Cabinet

14 December 2023

2024/25 Budget and 2024-29 Medium Term Financial Strategy – Background Information and Options

Recommendations

That Cabinet:

(1) Develop its draft 2024/25 Budget and 2024-29 Medium Term Financial Strategy proposals, taking into account the information and advice of Corporate Board, as presented in this report; and

(2) Authorise Corporate Board to begin any preparatory work necessary to deliver the budget proposals, prior to the final full Council decision on the budget on 8 February 2024.

1. Introduction and Background

1.1 The Council's financial strategy requires the annual budget to be set in conjunction with a 5-year Medium Term Financial Strategy (MTFS), aligned to the Authority's Council Plan. This rolling approach to resourcing the Council's activities and services allows longer-term issues and objectives to be catered for financially at the same time as balancing funding with the immediate budget pressures and delivery requirements.

1.2 At its meeting of 13 July 2023, Cabinet considered a report titled "A Financial Framework for the 2024/25 MTFS Refresh". The report outlined the emerging financial position within which the 2024/25 budget and 2024-29 MTFS would be developed and approved the approach and framework within which the necessary work would be undertaken.

1.3 This report is the next step in the process of setting the 2024/25 budget and the framework for the 2024-29 MTFS. It makes available the latest financial information that will underpin the 2024/25 budget and MTFS and the views of Corporate Board on that information in an approach that will enable the Council to respond effectively to current circumstances while maintaining a longer-term focus on the Council's financial sustainability. The report sets out the process that will lead to the agreement of the budget and the setting of the 2024/25 Council Tax in February 2024.

1.4 Corporate Board's recommendations in this report provide the background, basis and context for political groups within the Council to develop their budget proposals for discussion and decision at full Council in February, based on the latest information available.

1.5 The information presented in this report is structured over the following areas:

- the financial context within which the budget and MTFS will be agreed (section 2);
- the budget strategy recommended by Corporate Board (section 3);
- proposed permanent and time-limited revenue funding allocations (section 4);
- the sustainability of spend funded from the Dedicated Schools Grant for providing support for pupils with Special Educational Needs and Disabilities and the consequent impact on the MTFS (section 5);
- resultant proposals for balancing the revenue budget and MTFS (section 6);
- the level of the Authority's reserves and the scope for the effective use of those reserves to support the delivery of the MTFS (section 7);
- summary revenue budget position and any remaining flexibility (section 8);
- proposed capital strategy and resultant capital programme (section 9); and
- requirements on the organisation to deliver a balanced budget in 2024/25 (section 10).

1.6 The report will then go on to consider the timetable and next steps between now and when the final decision on the 2024/25 budget is made on 8 February 2024.

2. Context

2.1 The context for the 2024/25 MTFS refresh is extremely challenging and continues to be dominated by fundamental financial uncertainties as the Council's costs are increasing more quickly than its resources. These arise from prolonged, significant inflationary and market pressures (labour, supplies and services) as a result of a range of factors, not least the war in Ukraine and shortages of labour. Low levels of economic growth are predicted, with consequential impact on the resources available to fund services the Council delivers. Most fundamentally, there is rapidly rising demand and unit costs for statutory services as households and communities struggle with the impacts of the Pandemic, high inflation and interest rates, and the rising cost of living.

2.2 The Autumn Statement 2023 set out the Government's approach to reducing the level of additional borrowing at the same time as meeting ongoing need to invest in recovery to achieve the growth required to repay the fiscal deficit after the Pandemic. Added to this there are significant uncertainties around Government policy in terms of the delayed Fair Funding review for local government, funding reforms for both business rates and Council Tax, the future of the major reforms to the funding of adult social care, the Government's Net Zero strategy and planning reform, as well as the roll-out and resourcing of the Government's policies around levelling up.

2.3 The uncertainty about the delayed adult social care reforms, and associated funding, is especially material; initial work on the reforms suggested a potentially material and unaffordable financial risk to the Council arising from the Fair Cost of Care exercise and changes to the care cap and means test, reflecting the findings of numerous national studies.

2.4 At a national level the UK avoided recession in 2023 with growth of 0.6%. The Office of Budget Responsibility (OBR) forecasts suggest that in 2025 the UK will return to pre-Pandemic levels of growth. Inflation in October 2023 was 4.7%, with the Bank of England expecting inflation to be back to around 2% by the end of 2025. Interest rates remain high, at 5.25% with the Governor of the Bank forecasting interest rates will remain at this level until the third quarter of 2024 before gradually falling to 4.25% by the end of 2026.

2.5 Local government spending is 11% higher than previously forecast according to the OBR figures. However, this is driven by additional business rates relief and compensation to local authorities for the under-indexing of business rates. No additional funding for Local Government was announced in the Autumn Statement, with the only increases in the figures reported coming from Council Tax. Overall public spending will increase by 1.0% in real terms over the medium-term, which implies real-terms cuts for unprotected services, such as local government. The OBR forecasts that for unprotected service areas, spending will fall by between 2.3% and 4.1% in real terms each year from 2025/26. These fiscal projections represent a significant uncertainty and risk over the course of the current MTFS.

2.6 This means at a local level our economic situation remains hugely challenging over both the short and medium-term, with the continuing inflationary risk, shortages in the labour market and the demand for services rising more quickly than our resources. The pay award for this year was 6% (against a 4% provision in the budget) and the 9.8% increase in the National Living Wage (NLW) from April 2024 will materially impact on our contract prices in the adult social care market in particular, adding around £3.5m to our previous forecast pressures.

The direct and indirect impacts of these factors on the County Council, as well as our partners, remain unknown and highly volatile.

2.7 In this context, the County Council needs to achieve a balance of ambition, prudence and robustness in setting this MTFS. There are clear differences between ensuring that there is a robust base budget and having sufficient reserves. Reserves can only be spent once and therefore it remains important to maintain a more commercial approach to time-limited investment to help deliver transformative change, achieve financial benefits and release resources that can be reinvested for the benefit of those who live in, work in and visit Warwickshire.

2.8 With the exception of business rates there were no additional announcements in relation to local government funding in the Autumn Statement 2023 (AS23) or in the Local Government Finance Policy Statement 2024/25 published on 5 December 2023, therefore the announcements from the Autumn Statement 2022, used as the basis of the July Cabinet report, remain. These are:

- a core Council Tax referendum limit of 2.99% in 2024/25 reverting to 2% thereafter;
- the option to levy an additional adult social care precept of 2% in 2024/25 only;
- a £4.2bn funding increase for the social care sector in 2024/25, which includes:
    - £0.5bn which will be distributed through the Better Care Fund to help get people out of hospital faster into care settings;
    - £1.9bn which will be distributed to local authorities for adults and children's social care (this is the repurposed reform grant funding);
    - £0.68bn which will be distributed through a grant ringfenced for adult social care to support local authorities to continue to move paying a more sustainable rate for care;
    - an estimated £1.3bn from the additional adult social care precept.
- the schools' budget will receive £2.3bn of additional funding in each of 2023/24 and 2024/25; and
- capital spending will be maintained over the medium-term at current levels in cash terms.

2.9 For business rates, following the royal assent of the Non-Domestic Rating Act 2023, AS23 announced that the Government will freeze the small rates multiplier for 2024/25 whilst the standard multiplier will rise in line with inflation (6.7%). Local authorities will be fully compensated for the loss of income and will receive new burdens funding for administrative and IT costs.

2.10 Table 1 below sets out our base revenue resource forecasts through to 2028/29. By 2028/29 the Council is estimated to have £650.430m revenue resource available to support the budget, based on a starting assumption of Council Tax increases remaining at the level assumed in the MTFS approved in February 2023 (that is a 2% annual increase in Council Tax and taking the 1% adult social care levy in 2024/25). This approach has been adopted because it recognises that setting the Council Tax is a political decision.

2.11 The Council does currently have the option of taking a further 1% core Council Tax plus a further 1% on the adult social care levy in 2024/25. Each 1% increase/decrease in the council tax would change the level of resources available by an estimated £3.672m. The Local Government Finance Policy Statement for 2024/25 provided clarity about the grant figures and Council Tax referendum limits for 2024/25, which remain unchanged, but made no mention of any potential for Council Tax flexibility beyond 2024/25. The Statement provided no medium-term clarity beyond next year to support more effective financial planning across the sector than is possible with repeated short-term funding announcements and settlements.

2.12 The report comes back to the issue of Council Tax increases when considering Corporate Board's recommended budget strategy in Section 3 and when considering the options for balancing the budget in Section 6.

Table 1: Revenue Resource Forecasts 2024-29

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Council Tax (2% annual increase plus adult social care levy of 1% in 2024/25)	379.673	394.615	410.536	427.105	444.347
Business rates	87.809	89.565	91.356	93.183	95.047
Better Care Fund, iBCF and other social care grants	80.205	78.297	78.297	78.297	78.297
Public Health Grant	25.396	25.396	25.396	25.396	25.396
Other Government Grants	8.383	7.375	7.368	7.343	7.343
Total Base Resource Level	**581.466**	**595.248**	**612.953**	**631.324**	**650.430**

2.13 There may be further changes to the figures summarised in the table once there is clarity around the distribution methodology to be for adopted some of the Government grants. These will be subject to confirmation as part of the provisional 2024/25 Local Government Finance Settlement (expected on 19 December) and the final taxbase figures will be provided by the District/Borough Councils by the end of January 2023. All changes will be reported to Members in the 2024/25 MTFS Update report to Cabinet in January 2024.

2.14 The level of volatility and uncertainty when developing budget proposals is significantly higher than it has been in recent years. In particular, the Local

Government Finance Settlement is not expected until 19 December 2023, which will set out how some of the funding is to be distributed between councils and provide more information to support officers' recommended assumptions. Inflationary pressures remain high and volatile. Consequently, there is an on-going risk that some assumptions or estimates may need to change between now and the Council's budget meeting in February 2023.

3. Corporate Board's Proposed Budget Strategy

3.1 It is within this context that the budget for 2024/25, as the first year of a 5-year rolling MTFS, will align the resources of the Authority to the objectives and ambitions set out in the Council Plan.

3.2 Warwickshire remains a financially resilient authority, with a robust approach to the Council's financial sustainability. Our strong financial position is driven by:

- a balanced budget with no unidentified savings targets;
- healthy reserves to manage financial risk/shocks and invest in the future, in particular a return to a growing local economy, resulting in buoyant local taxbases;
- strong cashflow and high levels of liquidity;
- relatively low levels of borrowing compared to our asset base, giving a strong balance sheet; and
- a strategy in place to deliver a financially sustainable Warwickshire over the longer-term.

3.3 Our strong position means we have been able to resource the higher in-year cost and demand pressures than when the budget was approved in February 2023. The decisions taken to address the short-term challenges we faced have not undermined our financial sustainability over the medium term; however, unless national solutions to the areas of high cost and demand pressures of adults and children's social care, home to school transport and, most significantly of all, SEND are put in place this will result in increasingly difficult decisions each year being needed to balance the budget. Difficult decisions and choices will still need to be made as part of agreeing the 2024/25 budget and 2024-29 MTFS refresh. The guiding principle remains to balance the MTFS without oversteering, maintaining flexibility to invest/transform and deal with future pressures.

3.4 Corporate Board's approach in preparing this report has been to present Members with options for delivering a sustainable MTFS. The initial objective was to do this within the levels of future Council Tax agreed in February 2023. However, this has not proved to be possible and Corporate Board are of the view that Members need to take the maximum 4.99% Council Tax allowed in

2024/25 to ensure a robust and sustainable MTFS. This is because the forecast overspend in 2023/24 means that there are insufficient reserves available to resource any timing differences between when spending need arises and the delivery of savings. Without the additional Council Tax income material levels of additional budget reductions would need to be approved and implemented from April 2024.

3.5 Reflecting this, Corporate Board's strategic approach to the budget has been to:

- present options, based on sound assumptions, which enable Members to agree a financial plan that shows how income can equal expenditure over the short and medium term, providing for a balanced budget and avoiding unidentified savings;
- remain robust, ambitious and prudent, given current and persistent economic uncertainties, ensuring the Authority can maintain sufficient reserves to manage financial risk/shocks;
- integrate the budget and MTFS with the Council Plan through the integrated planning approach which has been adopted to ensure the direction set out in the Council Plan translates into a sustainable financial strategy;
- as far as possible maintain the capacity to invest by retaining the capital and revenue investment funds, continuing to push outcome-focussed activity in specific and limited areas;
- deliver on the key strategic principles approved by Cabinet in July 2023:
    - provide for the step change in costs, recognising the inflationary uplift is not a temporary phenomenon, with prices only expected to revert to increasing by 2% over the medium term;
    - within the scope of the factors the Council can influence and control, sustainably tackle the major financial/demand challenges we face, particularly Special Educational Needs and Disabilities (SEND), support for children and families, including children with disability, and home to school transport;
    - set a very high bar for new permanent allocations, with 'choice' options that would have come forward from services for Members' consideration in previous years not being brought forward at this time;
- operate with a clear expectation that existing levels of planned budget reductions will be delivered; and
- be flexible in responding to the changing economic and political environment both to seize opportunities and deal with pressures, ensuring there is reasonable flexibility in future years to handle most plausible scenarios, whilst recognising it is impossible to guarantee this in such a volatile, complex and uncertain external environment.

3.6 There remains a significant degree of uncertainty about the level of resources estimated for next year and over the medium-term. It is estimated that next year 65% of our core funding (excluding Dedicated Schools Grant) will come from Council Tax and therefore the decisions around the level of increase in Council Tax (including the adult social care levy) are central to the Council remaining financially resilient and sustainable. The OBR anticipates over 95% of all upper tier local authorities raising the maximum core Council Tax of 2.99% plus an additional 2% adult social care levy in 2024/25.

3.7 Taking all of the increased flexibility in levying Council Tax would place the Authority in the strongest possible financial position. Balancing this is the adverse impact on taxpayers of tax increases, particularly whilst inflation remains high and many households are struggling with cost of living pressures. It is the Government's assumption that local authorities take the maximum Council Tax uplift allowed under the referendum limits. Levying the maximum permitted Council Tax is also assumed in the allocation of Government grants to reflect authorities' differing ability to generate income from Council Tax. Maximising the Council Tax base also helps mitigate the risk of the continued emergence of further uncertainties and inflationary pressures.

3.8 The OBR's forecasts include an assumption that on average Council Tax will increase nationally by an average of 4.3% a year. This suggests that further Council Tax flexibility beyond 2024/25, either core or through the extension of the adult social care levy, is expected. However, this is yet to be confirmed. It was not included as part of the Local Government Finance Policy Statement. The next opportunity will be the provisional 2024/25 Local Government Finance Settlement expected on 19 December. If this does happen it will provide Members with more flexibility in their medium-term Council Tax strategy and greater choice between levels of Council Tax and future budget reductions. **Appendix A** sets out the impact of each 0.5% future variation in the Council Tax for Members to use as a ready reckoner when considering their Council Tax strategy.

3.9 However, based on the resource information currently available a minimum council tax increase of 4.92% will continue to be needed in 2024/25, irrespective of any future Council Tax flexibility unless additional resources are made available either as part of the Local Government Finance Settlement or the final 2024/25 taxbase being higher than expected.

3.10 In considering their Council Tax strategy, Members should note that not taking the maximum Council Tax increase in any year is a more risky strategy, given that any permitted increase not taken cannot be caught-up in future years, while deciding how much of the extra flexibility to utilise is a decision that can be reviewed each year as part of the MTFS refresh, depending on the financial position of the Authority at that time. In such an uncertain environment for Councils, both in terms of funding and demand for statutory services, this is another factor behind Corporate Board's recommended strategy.

4. Proposed Revenue Funding Allocations

4.1 In developing these proposals Corporate Board has been guided by the following priorities for the 2024/25 budget to:

- ensure the budget proposals deliver the long-term financial sustainability of services;
- provide the funding needed to meet the step change in the cost of services as a result of the continued high levels of demand and inflation;
- continue to drive forward the implementation of the Council's change agenda to ensure our core services, infrastructure and resources can be used flexibly and effectively to meet future challenges and deliver for residents, businesses and communities; and
- deliver investment in projects and programmes that will support the ambitions and objectives set out in the Council Plan.

Inflationary Costs

4.2 The MTFS approved in February 2023 provided for an annual general inflationary uplift to ensure budgets remain sustainable in real terms with a 2% increase in pay (4% for 2024/25), prices and contract costs partly offset by assuming an equivalent increase in all fees and charges. This provision was in line with the medium-term target rate set by the Government for the Bank of England.

4.3 However, with the continuing international economic instability and national political uncertainty there has been increased inflationary pressure across most sectors. The forecasts for inflation, as set out in AS23, are for an average of 7.3% this year, 3.6% next year before settling back to nearer the long-term trend of around 2% for the rest of the MTFS period. Forecasts for next year are above the 2% assumed in the MTFS. It is the view of Corporate Board that it is not possible for all Services to generate sufficient additional efficiencies to absorb the increased inflationary cost, while many areas are also seeing increased demand. Positive action by Services has managed the impact of inflation in 2023/24. For some Services to remain sustainable there is a need to provide funding for excess inflationary costs in 2024/25. All other Services will be asked to manage the inflationary impact across the service within the 2% general provision. There is a material risk about the Council's ability to continue to absorb cost increases that are higher than resources year-on-year and could lead to additional budget pressures in future years. This risk will be managed in 2024/25 through the use of reserves (see Section 7).

4.4 Services have included, within their savings proposals, options for contract management savings, reductions in third party spend and the delivery of small-scale efficiencies to absorb the impact of inflation on their budgets. Therefore, in making this inflation provision it is acknowledged that the allocation to Services for inflation is an approximate cost. It is important to recognise that some costs will increase above the standard inflation rate, and some below, and that once the overall allocation has been agreed a Service should retain the ability to allocate the funding provided to reflect where inflation will impact at a service level.

4.5 There are areas of the Authority's activity where it is known the provision for general price inflation will be insufficient and where prices are increasing well above the level of CPI. There are five service areas where contractual commitments above this level are known to exist. In 2024/25 these are:

- provider costs in adult social care which are also particularly impacted by the 9.8% increase in the National Living Wage from April 2024 (£12.994m);
- street lighting energy and traffic signals contract costs (£0.443m);
- highways and bridge maintenance contract costs (£0.553m);
- utilities costs (£1.400m); and
- home to school transport for SEND and mainstream pupils and children in care (£1.419m).

Combined with the provision for a 2% general inflationary impact the total provision for price inflation in 2024/25 in the MTFS is £22.600m, bringing the total indicative inflation provision for price inflation over the period of the MTFS to £62.240m.

4.6 In addition to price inflation the MTFS also needs to include a sustainable provision for pay inflation. The effect of inflation and labour shortages on average earnings and on wages and salaries has been significant. There is a growing demand that public sector pay should be maintained in real terms, with a risk of the delivery of services being impacted by industrial disputes, and also that if pay does not maintain broad parity with the private sector and other public sector bodies who do not have statutory duties to balance their budget their ability to offer more generous salaries will further impact on turnover and recruitment difficulties. Given the pressures on recruitment and retention, the level of pay settlements being agreed for other public sector bodies as well as the advice from West Midlands Employers, it is the view of Corporate Board that the provision for pay inflation of 4% in 2024/25 should be retained, before reverting back to the general 2% annual uplift to ensure the MTFS remains robust and sustainable. However, pay levels for the Authority's workforce are dependent on the outcome of a number of different national pay negotiation arrangements and therefore Corporate Board recommend that this provision is held centrally in the first instance. This will ensure any unused provision can be redirected to support the delivery of the MTFS in future years. The impact of this is a provision for pay inflation of £9.269m in 2024/25 and a total indicative provision over the MTFS period of £27.659m.

Other Permanent Revenue Budget Adjustments

4.7 Corporate Board have identified six areas where additional budget allocations are required to meet known spending pressures to ensure services' financial position at the end of the MTFS period is sustainable.

4.8 The six areas where additional budget allocations are required are:

- right-sizing budgets to correct for current structural overspends, primarily in relation to placements and transport costs for children in care, adult social care, home to school transport and the maintenance of traffic signals;
- allocations to meet the continued growth in demand for services as a result of both demographic change and housing growth, with the main areas of demand growth:
    - the adult and children's population requiring care as well as increases in the complexity of need (£13.280m for 2024/25 covering new demand and right-sizing);
    - the increased cost of waste management as a result of housing growth (£0.300m in 2024/25);
    - the provision of home to school transport, particularly in relation to children with SEND, reflecting the rapid increases in demand for SEND provision (£8.189m covering new demand and right-sizing in 2024/25); and
    - the impact of the need for additional capacity in support services as a result of the growth in demand (£0.639m in 2024/25);
- allocations to meet the conditions of the additional ring-fenced social care grants announced in AS22 (£3.715m in 2024/25);
- allocations to increase capacity in services following service reviews including the coroners service, fire protection activity and the attendance service;
- allocations to meet additional capital financing costs based on the planned borrowing requirement to fund the capital programme (£8.741m across the five years of the MTFS; and
- investment to maintain the core operational infrastructure of the Authority.

4.9 There are no investments brought forward for consideration where there is a choice for Members as to whether to support them.

4.10 In addition to the specific allocations Corporate Board are also strongly recommending an allocation is set aside as a provision of £1.000m in 2024/25, £9.000m in 2025/26 and then £6.000m for the remaining three years of the MTFS for future currently unknown and unquantified spending need, such as further increases in the National Living Wage and extra pay and price inflation. In 2024/25 the level of permanent pressures (including inflationary pressures but excluding additional ring-fenced Government grants) requiring funding is £26.280m above the provision in the MTFS approved in February 2023. The recommended provision is deemed the minimum level required, considering affordability, and is lower than recent patterns of net annual pressures (around £3m more than the provision annually). This will require improved control of costs over the period of the next MTFS.

4.11 Maintaining such a provision will mitigate the need to identify further options for balancing the budget as new spending requirements are identified over the period of the MTFS and provide further resilience in a highly uncertain context. Without this provision the Council's general risk reserve may need to increase which further ties up resources and reduces flexibility. Any of these provisions not required can be released in future years.

4.12 The additional permanent spending allocations identified total £27.652m for 2024/25 and a further £38.302m for indicative allocations over the remainder of the MTFS period, bringing the total permanent allocations proposed to £65.954m. **Appendix B** provides brief details of the proposed permanent budget allocations recommended for approval. All allocations beyond 2024/25 are indicative at this stage and will be subject to review as part of the rolling MTFS.

Time-Limited Revenue Allocations

4.13 Time-limited investment in key areas of activity provides the opportunity for the Council to be ambitious in its plans whilst not risking its overall financial sustainability, as well as pump-priming the investment in change needed to deliver budget reductions. There are also a number of one-off costs the Council needs to fund to ensure the continued effective delivery of services.

4.14 Corporate Board have identified five areas where additional time-limited allocations are required to meet known spending pressures to ensure Services' financial positions at the end of the MTFS period are sustainable.

4.15 The five areas where additional time-limited allocations are required are:

- an allocation to meet the impact of inflation on wholesale utility costs on the assumption costs will fall back to the underlying trend over the medium term;

- the up-front investment needed to deliver budget reductions included in the MTFS;
- the provision of temporary capacity to fund the continued growth in demand for services including business and customer support and recruitment;
- the resource to fund temporary structural overspends in services whilst capital investment and transformation projects to reduce costs to a sustainable level are delivered; and
- the need to fund a range of costs that will impact on the Authority as a result of past decisions and previously agreed approaches such as the resourcing of the DSG deficit, embedding the Outdoor Education and Learning Strategy, funding of community pantries, school admissions, resourcing the Coventry and Warwickshire Growth Hub, and the development of the core IT infrastructure of the Authority.

4.16 Corporate Board are recommending that the time limited allocations of £23.503m in 2024/25, of which £18.000m relates to resourcing the DSG deficit (see Section 5) and a further £4.611m over the remainder of the MTFS period are funded, a total of £28.114m.

4.17 **Appendix C** provides brief details of these proposed time-limited spending budget allocations.

Future Government Grants

4.18 Spending announcements made as part of AS22 included a number of areas where some, or all, of the resulting activity will be delivered by and through local authorities. At this point we do not know how much of this funding the County Council will receive and we do not know whether any further temporary allocations will be announced as part of the 2024/25 Local Government Finance Settlement.

4.19 However, given the tightness of the Authority's overall financial position, Corporate Board is recommending that a clear position about how any additional funding received will be managed is set out in advance.

4.20 The proposed approach is:

- there is no presumption that new grant funding will be automatically allocated to services;
- as far as possible any grants received should fund activity we are already planning to do, that has been funded through the MTFS or through allocations from the Investment Funds; and
- if additional spending has to be incurred to deliver new activity, the priority is to direct resources at activities that drive progress in the Delivery Plans or deliver future MTFS savings.

Summary Spending Need

4.21 Bringing all these elements together indicates that the Authority has a spending need of £626.832m to be financed in 2024/25, increasing to £727.313m by 2028/29. A breakdown of this is shown in Table 2 below. The increased spending need shown here is greater than the increase in resources over the MTFS period shown in Table 1.

Table 2: Summary of 2024-29 Spending Need					
	Allocation	Cumulative Indicative Allocations in Future Years			
	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Base Budget	543.808	543.808	543.808	543.808	543.808
Inflation	31.869	46.110	60.982	75.293	89.899
Additional Permanent Spending Need	27.652	44.387	57.591	74.715	93.606
Additional Time-Limited Spending	23.503	4.295	0.184	0.132	-
Total Spending Need	**626.832**	**638.600**	**662.565**	**693.948**	**727.313**

5. Sustainability of Spend Funded from the Dedicated Schools Grant

5.1 At the same time as the Local Government Finance Settlement is announced the Department for Education are expected to also announce details of the Dedicated Schools Grant (DSG) for 2024/25 to provide funding for services to schools and pupils. A full report seeking approval for the allocation of the DSG will be brought to Cabinet for consideration in January 2024 and any decisions made will need to be included as part of the budget resolution to be agreed by Council in February 2024.

5.2 Until the details of the DSG Settlement are announced we will not know how much of this additional funding is allocated to the various elements of the DSG – schools, early years, high needs and central costs. Any updated figures that impact on the MTFS will be included in the January 2024 MTFS Update report to Cabinet.

5.3 However, even in the absence of more up-to-date figures, the underlying strategic position remains extremely serious in terms of the potential impact on the long-term sustainability of the Council’s financial position. There continues to be a growing structural deficit in the High Needs DSG, with the accumulated deficit forecast to be £34m by the end of 2023/24. The Authority has a Special Educational Needs (SEND) and Inclusion Change Programme in place and in recent months has been working with the Department for Education (DfE) as part of their “Delivering Better Value” in SEND programme with authorities across the country to identify options for bringing about the required change to delivering statutory duties within allocated resources.

5.4 Initial results from the evidence gathering stage in Warwickshire have been completed and a range of opportunities to mitigate partially the annual deficit have been identified and reported back to the DfE. As with the outputs from this work in other authorities the proposed interventions, if successfully delivered, will not remove the significant structural deficit and will not generate sufficient underspends to repay the accumulated deficit, which is forecast to continue to grow unsustainably. It is therefore the view of Corporate Board that a national solution is urgently required, but that it is unlikely this will be in place before the 2024/25 budget is approved. This report therefore sets out Corporate Board’s advice in the intervening period as the impact of the SEND forecast deficit remains integral to the overall financial sustainability of the Council’s finances.

5.5 The Government has put in place a statutory override until March 2026 that means that authorities do not have to make good their accumulated deficit until this point. It remains the professional advice of the Executive Director for Resources, supported by Corporate Board, that to ensure the Authority remains financially sustainable funding should be set aside the £18.000m needed to make good the forecast deficit for 2024/25. The accumulated deficit will continue to grow until March 2026, and the provision ensures the Council would not be exposed to any request from Government to cover those costs.

5.6 However, unless there are material levels of additional resources provided by the Government and fundamental system changes at a national level, it appears unaffordable for the Authority to continue to make provision for the deficit beyond 2024/25 at this point in time. The financial assumption in this report is that the Authority will take advantage of the statutory override from April 2025 onwards and commit to implementing the options available to make good the accumulated deficit (such as taking out additional borrowing or raising the council tax) when the statutory override is lifted. In the continuing absence of a clear policy to address this longstanding issue and provide a mechanism for a financially sustainable solution this would represent a step change in the Authority’s underlying financial risk.

6. Options for Balancing the Budget

6.1 As we progressed through the Pandemic it became clear that the negative financial impact of Covid-19 would continue to be felt for a number of years. The impact would be felt in terms of the demand for services and growing inflationary risk. The national and international economic and political instability has meant that significant inflationary risks, in particular, have continued longer than initially anticipated. The result has been the need to identify significant levels of additional savings proposals that could balance the budget on top of those already included in the February 2023 MTFS.

6.2 The focus remains on the identification and quantification of options to broadly maintain, and where possible improve, services to residents through better procurement, improvements in efficiency, increased income and reductions in demand. However, the level of savings needed means that some service reductions would also be needed.

6.3 Proposals totalling £69.414m have been identified as being deliverable over the next five years. The cumulative impact of these on an annual basis are summarised in Table 3 below, with further detail shown in **Appendix D.**

Table 3: Summary of Proposals for Budget Reductions 2024-29						
	2024/25 £m	Extra in 2025/26 £m	Extra in 2026/27 £m	Extra in 2027/28 £m	Extra in 2028/28 £m	Share of Total Saving
Better procurement	3.413	1.973	1.371	1.446	0.896	13%
Demand management	5.562	6.138	4.916	3.507	3.320	34%
Income generation	4.764	2.543	2.185	2.104	2.329	25%
Rightsizing of budgets	0.616	0.353	0.273	0.675	0.295	3%
Service delivery redesign	2.343	3.667	4.556	3.900	2.849	25%
Service reductions	-	1.220	-	1.300	0.900	5%
In-year Savings Options	**16.698**	**15.894**	**13.301**	**12.932**	**10.589**	**100%**
Cumulative Savings Options	**16.698**	**32.592**	**45.893**	**58.825**	**69.414**	

6.4 The detailed work on these proposals will continue in the run-up to February with Corporate Board focussed on the pace of delivery to ensure any capacity is released at the earliest opportunity and that there is no overlap/duplication, which is good practice to ensure the robustness of the overall proposals. Any changes identified as a result of this work will be reported to Cabinet in January 2024 in the 2024/25 Budget and MTFS Update report.

6.5 Almost 60% of the budget reductions are to be delivered through demand management and the redesign of service delivery. This is a material risk given the majority of pressures are in statutory service areas where markets are working sub-optimally. The maintenance of timely delivery, an on-going focus on the transformation of services, investment in digital/automation opportunities, process improvement and the impact of Community Powered Warwickshire initiatives are essential if the required financial benefits of more effective demand management and more efficient approaches to service delivery are to be achieved. This will need to be the focus of attention for Members and Corporate Board moving forward. The utilisation of performance information, to monitor trends and identify any areas of concern at the earliest opportunity, will be critical.

6.6 A further third of budget reductions are from increased income generation and better procurement. Delivery of increased income and cost efficiencies delivered through procurement processes at these levels will require a rigorous commercial approach to decision-making that ensures the default position of funding additional services is not to rely on the council taxpayer.

6.7 The options include a level of service reductions, and it is recognised that the list includes some difficult decisions, including some options Members have rejected in previous years. The Council has delivered £130.0m of savings since 2014 and has to find up to another £68.2m by the end of 2028/29 to balance the MTFS with a 4.99% council tax rise in 2024/25. In the context of high inflation and demand pressures, this means there are few straightforward savings options left and there are questions about the organisation's capacity to deliver any additional savings while handling high and rising demand. Corporate Board will continue to work to identify further transformation and digital/automation opportunities, to identify opportunities for additional income generation as part of taking forward outcome-driven investments, including those driving economic growth, in the run-up to the February 2024 budget and throughout 2024/25 with the aim of providing, where possible, additional options and flexibility should circumstances change. However, in order to present Members with realistic, deliverable options that would deliver a sustainable and balanced MTFS it is necessary to recognise that savings may be needed unless alternatives can be identified.

7. Flexibility in the Budget – Reserves

7.1 The Authority has a robust reserves position, with reserves forecast to be £195.743m at the end of 2023/24. As part of the MTFS agreed in February 2023 Council reconfirmed its reserves strategy with the objective of ensuring we are using all our resources effectively, providing increased transparency and accountability around reserves and ensuring the framework is in place to align decision-making around the use of reserves with the Council Plan.

7.2 The primary purpose for holding reserves is to manage financial risk and promote financial sustainability. At the same time, we need to control the amount of scarce resources held in reserves to ensure we are using taxpayers' money to deliver services to residents and communities. Therefore, as required by the strategy over the last few months a targeted review of reserves has been undertaken.

7.3 The outcomes from the review are that it is recommended that £3.712m of specific project/volatility reserves can be closed and the resources released to the Available for Use Reserve and therefore available to Members to support the delivery of the MTFS and invest in the delivery of the Council Plan. This brings the total amount in the Available for Use Reserve to £47.751m.

7.4 However, as was set out in the latest financial monitoring report to Cabinet in November 2023, the first call on the Available for Use Reserve is to make good the forecast overspend in 2023/24. This is currently forecast to be £18.494m. Using this amount of the Available for Use Reserve to make good the 2023/24 overspend as well as the £28.114m needed to fund the time-limited allocations set out in Appendix C means there is only £1.143m in excess of this available to support the MTFS.

7.5 It is therefore the advice of Corporate Board that Members should plan for there being no reserves available to support the MTFS beyond the level of the time-limited allocations set out in Appendix C. If this position changes as we prepare Quarter 3 forecasts this will be reported to Cabinet as part of the January 2024 MTFS update report.

7.6 Any use of reserves Members want to use to support additional allocations or manage the timing differences between spending need and the delivery of budget reductions or future Council Tax increases will require a reduction in the Investment Funds. The use of funding set aside to meet the upfront costs of service transformation, the delivery of budget reductions or to invest in the priorities set out in the Council Plan is not recommended.

7.7 There is one change to the Reserves Strategy proposed for 2024/25 and that is to consolidate the individual Directorate Risk Reserves into a single corporately held Financial Management Reserve. This will enable a clearer line of sight as to how any future overspends will be managed and ensure, through our One Council approach, corrective action to prevent an overall overspend in future years is taken at the earliest opportunity. With the Available for Use Reserve now being fully committed making good any overspend in 2024/25 will be the first call on the 2025/26 MTFS refresh. The draft revised Reserves Strategy is attached at **Appendix E**. This will be updated to reflect the reserves position forecast as at the end of Quarter 3 as part of the budget resolutions to Council in February 2024.

8. Summary Revenue Position

8.1 This section of the report brings all the elements of the budget and MTFS outlined above together to provide a summary position which provides clarity of the decisions needed to ensure the 2024/25 budget is balanced and 2024-29 MTFS is sustainable and robust.

8.2 Table 4 shows that, with a 4.99% Council Tax increase in 2024/25, and 2% thereafter, and the use of at least £28.114m of reserves, the Authority is estimated to have a balanced budget for 2024/25 and for the period of the MTFS providing all the savings proposals are approved and delivered at the level and pace set out in Appendix D. The remaining level of headroom available to Members is £1.166m, of which a maximum of £0.290m is available for 2024/25).

8.3 If Members wish to increase investment in any service on a permanent basis or reject any of the budget reductions they do not want to see implemented then there are a number of flexibilities available:

- to increase the budget reductions shown in Appendix D and/or identify new opportunities for budget reductions; or
- take advantage of any additional flexibility offered in the Autumn Statement to increase the Council Tax; or
- to use any non-ringfenced additional funding announced, above the estimates used in this report, from the Local Government Finance Settlement and any favourable impact of the updated taxbase information provided by the Districts/Boroughs.

Table 4: Summary Revenue Budget Position 2024-29					
	2024/25 £m	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**
Spending to be Financed *(Table 2)*	626.832	638.600	662.565	693.948	727.313
Less:					
• Reserves used of fund one-off spending	(23.503)	(4.295)	(0.184)	(0.132)	-
• Options for Balancing the Books *(Table 3)*	(16.698)	(32.592)	(45.893)	(58.825)	(69.414)
Total Spend to be Resourced	**586.631**	**601.713**	**616.488**	**634.991**	**657.899**
On-going resources available *(Table 1) (£1.908m of the resources shown in table 1 in 2024/25 are not on-going and are therefore excluded here)*	(579.558)	(595.248)	(612.953)	(631.324)	(650.430)
Additional income from a 4.99% council tax increase in 2024/25	(7.363)	(7.646)	(7.966)	(8.295)	(8.635)
(Surplus)/Shortfall	**(0.290)**	**(1.181)**	**(4.431)**	**(4.628)**	**(1.166)**

8.4 The headroom of £1.166m provides a degree of flexibility in the allocations/budget reductions Members ultimately decide to take forward.

8.5 To arrive at the headroom of £1.166m impact of the budget options set out in this report requires the use of £28.114m reserves. This is within the level of reserves identified as being available to support the MTFS. The reserves figures, and the consequent impact on the resources available for will be updated in the January 2024 report when the Quarter 3 budget monitoring forecast is available.

8.6 The high degree of uncertainty about both the level of resources that would be available to the Authority and the level of additional spending needed to manage the cost of services at a time of high inflation has been highlighted throughout the report. The in-year forecasts for 2023/24 are also more uncertain and volatile than usual as a result of the combination of increasing demand and inflationary impacts. It is likely that the extent of any variations between the position set out in this report and the final information (in the January 2024 report) will be greater than would normally be expected this year. Members are asked to note this heightened uncertainty and the level of flexibility to respond to emerging issues that this requires when considering the development of their budget resolutions.

9. Capital Strategy

9.1 Each year Council is required to approve a capital strategy as part of its budget proposals. Much of the content is specified, however the strategy is an important document in setting out the Council's ambition to ensure capital and revenue spending on the asset portfolio is directed efficiently and effectively.

9.2 As a suite of documents, the capital strategy sets out:

- Our strategic intent – the aspiration and direction for our capital investment, defining the outcomes we are seeking to achieve through investment (why);
- The draft programme – the activity programmes and projects funded from our capital investment (what); and
- The governance framework – the way we will manage capital spend and the capital programme (how). It is this technical appendix that ensures we meet with statutory guidance. It also sets out how we will optimise delivery by strengthening of performance, adopting commercial principles and practice and robust benefits realisation.

9.3 Work is still on-going to finalise these draft documents pending the latest Government capital announcements, including the additional funding following the cancellation of HS2 north of Birmingham and the latest Warwickshire Recovery and Investment Fund (WRIF) and Warwickshire Property and Development Group (WPDG) business plans. The updated business plans for WRIF and WPDG are due to be reported to Cabinet in January 2024 for approval. Work on the strategies also reflects pressures to fund school places and additional SEND provision, as well as managing the impact on capital budgets of significant inflation in the construction sector. Taken together, these factors explain why Corporate Board have not recommended reductions in the revenue costs of capital borrowing in their budget proposals.

9.4 The draft capital strategy will be brought to Cabinet on 23 January 2024 along with the accompanying Technical Annex and draft capital programme once these have been updated for Quarter 3 monitoring the refreshed WRIF and WPDG business plans.

10. The Need for a Balanced Budget

10.1 In putting forward their proposals, Members are reminded that local authorities are required by law to set a balanced budget. An intention to set a deficit budget is not permitted. However, what is meant by 'balanced' is not defined in law. A prudent definition of a sustainable balanced budget is a financial plan based on sound assumptions which shows how income will equal expenditure over the short- and medium-term, acting in a way that considers both current and future local taxpayers.

10.2 If the budget is unbalanced then the Chief Finance Officer, supported by Corporate Board, would have to consider issuing a Section 114 notice. Such a notice is only given in the gravest of circumstances, as during that time spending and other financial activity is suspended, the External Auditors would investigate and publicly report on the circumstances and the Department for Levelling Up, Housing and Communities (DLUHC) may take over the running of the Authority.

10.3 In the past this legal status was seen as a theoretical risk, however, over recent months there have been a number of Section 114s issued by authorities where they are unable to balance their spending needs and resources. The strength of our financial resilience and governance arrangements means that despite the demand and cost pressures facing the Authority we are not in this position. Equally the context within which we are now operating does make ensuring the budget choices made are deliverable in full and on-time is more important than ever.

10.4 Because Members decide on the Council Tax before the year begins and cannot increase it during the year, there is a need to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

10.5 To avoid setting an unbalanced budget the Local Authority has to be financially resilient. Setting a clear MTFS helps clarify expected income and expenditure. Awareness of the funding available in the forthcoming years means the Council stands a better chance of balancing the budget. Reserves are a useful option for balancing the budget in the short-term. However, reserves should not be used to pay for day-to-day expenditure, and it is important that they are replaced when the short-term need has passed. Therefore, the MTFS needs to be fully balanced on an ongoing basis, with no ongoing spending funded from one off resources, meaning the Council Plan starts from a deficit position.

10.6 It is important that the Authority complies with its obligations under the Equalities Act 2010 - the Public Sector Equality Duty (PSED) - to promote equality and to reduce discrimination in relation to any of the nine 'protected characteristics' (age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race; religion or belief; sex; and sexual orientation). The Council must have 'due regard' to the PSED when taking any decisions on service changes whilst recognising that local authorities have a legal duty to set a balanced budget. Similarly, if proposals are likely to have adverse impacts on customers, public consultation should be undertaken before any final decisions are made and consideration given to the outcomes of those consultations. This may mean that some proposals are not implemented, and alternative solutions may need to be sought. Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with these duties. Equality Impact Assessments for the savings options will be made available to Members ahead of full Council in February alongside the January 2023/24 Budget and MTFS Update report.

10.7 Using the information contained in this report, Cabinet is asked to develop their 2024/25 Budget resolutions for recommendation to Council on 8 February 2024.

11. Timescales and Next Steps

11.1 An effective MTFS ensures the Authority has the financial strategies, plans and financial decision-making framework in place that will deliver a financially resilient and sustainable Authority over the short, medium and long-term. The key components of the MTFS are:

- a 5-year Revenue Plan to balance annual funding and expenditure;
- a Capital Strategy and Capital Investment Programme to optimise the way in which we generate, manage and allocate the capital funds at our disposal;
- a Reserves Strategy and an associated programme of reserves reviews to

make sure the money we hold is effectively managed to meet the financial risks and uncertainties; and

- Treasury Management and Investment Strategies that govern how, and to what extent, we can use our cash reserves and balance sheet strength to invest in the Council's priorities and plans.

11.2 The draft strategies will form part of January's Cabinet agenda, alongside the 2024/25 Budget Update report, and will come to Council for approval alongside the budget. The January Cabinet report will reflect the funding announcements in the Government in the 2024/25 Local Government Finance Settlement, the latest information on taxbases from the districts/boroughs and any changes to the spending need in 2024/25 that arise from the latest financial monitoring information.

11.3 The timetable for agreeing the 2024/25 budget and 2024-29 MTFS is set out in Table 6.

Table 6: Timetable for Agreeing the 2024/25 Budget and 2024-29 MTFS	
14 December 2023	Report to Cabinet from Corporate Board on the budget options
Late December 2023	Provisional 2024/25 Local Government Finance Settlement
23 January 2024	Report to Cabinet outlining the final information to be used in setting the budget
By 31 January 2024	Cabinet release Conservative Group 2024/25 budget resolution(s)
31 January 2024	Statutory deadline for receipt of Council Tax and business rates information from the districts/boroughs
By 5 February 2024	Opposition Groups release any amendments/alternatives to the Conservative proposals
6 February 2024	Comparison of budget resolutions released
8 February 2024	Council agrees the 2024/25 budget and Council Tax

12. Financial Implications

12.1 There are no direct financial implications for the Authority arising from this report. The report is part of a series of reports that will culminate in Council agreeing the 2024/25 budget and Council Tax at their meeting on 8 February 2024.

13. Environmental Implications

13.1 There are no immediate environmental implications for the Authority from this report. There will be environmental implications that flow from the individual allocations and proposals agreed as part of the Council's approved budget and these should be considered by Members as part of reaching their decisions.

14. Background Papers

14.1 None

	Name	**Contact Information**
Report Author	Virginia Rennie Head of Strategic Finance	vrennie@warwickshire.gov.uk
Director	Andy Felton Director of Finance	andrewfelton@warwickshire.gov.uk
Executive Director	Rob Powell Executive Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Peter Butlin Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

Elected Members have not been consulted in the preparation of this report.