

TITLE OF REPORT: **Budget Approach 2024/25 – 2028/29**

REPORT OF: **Darren Collins, Strategic Director, Resources & Digital and
Borough Treasurer**

Purpose of the report

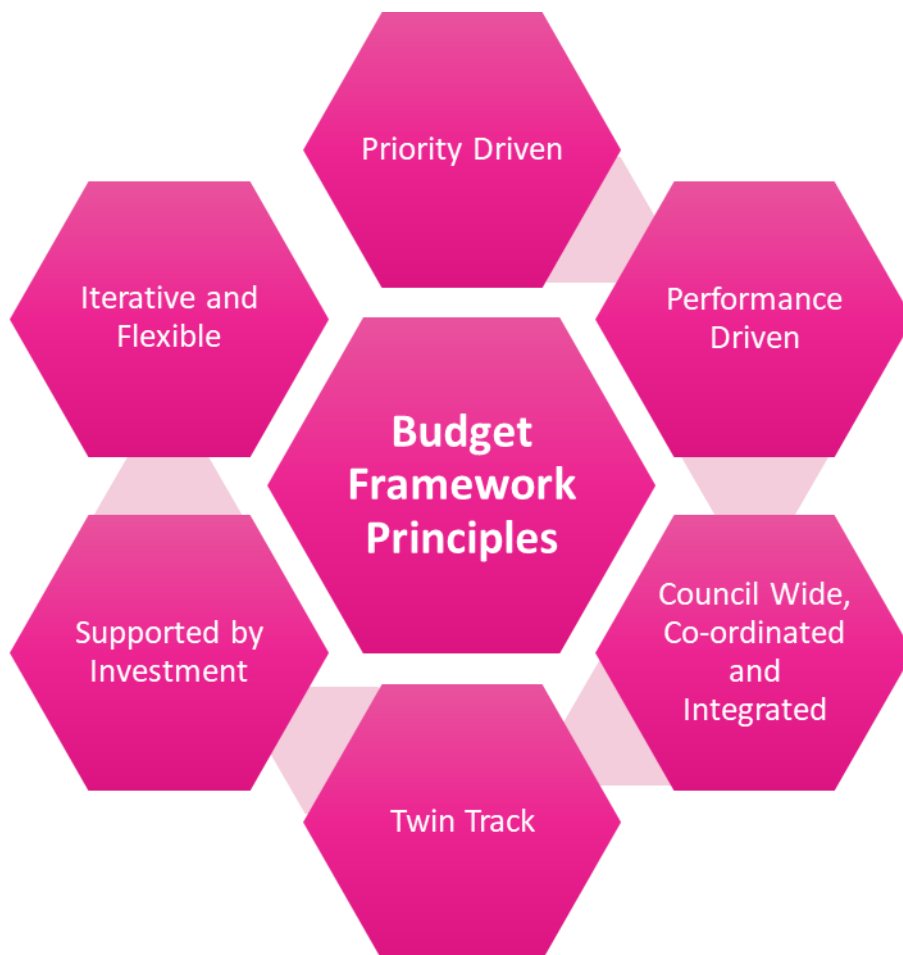
1. The purpose of this report is to update Cabinet on the Council's Budget Approach 2024/25 to 2028/29 including a high-level timeline that will support the delivery of a balanced budget for 2024/25 and approval of the budget in February 2024.

Background

2. On 14 December 2021 Cabinet approved the Budget Approach 2022/23 to 2024/25. The 2024/25 budget is the final year of the 3-year approach.
3. The Medium Term Financial Strategy (MTFS) has been refreshed and updated and is reported elsewhere on this agenda. It outlines a cumulative funding gap of £49.7m by year 4 of the MTFS to 2027/28 with £27m in 2024/25 before use of reserves. The MTFS reflects the amended 2023/24 budget, demand and cost pressures, the latest economic forecasts, and the latest assumptions on 2024/25 funding and beyond.
4. The MTFS outlines that the Council continues to operate in the context of an unprecedented period of financial and economic uncertainty set against the backdrop of over a decade of austerity, disproportionate cuts to funding, delays to funding reform, increasing demand and more recently high inflation. The Local Government sector is increasingly reporting local authorities in financial difficulty including some which are now subject to Government interventions.
5. It remains critical that the Council has a robust approach to budget setting and a plan for uncertainty including the delivery of demand management interventions in social care, alongside additional savings estimated at £32m to achieve financial sustainability, without reliance on reserves, by the final year of the MTFS.

Proposal

6. The budget approach will be set within the context of the 5-year rolling MTFS. This report outlines the high-level framework over the period 2024/25 to 2027/28, alongside a broad timeline to achieve the immediacy of a legally balanced budget for 2024/25 and a balanced position without reliance on reserves by 2028/29.
7. The Council developed a set of core principles in November 2019. These have been updated to build on the previous work as the context for the approach to budget 2024/25 to 2028/29. Specifically, the approach will be delivered in the context of the MTFS framework and will be:



- **Priority Driven** – the Council will focus on what matters most as outlined in the new Corporate Plan;
- **Performance Driven** – a focus on management of outcomes;
- **Council Wide, Co-ordinated and Integrated** - rather than service focus, the Council's new Corporate Plan and Group Plans will be the conduit for allocating resources to priority areas in a collaborative and co-ordinated approach. Covering all aspects of the Council's budget including revenue, capital, housing, and schools.
- **Twin Track** - approach over an extended rolling 4-year time horizon to enable effective planning, reflecting the **short-term** immediacy of a legally balanced budget for 2024/25 against the **longer-term** demand management intervention and transformation required to achieve sustainability by the final year of the MTFS;
- **Supported by Investment** - to allow capacity to deliver; and
- **Iterative and Flexible** - reflecting the dynamic nature of the operating environment and the uncertainty of funding assumptions.

Approach

8. The approach will be underpinned by:

- Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code;
- Government lobbying;
- Clear delivery plan;
- Capacity to deliver; and
- Financial awareness training.

CIPFA Financial Management Code

9. The CIPFA Financial Management Code (the Code) emphasises that good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable and that excellent financial management is the responsibility of the whole of the Council's leadership team.
10. The six principles of the Code are:
 - **Organisational leadership** – a clear strategic direction based on a vision in which financial management is embedded in the organisational culture.
 - **Accountability** – medium term financial planning that drives the annual budget process.
 - **Transparency** – meaningful and understandable financial management data, frequently reported with evidence of officer action and member decision making.
 - **Standards** – adherence to professional standards is promoted by the leadership team and evidenced.
 - **Assurance** – sources of assurance are recognised as an effective tool mainstreamed into financial management.
 - **Sustainability** – this should be at the heart of all financial management processes evidenced by prudent use of public resources.
11. While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.
12. Reflecting on the importance of longer term financial planning, one of the objectives of the Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.
13. The Council's self-assessment against the Code is currently being refreshed. Compliance with and areas of action will underpin the budget approach to financial sustainability.
14. Consistent with the principle of flexibility, officers have set a 2024/25 stretch target of £10m as a minimum, to allow the Council an element of choice. This is above the MTFS estimated "unidentified" budget cuts of £7.6m for 2024/25 but allows for the uncertainty of the Local Government Finance Settlement which may be different to the MTFS assumptions. As such the requirement for cuts could be more than outlined in the MTFS. Similarly, a more favourable settlement could mean a reduced package of cuts, but this would need to be considered in the context of opportunities for growth, or re-profiling use of reserves consistent with an iterative approach.
15. The proposed budget approach will build upon work already underway and incorporate the following activities:
 - **Fundamental Transformation review areas** – extending the areas beyond social care and including other areas of Council activity.
 - **Review of Delivery of services** - Partnerships, Voluntary sector, and Council owned companies.
 - **Review of workforce** – including sickness and vacancies.
 - **Grants and external funding** – maximisation of current, and potential new areas.
 - **Capital Programme and Capital Financing** – Minimum Revenue Provision (MRP) policy, capital receipts.

- **Review of the Collection Fund (CF)** – including council tax base, council tax collection, surplus / deficit on the CF, and business rates base.

16. The activity areas will be driven by a clear timeframe with accountability for delivery. Active management and leadership will enable timely decision making. A clear framework and timeline will engender a robust process with appropriate and timely engagement and challenge from both senior management and Councillors. Embedding strategic financial awareness will enhance corporate budget ownership, challenge, and the engagement process.
17. The MTFS is not the budget but an estimate of the funding gap. There are many moving parts and assumptions which will become clear over the budget period. As such the process will need to be iterative and dynamic. Crucially, the provisional finance settlement will not be received until late December and confirmed late January/early February, and the retained business rates confirmed at the end of January, so some key areas of clarity on funding will be received very late in the budget process. Other areas of uncertainty which can have a significant impact of the base budget are assumptions in relation to the 2024/25 pay award which is unlikely to be agreed before the budget is set.

Timeline

18. The 2024/25 Revenue and Capital budgets will be proposed by Cabinet on 20 February 2024 and agreed by Council on 22 February 2024. The proposed timeline assumes a consultation report to Cabinet in November on the 2024/25 proposals.
19. The high-level timeline is shown at Appendix 2.

Next Steps

20. It's important that the approach to budget is delivered against a timeline that allows effective and timely decision making, whilst recognising that the position will be fluid until funding is confirmed very late in the process. As such, the approach to budget needs to be developed based on the best estimate of the MTFS funding gap, which can then be modified on clarification of the funding envelope alongside active management of demand pressures.
21. Further reports will be considered throughout the period of the MTFS as areas of work are clarified and progressed.

Recommendations

22. It is recommended that Cabinet:
 - a. Approves the approach to budget 2024/25 to 2028/29 contained in this report; and
 - b. Agrees to receive update reports as the activity progresses and options to deliver priority objectives and a sustainable financial position are developed.

For the following reasons:

- To contribute to the good financial management practice of the Council;
- To assist the financial sustainability of the Council over the medium to long term; and
- To support delivery of the Council's Corporate Plan priorities and the Thrive objectives.

Contact: Darren Collins

Ext: 3582

Policy Context

1. Making Gateshead a Place Where Everyone Thrives and the new Corporate Plan provides the policy direction for the Council, setting out the priorities over the next five years.
2. The Council recognises there are huge financial pressures on not just Council resources, but those of partners, local businesses and residents. To deliver on the strategic approach the Council will need to continue to be resolute in its determination to make Gateshead a place where everyone thrives. This means the Council's decision-making including resource allocation through the budget process will be policy and priority led and data driven.
3. The Council is responsible for approving a budget following recommendations from Cabinet, in line with the budget and policy framework outlined within Gateshead Council's constitution.

Background

4. The Council's MTFS sets out the financial context for the resource allocation process and budget setting. The Council's Performance Management Framework and Investment Plan support the aims within the strategy.
5. As a Council, there is a need to focus scarce resources on priority areas which will deliver the biggest impact and achieve the best possible outcomes for residents of Gateshead. Important and increasingly difficult decisions need to be made about the relative priority of different services and the balance between what can be afforded using the scarce resources at our disposal. The Council will need to continue to challenge not only how services are delivered but also what is being delivered. Crucially, these decisions need to be taken in the context of ensuring that they meet the Council's strategic aims, but also with a clear understanding of the statutory requirements of service delivery.
6. Although the financial planning takes place over a longer timeframe, local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the Council must make spending plans affordable by matching these to the estimated funding available in that financial year.
7. The Council will ensure that scarce resources are used to maximum effect. It is evident however that increases in demand alongside the continuing financial challenges will have an impact on both the nature and scope of services that the Council is able to deliver. The Council will continue to manage the process of challenge to its services effectively but in the context that change is inevitable.

Proposed Approach

8. Responding to the challenge will continue to be a difficult journey. There is a requirement for absolute clarity on priorities and a need for an understanding on the relative importance of key service areas. The approach should seek to mitigate the estimated funding gap through cost and demand interventions, reassessment of priorities, service redesign and better targeting of resources.
9. The budget approach will need to identify a pipeline of budget savings / cuts. As a minimum, the approach will identify potential budget cuts totalling £10m for 2024/25

as part of a clear delivery plan. This is a stretch target above the estimated budget cuts requirement for 2024/25 reflecting the flexibility needed if the finance settlement requires a greater ask than that outlined in the MTFS estimates. Similarly, a more favourable settlement could allow these areas to be postponed to a later year, unless it is considered appropriate to still take the saving and realign the use of reserves. Areas identified for years 2025/26 to 2027/28 can be considered concept areas or work in progress and will need delivery plans worked up and ready to be taken the following year.

10. It is proposed that each Group will contribute towards the closing the estimated funding gap, aligned to the Group plans and investment / disinvestment objectives.
11. Consistent with the principle of the approach being iterative, following confirmation of the 2024/25 budget in February, the MTFS will be immediately refreshed to prepare for the next 4 years of the budget approach. Future years targets will be considered at this point based around organisational priorities and a strategic approach.

Consultation

12. The Leader of the Council has been consulted and supports the approach proposed to the budget.

Alternative Options

13. There are no alternative options proposed. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the Council must make spending plans affordable by matching these to the estimated funding available over that time.
14. Options to close the funding gap will be considered following the provisional Local Government Finance Settlement expected late December and confirmed late January/early February, and when the budget is set alongside potential increases in Council Tax.

Implementation of Recommended Option

15. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital confirms that

The Council will deliver a balanced budget consistent with legislation that is driven by Council policy and which achieves priority outcomes. To achieve this, the Council must close an estimated funding gap of £49.7m that is identified in the Medium Term Financial Strategy.

The Council's provisional financial settlement will not be known until late December, and this is then be expected to be confirmed in late January/early February, at which point assumptions around the Council's funding envelope will be confirmed.

- b) **Human Resource Implications** – There are no direct HR implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

c) **Property Implications** – There are no direct property implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

16. **Risk Management Implications** – There are no direct risk implications arising from this report. The use of reserves over the period of the MTFS carries a significant risk to the Council's financial sustainability if savings are not identified and delivered. Any implications arising from the budget approach will be the subject of future reports.

17. **Equality and Diversity Implications** – There are no direct equality and diversity implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

18. **Crime and Disorder Implications** – There are no direct crime and disorder implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

19. **Health Implications** – There are no direct health implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

20. **Climate Emergency and Sustainability Implications** – There are no direct climate emergency and sustainability implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

21. **Human Rights Implications** – There are no direct human rights implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

22. **Ward Implications** – All Wards are covered by the approach set out in this report.

23. **Background Information**

- 14 December 2021 - Budget Approach 2022/23 to 2024/25
- 24 October 2023 - Medium Term Financial Strategy 2024/25 – 2028/29

	Date	Meeting	Action
	24 October	Cabinet	<ul style="list-style-type: none"> • Medium Term Financial Strategy 2024/25 to 2028/29 • Budget Approach 2024/25 to 2028/29
	21 November	Cabinet	<ul style="list-style-type: none"> • Budget Consultation on proposals for 2024/25 • Local Council Tax Support Scheme
	19 December	Cabinet	
	Late December		Provisional Local Government Finance Settlement 2024/25
	End of January		NNDR1 confirmation of Retained Business Rates and associated S31 grants
	23 January	Cabinet	<ul style="list-style-type: none"> • Council Tax and Business Rates Base 2024/25
	20 February	Cabinet	<ul style="list-style-type: none"> • Budget and Council Tax 2024/25 • Fees and Charges 2024/25
	22 February	Council	<ul style="list-style-type: none"> • Budget and Council Tax 2024/25 • Fees & Charges 2024/25