MTFP Strategy reports to the Executive Board.

9.8 The most immediate risks to the budget process are:

- The Council unable to approve a 2025/26 balanced budget and set council tax by 11 March 2025.
- Unfunded income loss pressures as a result of the long-term impact of the pandemic particularly in relation to Council Tax and Business rates income.
- The Council will continue to closely monitor the impact of these income streams and support lobbying to government as a region to ensure the Council can be fully compensated for these losses.
- Non-delivery of the approved savings.

- Continuing pressures across social care (children's and adults) and temporary accommodation materialising next year.

9.9 The Council is faced with an uncertain financial climate over the medium to long term which presents a high risk to the authority and there remains potential for further, as yet unrecognised, risks. For this reason, a prudent approach to the level of reserves held by the Council remains sensible and necessary. This is in line with the Section 151 Officer's annual statement on adequacy of reserves which formed part of the budget report to Council in March 2024.

9.10 The Council's MTFP is continually under review and builds in projections for the MTFP period and beyond as further details and analysis become available. These updates are regularly reviewed by CLT and the Executive Lead and updates on the financial environment the Council is operating in will be provided in Budget Strategy reports to Executive Board. Any sustainability impacts will be considered before final decisions are taken on whether or not to implement each proposal.

## **10. Best Value considerations**

10.1 The Best Value requirement to demonstrate the continued financial sustainability of the Council has been set out in the 2024/25 Budget and Council Tax Resolution report to City Council on 4 March 2024 and 2024/25 Budget and MTFP report to Executive Board on 13 February 2024.

10.2 Throughout the budget process the Council has taken a proactive and planned approach to delivering best value and financially sustainable services to its communities over the longer term. This will continue as the Council's agreed plans are delivered during 2024/25 and subsequent years.

## **11. Commissioner comments**

11.1 Feedback from commissioners has been incorporated throughout the report.

## **12. Finance colleague comments**

12.1 Finance comments are contained within the main body of the report and in the accompanying appendices.

## **13. Legal colleague comments**

13.1 The Council is required to set a balanced budget for 2025/26 before 11 March 2025 and this report is one of the first formal steps to achieving that requirement. The relevant considerations and the rationale for the budget strategy are set out in detail in the body of the report

13.2 The setting of the balanced budget includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 and Section 25 of the Local Government Act 2003 refer. The Council's prospective expenditure must not be likely to exceed its resources available to meet that expenditure.

13.3 Councillors are subject to the Council's duty to set a balanced budget. Councillors must receive and take into account the advice of officers, particularly the Section 151 officer, when considering and deciding the Council's budget. As the decision makers, members must have due regard to the Council's equalities duties when setting the budget.

13.4 Exceptional Financial Support as approved by DLUCH is subject to conditions that must be complied with. The recommendations in this report raise no significant legal issues and are supported.

Beth Brown, Director of Legal and Governance, 27 May 2024

#### **14. Procurement comments**

14.1 Not applicable.

#### **15. Crime and Disorder Implications**

15.1 Not applicable.

#### **16. Social value considerations**

16.1 Not applicable.

#### **17. Regard to the NHS Constitution**

17.1 Not applicable.

#### **18. Equality Impact Assessment (EIA)**

18.1 Has the equality impact of the proposals in this report been assessed?

No



EIAs are tools that help the Council make sure its policies, and the ways it carries out its functions, do what they are intended to do and for everybody. Although an EIA is not required at this time, relevant proposals will be subject to an EIA, as appropriate which will be considered prior to any decisions being taken.

At this time an EIA is not required for this report

#### **19. Data Protection Impact Assessment (DPIA)**

19.1 Not applicable.

#### **20. Carbon Impact Assessment (CIA)**

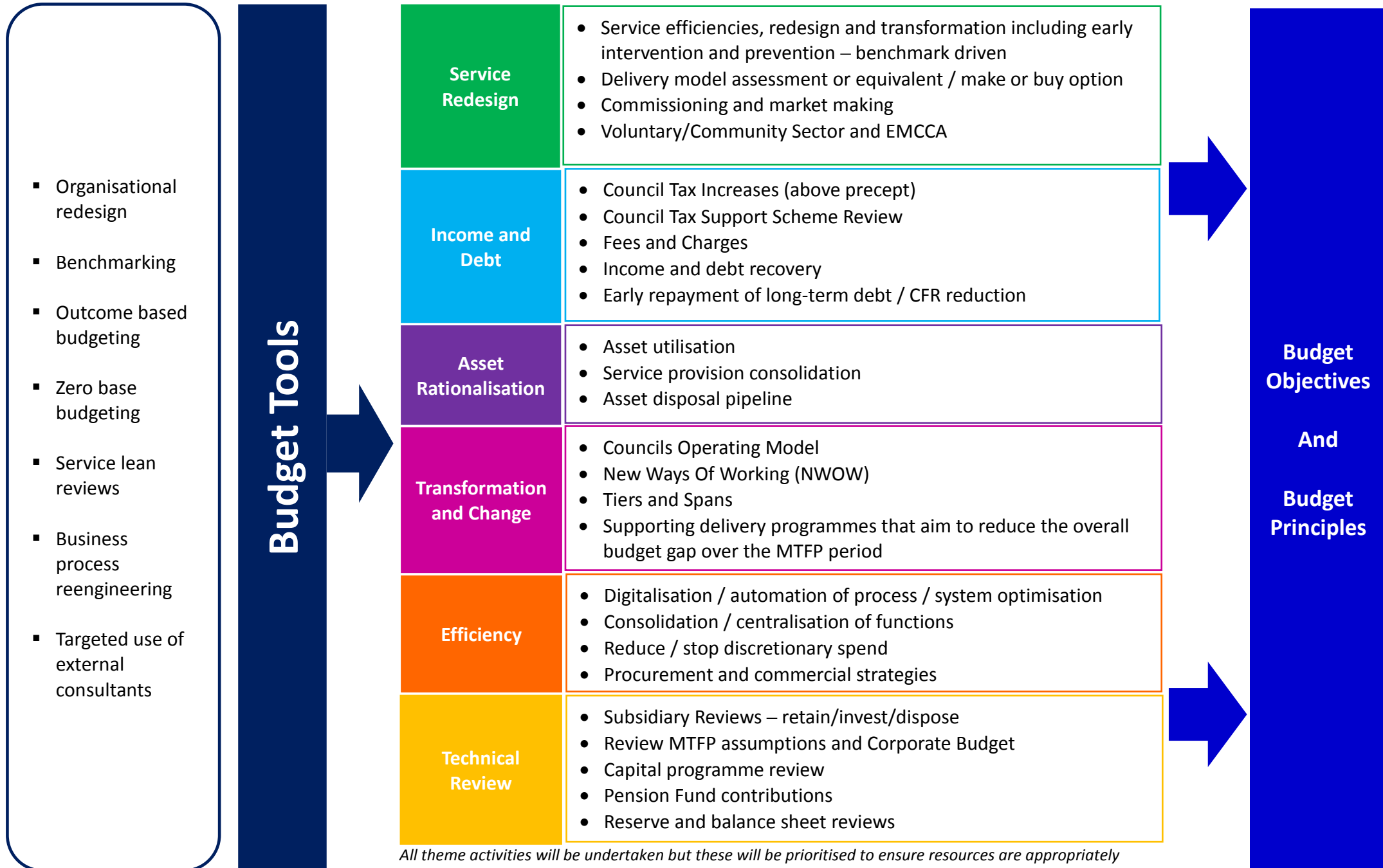
20.1 Not applicable.

**21. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)**

21.1 Refer to section 7 of this report.

**22. Published documents referred to in this report**

City Council	
2024/25 Budget and Council Tax Resolution	4 March 2024
Response to Statutory Recommendation from the Council's External Auditor	4 March 2024
Executive Board	
2024/25 Budget and Medium-Term Financial Plan	13 February 2024



*All theme activities will be undertaken but these will be prioritised to ensure resources are appropriately allocated against those with the largest return*