

Cabinet

15 January 2025

Medium Term Financial Plan(15) 2025/26 – 2028/29

CORP/R/2025/001



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

Councillor Richard Bell, Deputy Leader and Portfolio Holder for Finance

Councillor Amanda Hopgood, Leader of the Council

Purpose of the Report

- 1 To provide an update on the development of the Council's Medium Term Financial Plan (MTFP (15)), which covers the four-year period from 2025/26 to 2028/29, and the development of the underpinning revenue budget assumptions.
- 2 These assumptions have been updated following more detailed analysis of the announcements made in the Chancellor of the Exchequer's Autumn Budget Statement on 30 October 2024, and the publication of the provisional Local Government Finance Settlement on 18 December 2024.
- 3 Several changes have been made to the Council's financial planning assumptions, which will need to be reflected in the final budget report that will be presented to Cabinet on 12 February 2025, in advance of full County Council considering and approving the Council's budget and MTFP on 19 February 2025, where final decisions will be made. The updated financial planning assumptions are set out in detail in this report.

Executive Summary

- 4 On 4 December 2024, Cabinet considered a report which set out the latest financial forecasts and assumptions underpinning the development of the 2025/26 budget and the Medium-Term Financial Plan (MTFP (15)). The report highlighted the initial assessment of the impact of issues arising from the Chancellor's Autumn Budget Statement, published on 30 October 2024. The December report highlighted that there were significant uncertainties over the Council's funding position for 2025/26, which would only be clear once the provisional Local Government Finance Settlement

was published, and that a number of updated cost assumptions were still being worked on – most significantly the impact of the announced changes in Employer’s National Insurance Contributions (ENICs) on both the Council and on its key supply chain contracts.

- 5 The financial forecasts presented to Cabinet on 4 December 2024 continued to assume an annual 2.99% increase in the Council’s Core Council Tax charge, every year across the MTFP(15) planning period, on the basis that there had been no confirmation of the continuation of the Adult Social Care precept. It also set out a range of new savings proposals, building on the savings that were agreed in February 2024 for the period between 2025/26 to 2027/28.
- 6 The financial forecasts presented to Cabinet on 4 December 2024 indicated a budget deficit / additional savings requirement in 2025/26 and for each year across the MTFP(15) planning period. The position at that time is set out in the table below:

	2025/26	2026/27	2027/28	2028/29	TOTAL
	£’000	£’000	£’000	£’000	£’000
MTFP(15) Forecast Budget Deficit / Savings Requirement – 4 December 2024 – based on a 2.99% increase in Council Tax	25,615	18,912	12,455	12,806	69,788
MTFP(15) Additional New Savings proposals presented on 4 December 2024	(14,654)	(667)	(515)	1	(15,836)
Budget Gap after proposed new additional savings measures MTFP(15)	10,960	18,245	11,940	12,807	53,952

- 7 On 28 November 2024, after the December Cabinet report had been published, the Government published a Local Government Finance Policy Statement, which provided an outline of the Government’s intentions to allocate funding for 2025/26, and their plans for reviewing how local government financial resources are distributed from 2026/27.
- 8 The provisional Local Government Finance Settlement was published on 18 December 2024. The timing of the publication of the settlement is in line with previous years, just before the House of Commons rises for the Christmas Break, which makes financial planning and decision making very challenging. The settlement continues a recent trend, of it just covering a single year period, which makes planning beyond 2025/26 difficult – even more so this year given the proposal to fundamentally change the way funding is allocated from 2026/27 onwards.
- 9 The updated MTFP(15) forecasts set out in this report reflect various amendments arising from the provisional Local Government Finance

Settlement and announcements emerging following the Local Government Finance Policy Statement. The broad implications of these announcements are an increase in the funding available to the Council in 2025/26 and additional council tax raising powers for adult social care, which will largely offset required increases in some of the previous MTFP planning assumptions on expenditure and the new budget commitments set out in this report and reduce (but not eradicate) the call on reserves to balance the budget next year.

- 10 A summary of the key announcements in the provisional Local Government Finance Settlement and their implications on the Council's budget and MTFP(15) planning assumptions are set out below:
- (i) Core Spending Power (CSP) for English local authorities will increase by 6.0% nationally in 2025-26, representing a 3.5% real term increase, or £3.9 billion increase in spending power (inclusive of assumed Council Tax increases). The £3.9 billion increase in spending power includes £2 billion in additional grant for local government. This is £700 million more than was announced at the Autumn Budget Statement and through the Local Government Finance Policy Statement. The increase brings available local government funding to £69 billion. The provisional Local Government Finance Settlement states that it is guaranteed that no council will see a reduction in their Core Spending Power after taking into account any increase in Council Tax levels.
 - (ii) In 2025/26 this Council's Core Spending Power will increase by 8.2% - assuming council tax is increased by 2.99% next year (yielding circa £8.7 million) and the adult social care precept of 2% is levied (yielding circa £5.8 million). It is very important to note that this rise in core spending power in no way meets the increase in spending requirements of the Council – the majority of which relates to the provision of statutory social care services and other inflationary or demand led pressures.
 - (iii) A new Recovery Grant (totalling £600 million nationally) is being made available in 2025/26, to start the process of redistributing resources within the local government finance system to local authorities who are challenged by high levels of deprivation and low council-tax raising ability. This additional funding is to be distributed using the Index of Multiple Deprivation (IMD), 2023 Population data and factors favouring councils who are disadvantaged by their relative council-tax raising ability. Many councils will receive no Recovery Grant whatsoever. County Durham has been allocated £13.851 million (2.3% of the £600 million national pot).
 - (iv) In the Autumn Budget Statement, the Government announced an increase in the Social Care Grant and the provisional Local Government Finance Settlement confirmed that the increase in

funding nationally will be £880 million next year. This is £200 million higher than was announced in the Autumn Statement and in the Policy Statement. More significantly, a proportion of this additional funding (£240 million) has been adjusted and equalised to reflect the varying abilities of councils to generate increased income from the adult social care council tax precept. In 2025/26 the Council will receive an additional £11.979 million, which is nearly £5 million more than what was expected previously. However, this extra funding is still outweighed by the significant additional costs for Adult Social Care and Children's Looked After placements next year, which are outlined in more detail in this report and are estimated to total £34.486 million next year alone.

- (v) A new grant called the Local Authority Better Care Grant has been created, which is essentially a combination of the previous Improved Better Care Fund, and the Adult Social Care Hospital Discharge Fund (£500 million). The total national allocation of this funding is £2.693 billion. The Council will not receive any additional net funding, however there are likely to be less restrictions on the share of this funding which previously related to hospital discharge funding (our share of this in 2024/25 was £7.2 million) and therefore gives more flexibility on how we use this funding to improve outcomes across Adult Social Care going forward.
- (vi) The Market Sustainability and Improvement Fund (MSIF) has been retained and remains cash flat from 2024/25 funding levels at £1.050 billion nationally. The distribution also remains unchanged. In the 4 December 2024 MTFP(15) report, we were assuming the Council would be able to build in an additional £2.3 million of MSIF funding into the base budget next year. The MTFP(15) model has been updated to reflect no additional funding will now be received for this grant.
- (vii) The Government has announced a new specific grant – the Children's Social Care Prevention Grant – which is intended to allow local authorities to identify additional solutions to manage demand and cost pressures in children's social care provision. The grant is £250 million nationally in the provisional settlement and will be uplifted to £263 million in the final settlement. This new grant has been distributed using an interim children's relative needs-based formula. The Council's share of this is grant £2.763 million, which provides welcome additional funding to meet essential additional costs associated with the Durham Care Strategy which is currently being prepared. This funding was not announced in the Autumn Budget Statement, but was subsequently referenced in the Policy Statement, and was therefore not included in the 4 December Cabinet report.

- (viii) Council Tax increases have been confirmed as 2.99% for Core Council Tax (yielding circa £8.7 million), and 2.00% for an ASC Precept in 2025/26 (yielding circa £5.8 million) – totalling a maximum permitted increase of 4.99% in council tax without recourse to holding a local referendum or seeking special dispensation from the Secretary of State to raise council tax above 5%. The 4 December 2024 Cabinet report was predicated on a 2.99% increase in core council tax in 2025/26 and in subsequent years of the MTFP(15) planning period. The Government have indicated that they expect social care authorities to apply the Adult Social Care Precept, and this report sets out the Corporate Director of Resources' intention and recommendation to seek approval by Cabinet and Council in February to increase council tax by 4.99% in 2025/26. The inclusion of the additional 2.00% Adult Social Care Precept would allow the Council to generate an additional £5.8 million of council tax funding to support the balancing of the Council's budget for 2025/26 and reduce the reliance on reserves next year. The Policy Statement and the provisional Local Government Finance Settlement announcements provided no clarity on whether the Adult Social Care precepts would be allowed beyond 2025/26 so the MTFP(15) planning assumptions remain unchanged beyond 2025/26 at this stage (assuming a 2.99% increase in council tax between 2026/27 and 2028/29).
- (ix) The Domestic Abuse Safe Accommodation Grant (£1.216 million in 2024/25, representing the Council's share of the national funding of £160 million) has now been included within Core Spending Power. Previous years allocations to the Council have been adjusted to reflect how this funding will be accounted for. In 2025/26 there will be an increase in this funding of £30 million nationally, which will equate to an additional £0.300 million of funding being allocated to the Council. This funding will be fully committed by the Council to fund related activity undertaken by Adult and Health Services to support victims and survivors of domestic abuse.
- (x) The Government have announced a further and final instalment in 2025/26 of New Homes Bonus. The national allocations are at the same overall level nationally as they were in 2024/25 (£290 million). This has provided the Council with circa £1.5 million of additional New Homes Bonus funding compared to 2024/25 due to the changes in our tax base over the last year relative to other councils. This extra funding was not anticipated in the 4 December 2024 cabinet report, due to uncertainty around the continuance of this funding stream and the fact that the council's tax base relative to other councils' tax base growth was not known.

- (xi) The Government have withdrawn the Rural Services Delivery Grant (of which the Council does not receive any share in 2024/25) and the 'Services' grant from 2025/26. This was announced in the Policy Statement but was not clear in the Autumn Budget Statement. The deletion of this funding will result in a drop in funding to the Council of nearly £0.889 million for the Services Grant in 2025/26.
- (xii) Various specific grants currently received by the Council, have been rolled into the Revenue Support Grant. These grants total £2.5 million and will have a net neutral impact on the Council's funding position as the additional Revenue Support Grant we will receive is equal to the specific grants that have been rolled in. The Council will receive an inflationary uplift for Revenue Support Grant of £0.586 million in 2025/26. The MTFP(15) planning assumptions now include a CPI uplift in the Revenue Support Grant in 2026/27 and for later years. The inflationary uplift for Revenue Support Grant next year has been offset by a comparative reduction in our assumptions for the overall uplift for top-up grant funding and compensatory indexation for Business Rates funding in 2025/26 relating to Business Rates.
- (xiii) The Government has announced funding of £515 million nationally to compensate authorities for the increase in Employer National Insurance Contributions (ENICs) on directly employed staff, but allocations will not be confirmed until the final Local Government Finance Settlement is published in late January / early February 2025. The £515 million national allocation has been determined based on local government's share of the "directly employed staff across the public sector". Government will use each authority's share of Net Current Expenditure (NCE) for 2023/24 for all local authorities to distribute the £515 million. The core data is not available and individual allocations have not been published. The £515 million will also be used to fund fire authorities and combined authorities. The Council's share of this funding is estimated to be £4.744 million, which is £1.256 million less than our assumptions in December, and £3.496 million less than the estimated costs of employer national insurance costs the council will incur next year, so the funding being made available is likely to only cover 57% of the costs we will face next year.
- (xiv) Local authorities have now been individually notified of their Extended Producer Responsibility (EPR) allocations, which are to be used to fund additional expenditure associated with collecting, managing, recycling and disposing of separate streams of household waste. The Council's EPR allocation is £9.8 million. A national summary of the allocations to individual authorities will not be published. This funding is not included in the Council's Core Spending Power allocations. DEFRA have issued some updated guidance which will result in a fundamental and significant change to

our proposals for Food Waste Collection in 2026/27 and will likely result in changes to how other types of household and trade waste are collected. In the latest MTFP (15) model we have built in the £9.8 million of EPR income, and used this to fund new budget commitments for Persistent Organic Pollutants (£0.250 million) and for additional waste disposal costs (£0.500 million) next year with the balance (£9.050 million) expected to be required to fund the required changes to waste collection and recycling arrangements in line with the updated DEFRA guidance.

- (xv) The Council has been notified of additional Homelessness and Rough Sleeping Funding for 2025/26 totalling £1.149 million, increasing the specific grant funding we will receive next year to £4.340 million. This funding will be used on targeted interventions to prevent homelessness, as well as the provision of temporary accommodation to alleviate the significant increase in demand which the Council has seen for this service. The Council's budgeted costs for temporary accommodation have been funded from the additional funding that will be received.

11 A range of previous cost assumptions have been updated since the 4 December 2024 Cabinet Report and this report sets out details of additional budget pressures that will need to be accommodated next year. A broad summary of the updated cost assumptions is outlined below:

- (i) The Council has refreshed and updated the estimates for the full impact of the Employers National Insurance Contribution changes. The full impact of the employer national insurance changes, excluding schools-based staff, is now estimated to be £8.240 million (inclusive of the assumed 3% pay award next year), an increase on previous assumptions of £2.240 million. This increase more accurately reflects the expected impact of the National Insurance increases across all council staff groups, including those staff involved in delivering the capital programme. The costs of the Employers' National Insurance Contribution changes are £3.496 million more than the additional grant funding being provided – with other authorities reporting similar shortfalls in terms of the costs versus grant being provided, which would call into question the overall quantum of funding being made available nationally.
- (ii) A more detailed analysis of the impact of Employer National Insurance increases on adult social care providers has been undertaken, alongside the need to reflect a recent rebound in the level of consumer prices indexation, which will result in higher adult social care costs from 2025/26. These updated assumptions have added an additional £2.322 million in costs over and above the assumptions presented in the 4 December 2024 Cabinet report, with the budget growth for fee uplifts now £16.876 million in 2025/26. The

increase in the 2025/26 budget has also resulted in increases in the forecast additional costs in 2026/27 and beyond.

- (iii) Additional demographic pressure in adult social care have emerged during the second half of 2024/25, relating to an increase in demand for older people's care provision, which has resulted in additional demographic growth provision of £1 million being added into the latest MTFP(15) forecasts for 2025/26.
- (iv) Additional expenditure funded by the additional ring-fenced Domestic Abuse Grant of £0.300 million has been added into 2025/26.
- (v) Looked After Children placement budgets have been uplifted by an additional £2.881 million, to reflect a further rising trend in external residential and residential placements, anticipated increases in the rate of national fostering allowances and the impact of rising Employers National Insurance contribution costs for external residential children's social care providers. The required budget growth in Looked After Children placement costs in 2025/26 is now estimated at £16.610 million.
- (vi) Additional expenditure, funded by the new ring-fenced Children's Social Care Prevention Grant of £2.763 million, has been included in 2025/26. This additional spend will support a number of initiatives to help address rising demand and cost pressures in Children's Social Care costs, as part of the Children's Placement Sufficiency Strategy 2 that will be presented to Cabinet in March 2025.
- (vii) Additional budget provision of £0.375 million has been included for costs associated with Home to School Transport over and above the additional growth outlined for this area in the 4 December 2024 Cabinet report. The additional budget provision is linked to the estimated impact of the Employer National Insurance Contributions that will be passed onto the Council. The budget uplift in 2025/26 has been increased to £2.966 million in total.
- (viii) Additional waste collection and disposal costs of £9.800 million have been added to reflect the additional anticipated costs arising from the new Extended Producer Responsibility Legislation, additional waste disposal inflationary and volume costs which have emerged during 2024/25 and the costs of disposing of furniture which contains Persistent Organic Pollutants.
- (ix) Additional budgetary growth for vehicle fleet fuel costs (£0.300 million) and rising depot repair and operating costs (£0.330 million) have been added to the 2025/26 budget – reflecting overspends in these areas in 2024/25.

- (x) An adjustment has been made to the assumed achievement of an MTFP(14) savings target relating to Clayport Library, with an extra £0.200 million being added in 2025/26 to cater for the continued running costs of this facility next year until the planned review is completed.
- (xi) Additional growth of £0.450 million has been added into 2025/26, reflect the overspending in 2024/25, relating to income generation and operating costs of the transformed leisure centres not been in line with the business case modelling that underpinned these developments. This budgetary growth provision is required in order to be able to set a balanced budget next year.
- (xii) Additional budgetary growth associated with the new homelessness funding is included, with £0.749 million added into the base budget to reflect the estimated additional and new spend required to meet the terms and conditions of this grant. The budget growth is £0.400 million less than the uplift in the grant, which reflects the base budget for Temporary Accommodation, which it is assumed can be funded from the Homelessness and Rough Sleeping Funding for 2025/26.
- (xiii) A new time limited budget growth allocation of £3.000 million has been added in 2025/26, which will be withdrawn in 2028/29, and which reflects the investment needed in the Council's Transformational Change capacity to support the Council to redesign and transform the way it delivers services to modernise provision and to seek to achieve savings and efficiencies over the next three years. It is important to note that transformation initiatives will focus on demand management and limiting budget pressures in areas such as social care, as well as considering opportunities for delivering budget savings through new ways of working and technological advances.
- (xiv) A new additional budget growth allocation of £0.150 million has been added to fund the additional resources required to support the Aykley Heads Joint Venture arrangements over the next ten years.
- (xv) The capital financing budget to support required borrowing to fund the current MTFP(14) Capital Programme commitments has been increased, with a further £1.000 million added to the 2025/26 budget, increasing the MTFP(15) financing budget to £12.014 million. This increase is required as the borrowing rates from the Public Works Loan Board will remain above 5.00% for much of 2025/26 (compared to previous MTFP(15) assumptions which assumed that borrowing rates would drop to 4.5% by 2025/26 – which is now looking increasingly unlikely).

- 12 The updated summary Medium-Term Financial position factoring in the above changes is summarised as follows:

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	TOTAL £'000
MTFP(15) Budget Deficit After MTFP(15) Savings Proposals – 4 December 2025	10,960	18,245	11,940	12,807	53,952
MTFP(15) Budget Deficit After MTFP(15) Savings Proposals – 15 January 2025	3,184	20,079	12,308	10,207	45,778
Change in MTFP(15) Forecasts	(7,776)	1,834	368	(2,600)	(8,174)

- 13 The updated MTFP(15) forecasts assume that the £15.836 million of new savings proposals set out in the 4 December 2024 Cabinet report, which are currently being consulted on, with £14.654 million profiled into 2025/26, are agreed and delivered next year and that the Council agrees to increase the Council Tax by 4.99% next year.
- 14 There remains a budget deficit of £3.184 million next year and a forecast budget deficit / additional savings requirement across the MTFP(15) planning period of £45.778 million which will require further savings to be found to ensure the Council can balance its budget.
- 15 The improved position next year is largely as a result of the inclusion of a 2.0% Adult Social Care precept in 2025/26, which will generate circa £5.8 million of additional Council Tax revenues next year. The balance (£1.976 million) is the difference between the additional costs that have been factored into the forecasts as a result of the updated budget assumptions (£27.861 million) and the additional grant income that is now forecast (£29.837 million) – of which, £15.435 million (52%) is specific grant funding.
- 16 Without the delivery of the £18.043 million of savings that are currently factored into the 2025/26 budget planning (inclusive of the previously agreed savings in MTFP(14)), the Council would be £21.227 million short of balancing its budget next year. This is because the cost pressures that need to be accommodated next year exceed the grant funding we will receive and the additional revenues that can be generated from a 4.99% council tax increase.
- 17 Whilst the £3.184 million budget deficit next year is an improved position when compared to the forecasts set out in the 4 December 2024 report, there remains a significant concern over the budget deficit in 2026/27 of £20.078 million, which will create a cumulative gap of £23.263 million once the 2025/26 shortfall is carried over. Achieving savings of this scale will require the implementation of a series of reviews and a corporate

transformation programme. Inevitably there will need to be some fundamental changes to the services the Council provides given the savings the council has already delivered since 2011/12 which total £270 million.

- 18 This position could change depending on the outcome and timing of the Government's commitment to implement a Comprehensive Spending Review and Fair Funding Formula reforms in local government from April 2026. Whilst the formula funding changes being implemented next year are most welcome (with regards to the distribution of the additional funding being made available), as is Government's stated commitments to this being the first step in redistributing funding on a more equitable basis (by placing more emphasis on deprivation and council tax raising capacity), the impact of this and how this would be implemented are unclear at this stage.
- 19 There has been significant concern expressed in some parts of the sector who have been more disadvantaged by the changes being implemented in 2025/26, and there is likely to be significant lobbying from some representative bodies to try and reverse this policy position and ensure the pace of change and transitional protection is protracted. It cannot therefore be assumed at this stage that the Council's underlying funding position will radically improve in 2026/27, and prudent financial planning for further savings to the scale set out in this report needs to continue.
- 20 The savings proposals as set out in the Cabinet Report on 4 December 2024 continue to be consulted on and the outcome of that consultation will be set out in the February budget reports, where decisions on whether to propose the savings for adoption as part of the budget report to Council on 19 February 2025 will be taken. The updated MTFP planning assumptions set out in this report assume that the Council will be asked to approve a 4.99% rise in Council Tax for 2025/26, in order to support the balancing of the 2025/26 budget.
- 21 The updated MTFP(15) financial forecasts are attached at Appendix 2 and the report contains an explanation of the underpinning financial planning assumptions that support these financial forecasts and the various changes to the assumptions compared to the previous Cabinet report on 4 December 2024 (which are summarised in Appendix 3).
- 22 Alongside the Provisional Local Government Finance Settlement announcements on 18 December 2024, the Government published a consultation document on the Fair Funding Reforms for 2026/27 onwards. The consultation runs to 12 February 2025, and the Council will provide a robust response to this consultation and will participate on any collective regional response that is developed. The tenure of the Council's response will be to support the policy objectives as currently articulated with regards to addressing the inequities in the current system caused by council tax raising capacity, the lack of a business rates reset and the need to properly

reflect relative needs and local authority cost drivers in the formula and funding allocations.

Recommendations

23 Cabinet is asked to:

- (a) note the content of the report and the updated 2025/26 budget and MTFP(15) budget planning assumptions / forecasts, which factor in the impact of the Provisional Local Government Finance Settlement published on 18 December 2024.
- (b) agree that the updated 2025/26 budget planning is predicated on a 2.99% increase in council tax and a 2% increase in the Adult Social Care precept, with a 2.99% increase expected in each year thereafter.
- (c) note that the updated financial position assumes the implementation of planned savings totalling £18.043 million next year and £23.163 million across the four years of the MTFP(15) planning period.
- (d) note that there is a forecast budget deficit of £3.184 million in 2025/26 that will require the use of reserves to balance the budget in 2025/26.
- (e) note that the MTFP deficit / additional savings requirement across the MTFP(15) planning period is now £45.778 million.
- (f) note the commencement of a government consultation on the funding reforms in 2026/27, which was published on 18 December 2024, and closes on 12 February 2025, and that the Council will provide a response to this consultation and will participate on any collective regional response.

Background

- 24 On 4 December 2024, Cabinet considered a report which set out the latest financial forecasts and assumptions underpinning the development of the 2025/26 budget and the Medium-Term Financial Plan (MTFP (15)).
- 25 The financial forecasts presented to Cabinet in December indicated a budget deficit / additional savings requirement in 2025/26 and across each year across the MTFP(15) planning period. The position at that time set out in the Table below:

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	TOTAL £'000
MTFP(15) Forecast Budget Deficit / Savings Requirement – 4 December 2024 – based on a 2.99% increase in Council Tax	25,615	18,912	12,455	12,806	69,788
MTFP(15) Additional New Savings proposals presented on 4 December 2024	(14,654)	(667)	(515)	1	(15,836)
Budget Gap after proposed new additional savings measures MTFP(15)	10,960	18,245	11,940	12,807	53,952

- 26 The December report highlighted that there were significant uncertainties over the Council's funding position next year, which would only be clear once the provisional Local Government Finance Settlement was published, and that a number of updated cost assumptions were still being worked on – most significantly the impact of the announced changes in Employer's National Insurance Contributions on both the Council and on its key supply chain contracts.
- 27 The Government published the Provisional Local Government Financial Settlement on 18 December 2024. In advance of this, a Local Government Finance Policy Statement was published (on 28 November 2024), which set out the principles for the distribution methodology for the 2025/26 settlement.
- 28 The Local Government finance settlement is once again a one-year settlement only. However, the Government have committed to a Comprehensive Spending Review, a reform of local government funding allocations and to publish a multi-year settlement from 2026/27. This will mean that there will be significant uncertainty throughout the next 12 months as we develop the 2026/27 budget and MTFP(16) forecasts in terms of the timing and scale of any changes.
- 29 The Council will therefore need to consider a strategy for managing a potential significant financial gap in 2026/27 and beyond.

Overview of Policy Statement - 28 November 2024

- 30 On 30 October 2024, as part of the Autumn Budget Statement, the Government set out an intention to target the additional funding it was making available in 2025/26 towards more deprived authorities and those authorities with council tax raising capacity. This intention was confirmed in the Policy Statement and has been followed through to the Provisional Local Government Finance Settlement.
- 31 The decisions made around the basis of the distribution of funding for 2025/26 would seem to indicate the intentions of the Government in terms of longer-term reforms of funding from 2026/27 and into later years, though the pace of change is far from certain at this stage.
- 32 The Autumn Budget Statement provided more funding for local government. Additional grant funding of £1.3 billion was announced, alongside other increases of funding for local government which are both inside and outside of the settlement and will therefore have varying levels of ring-fencing attached for the grant requirements.
- 33 The Policy Statement made some fairly radical, short-term changes to local government funding, by abolishing or reducing some existing grants, in order to redistribute funding to more deprived councils - those with low tax bases and low tax raising capacity.
- 34 The Provisional Settlement has set out how over £2 billion in additional grant for local government in 2025-26 will be allocated, representing a 6% increase in core spending power (including Council Tax). This is £700m more than was announced at the Autumn Budget Statement and through the Local Government Finance Policy Statement. The increase brings available local government funding to £69 billion next year.
- 35 The additional funding relates to a new grant titled the "Recovery Grant" (£600 million), additional social care grant funding to add the current allocations (£880 million) and a Children's Services Preventative Grant (£250 million). These grants are funded from the £1.3 billion announced in the Autumn Budget, plus savings in other grants such as: the abolition of the Rural Services Delivery Grant (£110 million) and the abolition of the Services Grant (£87 million), and the scaling back of a funding guarantee made to all local authorities known as the Minimum Funding Guarantee.
- 36 The Minimum Funding Guarantee is the threshold floor for funding changes between 2024/25 and 2025/26 and has been set at 0% - resulting in a drop in funding nationally for this guarantee of £148 million. These changes mean rural authorities will tend to lose funding in this settlement, particularly where a local authority is a recipient of the Rural Services Delivery Grant, and some authorities will receive only a limited increase in Core Spending Power and that increase will be largely based on them increasing their Council Tax.

- 37 The Policy Statement made clear that the Government intended “to target additional funding towards places that need it the most.” Deprivation and council tax raising abilities have been used to do this.
- 38 When the 4 December 2024 Cabinet report was prepared, it was unclear what the methodology would be and whether the Council would be in scope to receive any additional funding.
- 39 In announcing the new “Recovery Grant” for 2025/26, the Government have stated that it has been designed to be targeted towards authorities with the highest levels of deprivation and would “go to places where (weighted by population) deprivation outweighs the council tax raising ability of a council to grow its tax base.”
- 40 The additional £880 million of Social Care Grant funding is to be used to fund both children and adult social care pressures.
- 41 A new “Children’s Services Prevention Grant” has been introduced for 2025/26, with a national funding allocation of £250 million. The intention of this grant is “to lay the groundwork for children’s social care reform” and will nearly double funding for preventative children’s social care services.
- 42 The Government indicated that more fundamental plans for reform would be set out in 2025. The Children’s Services Prevention Grant is to be distributed on a new children’s needs-based formula. The new children’s grant is to be used to supplement the existing Children and Families grant (which will amalgamate a number of existing grants held within CYPS).
- 43 The core Council Tax referendum limits for increasing council tax have remained unchanged at 2.99% per annum. Social Care authorities have been permitted (and are assumed to implement) a 2.00% Adult Social Care Precept increase in 2025/26. This means that upper tier social care authorities are expected to increase their council tax charges by 4.99% in 2025/26.
- 44 The funding under the Settlement Funding Assessment (SFA), which is primarily made up of Revenue Support Grant and retained Business Rates funding will rise in line with September’s Consumer Price Index (CPI) rate of 1.7%. The inflation rate was a noticeable low-point in the rate of CPI, after 3 years of high rates of inflation, which has proven to be only a temporary low-point, with inflation having subsequently increased to 2.6% within two months.
- 45 The Policy Statement confirmed that the New Homes Bonus (NHB) would continue for one final year into 2025/26. The national funding allocation for this is £270 million and allocations are based on the level of council tax base growth between October 2023 and October 2024.

- 46 The Council has argued that New Homes Bonus should be abolished because it doubly rewards councils with high council tax base growth, and conversely penalises councils with low tax base growth.
- 47 The Policy Statement indicated that various specific grants would be rolled into Revenue Support Grant from 2025/26 – with no change in the original distribution of these specific grants next year. This signals a desire from the Government to develop a simpler funding system with fewer grants. The Council will not receive any net reduction in funding as a result of rolling in of specific grants into RSG. The grants to be rolled into RSG include:
- (i) Extended Rights for Free Home to School Transport Grant.
 - (ii) Domestic Abuse Duty Safe Accommodation Grant.
 - (iii) Electoral Integrity Programme New Burdens Grant.
 - (iv) Tenant Satisfaction Measures New Burdens Grant.
 - (v) Transparency Code New Burdens Grant.
- 48 The Policy Statement outlined that there would be funding made available in the Local Government Finance Settlement to offset the Employer National Insurance increases for directly employed staffing costs incurred by a local authority, but no additional funding would be provided for supply chain costs.

Overview of Provisional Local Government Finance Settlement – 18 December 2024

- 49 The Provisional Local Government Finance Settlement has provided much needed clarity on the funding position of the Council next year and has delivered an 8.2% increase in the Core Spending Power (CSP) for the Council – which in part is based on the assumption that the Council exercises its ability to raise Council Tax by 4.99% next year.
- 50 This 8.2% increase in CSP compares favourably to the English average increase of 6.0% and is a larger increase in funding that the Council expected to receive when it produced its previous Cabinet reports on MTFP (15) on 18 September 2024 and 4 December 2024.
- 51 Further increases in funding have been announced in the Provisional Local Government Finance Settlement (including an additional £200m for social care) that was not announced in the Autumn Budget Statement or in the Policy Statement.
- 52 The settlement represents the sixth successive real-terms increase in Core Spending Power (CSP) for the Council, although it must be stressed that these funding increases fail to keep pace with the Council's rising spending

pressures – particularly the costs associated with children’s and adult social care placements.

- 53 Despite the 8.2% increase in CSP next year, the Council still lags well behind in terms of CSP per Dwelling compared to other councils. Durham County Council’s CSP per dwelling stands at £2,562 per dwelling (based on a core spending power of £653.4 million for 2025/26 and 255,046 dwellings in the County). This compares to the English Average of £2,683 per dwelling. If the Council received the equivalent of the English Average Core Spending power per dwelling, an additional £121 per dwelling, the Council would receive around an additional £31 million in funding next year. Arguably, the Council’s CSP per dwelling should be well above average given the demographic demands we face and the cost of delivering services in a county the size of Durham.
- 54 As part of the Provisional Local Government Finance Settlement the Government have sought to direct additional resources towards high-need, low-taxbase authorities in recognition that these authorities have had the largest cuts in Core Spending Power since 2010/11.
- 55 The Government have indicated that it wants to “lay the foundations for fundamental reform by allocating new funding through improved formulae in 2025-26” and have stated that the changes next year are the “first step” in rebalancing the local government funding arrangements. This is to be welcomed; however, it is important that we exercise caution in terms of expectations for 2026/27 at this stage.
- 56 Whilst the Government has acted quickly and decisively in terms of allocating the additional funding being made available through formula changes in 2025/26 that has benefitted our council, implementing more fundamental changes to the base formula allocations will be more problematic to deliver and will undoubtedly be challenged. Changes from 2026/27 may produce a less radical reallocation of funding than the Council requires, and such changes may be brought in over an extended timeframe of more than one year.
- 57 An overview of the key announcements and updates to our 2025/26 budget and MTFP(15) planning assumptions is set out below:
- (i) **Recovery Grant:** The Recovery Grant (£600 million) targets funding very clearly towards higher-need (those with higher levels of deprivation), low-taxbase authorities – mainly unitary and metropolitan councils across England. The Council’s share of this funding is £13.851 million, which represents a 2.3% share of the national allocation. The grant is a general grant, with no specific terms or conditions attached to it. It has been provided to “mitigate some of the structural shortfalls in underlying funding received by the Council in the last 14 years.”

In reality, the grant will help meet the high levels of cost pressures (due to demand and price) for children's and adult social care next year which were outlined in the two previous reports to Cabinet - on 19 September and 4 December 2024.

The introduction of the Recovery Grant is a reflection of the arguments put forward by the Council, with our geographic neighbours (in the Northeast) and statistical neighbours (SIGOMA), around the ingrained inequities in the local government funding system.

This grant, and its targeted method of distribution represents an encouraging step in the Government's commitments to make local government funding fairer and is to be welcomed. However, there has been some significant counterchallenge to this funding distribution from a number of more affluent councils, including the majority of county councils and district councils.

- (ii) **Social Care Grant:** There will be an increase of £880 million in the Social Care Grant in 2025-26, which is greater than the £600 million that was announced in the Autumn Budget Statement.

The Government have broadly continued the methodology that was used by the previous government in allocating this funding and the Council has received an additional £11.979 million, which is £4.979 million more than what was built into the forecasts presented to Cabinet on 4 December 2024, due to an increased quantum of funding being allocated and adjustments to the methodology for council tax equalisation.

Whilst this increase in funding is welcomed, it still falls well short of the budget pressures linked to Adult Social Care and Childrens Looked After placements in 2025/26, which total £34.486 million now – meaning that the Social Care Grant only covers 35% of the social care cost pressures we face in 2025/26.

- (iii) **Local Authority Better Care Grant:** A new grant called the Local Authority Better Care Grant has been created, but it is essentially a combination of the current Improved Better Care Fund (£2.140 billion), and the Adult Social Care Hospital Discharge Fund (£500 million), which has been withdrawn and the funding rolled into it.

The new Local Authority Better Care Grant national total is £2.640 billion, but the Council will not receive any additional net funding from this change, nor will the Council lose out either.

More clarity is required on the specific terms and conditions of the new grant, for which the Council's allocation for next year is £38.079 million, with £7.212 million of this being the funding transferred across from the Adult Social Care Discharge Fund, although it is

hoped that a reasonable level of flexibility in use is provided going forward so that we can continue to offset our Adult Social Care and integrated team costs and initiatives with it.

- (iv) **Market Sustainability and Improvement Fund:** This funding allocation will be cash-flat from the current 2024/25 funding levels at £1.050 billion nationally and the distribution methodology remains unchanged.

The Council will therefore not receive any additional net funding, and our funding assumptions have been modified accordingly.

In the 4 December 2024 report we had assumed that the Council would be able to add an extra £2.3 million of MSIF funding into the base budget next year, however due to the cash-flat nature of the funding, we need to charge our assumptions, and this therefore partially offsets the improved uplift position in the Social Care grant referenced above.

- (v) **Children Social Care Prevention Grant:** this new additional funding has been distributed using an interim children's relative needs-based formula. The national funding allocation is £250 million in the provisional settlement announced and will be uplifted to £263 million in the final settlement.

The Council's share of this is new funding is £2.763 million, which we will need to use to fund additional costs associated with the workstreams associated with Durham Cares Strategy – the Children's Placement Sufficiency Strategy 2 in 2025/26 – to drive various improved outcomes and cost avoidance measures to ensure the Council's spend on children in care stays within existing MTFP Budgetary Growth allocations.

This funding was not announced in the Autumn Budget Statement but was referenced in the Policy Statement so was not included in the 4 December 2024 Cabinet report. There is a net nil impact on the Council's budget as the new grant funding is offset by new spending commitments within the 2025/26 budget.

- (vi) **Domestic Abuse Safe Accommodation Grant:** This is a specific grant that is currently allocated to Adult and Health Services but has been augmented and transferred into Revenue Support Grant from 2025/26.

The national funding allocation is £160 million and previous years are adjusted for in the transfer, with a £30 million increase in national funding in 2025/26.

The Council currently receives £1.216 million of Domestic Abuse Safe Accommodation Grant specific grant, and this will increase to

£1.516 million next year. The extra funding for the Council is £0.300 million, and this has been factored into the MTFP(15) assumptions and offset by increasing the expenditure budgets associated with this support in Adult and Health Services.

- (vii) **New Homes Bonus:** This funding mechanism continues for one final year in 2025/26 whilst the Comprehensive Spending Review and Fair Funding Review are completed. The national allocations are at the same overall level as they are in 2024/25 (£290 million) and the current distribution methodology has been retained next year.

There is £1.5 million of additional new homes bonus funding that can be factored into the 2025/26 budget compared to 2024/25, due to an increase in our tax base over the last year.

When the December Cabinet report was prepared it was not certain that the New Homes Bonus regime would be retained next year so we did not build in any additional funding into the budget forecasts for 2025/26.

- (viii) **Services Grant:** this grant has been discontinued from 2025/26 – as was announced in the Policy Statement, but which was not clear in the Autumn Budget Statement. As a consequence, the Council has seen a reduction in funding of nearly £0.889 million for the Services Grant.

- (ix) **Specific Grants Rolled into Revenue Support Grant:** In addition to the Domestic Abuse Safe Accommodation Grant, four other current Specific Grants: Election Integrity Programme New Burdens Grant, Extended Rights for Home to School Transport Grant, Tenant Satisfaction Measures Grant, and the Transparency Code Grant - have been rolled into Revenue Support Grant, and previous years' allocations have been adjusted for notional inflation.

The impact for the Council is net nil, although the grants will now sit outside of the service budgets and in Revenue Support Grant and be held corporately. These grants, which total £2.505 million are itemised as follows:

Grant	£'m
Transparency Code Grant	0.013
Electoral Integrity Grant	0.040
Tenant Satisfaction Measures Grant	0.003
Extended Rights for Home to School Transport Grant	2.450
Total	2.505

- (x) **Revenue Support Grant Core Allocations:** The MTFP(15) financial forecasts have been updated for a 1.7% uplift in the carried over 2024/25 Revenue Support Grant allocations, which creates a benefit for the Council of £0.586 million.

In the latest MTFP(15) forecasts CPI linked annual uplifts in core RSG allocations have been included. The rates of CPI inflation used in years two to four are in line with the forecasts set out in the Autumn Budget Statement by the Office of the Budget Responsibility.

Making this assumption has allowed additional funding totalling £2.741 million to be included to improve the MTFP(15) position: - £0.995 million in 2026/27, £0.903 million in 2027/28 and £0.843 million in 2028/29.

These notional uplifts for Revenue Support Grant have however been offset by a reduction in the forecast uplifts for top-up grant funding and compensatory indexation for Business Rates funding in 2025/26 and beyond relating to Business Rates. The consolidated position of Business Rates and the funding associated with reliefs and indexations will be finalised as part of an exercise in January 2025, which will be reported in the February Cabinet Budget-setting report.

- (xi) **Employer National Insurance Contributions Funding:** Funding of £515 million for the increase in direct Employer National Insurance Contributions (ENICs) costs will be made available to local government, but the individual local authority allocations will not be confirmed until the final settlement is published.

There are concerns and criticisms in the sector that this funding will be insufficient to meet the costs that the sector will face for impact of changes to ENICs – which is counter to the announcements at the time of the Autumn Budget Statement.

The Government have stated that the funding has been determined based on local government's share of the "directly employed staff across the public sector" though there is no detail yet on how this has been determined.

It has been announced that government will use each authority's share of Net Current Expenditure (NCE) for 2023/24 to distribute the £515 million, however, the core data is not available and individual allocations have not been published.

The £515 million will also be used to fund fire authorities and combined authority national insurance staffing costs, which will further dilute the funding available for local authorities.

Based on the data available, and analysed by our funding advisers, it is estimated the Council will receive £4.744 million of grant funding, which is £1.256 million less than our initial assumptions.

(xii) **Homelessness Prevention Grant and Rough Sleeping**

Prevention Grant: An increase in this grant was announced in the Autumn Budget Statement, with local authority allocations published alongside the Provisional Local Government Finance Settlement.

The 2024/25 baseline allocations have been increased by £233 million nationally to circa £1 billion next year.

The Council currently receives £3.191 million of specific grant funding for Homelessness Prevention and Rough Sleeping, and in 2025/26 this will increase to £4.340 million – an additional allocation of £1.149 million.

The increase in grant is to be welcomed, as it will be used to continue to provide targeted funding to address challenges around homelessness and the provision of temporary accommodation.

(xiii) **Extended Producer Responsibility (EPR) Grant:** As part of the Autumn Statement, the Government announced that £1.1 billion of additional funding for additional costs of waste collection and disposal to be incurred by local authorities from 2025.

On 28 November 2024, the Council was notified of its allocation for this new EPR grant in 2025/26 – which totals £9.800 million.

A national summary of the allocations to individual local authorities will not be published. These allocations are not taken into account in the Core Spending Power allocations. Furthermore, there remains a high level of uncertainty about the level and source of funding beyond 2025/26, which makes medium-term financial planning for this funding, and the associated additional cost burdens, more difficult to plan for.

DEFRA, who have issued new guidance on the expectations of waste collection and disposal authorities with regards to dry recycling and weekly food waste collection requirements, have advised that they expect the EPR grant to reduce over time as producers reduce packaging in the waste stream.

(xiv) **Council Tax:** The Government has confirmed that social care authorities can raise council tax without holding a local referendum by a Core Council Tax increase of 2.99% and an adult social care precept of 2% - a combined increase in 2025/26 of 4.99%.

The previous MTFP(15) reports set out assumptions for a 2.99% increase in each of the next four years.

The Government have included an assumption that social care authorities achieve their core spending power increases by raising council tax by 4.99% in total next year.

By applying the adult social care precept next year, an additional £5.8 million of additional council tax income could be secured, which would go a considerable way to supporting the balancing of the 2025/26 budget.

Officers understand that all the other eleven North East authorities will also be seeking their elected members to approve a 4.99% rise next year.

Review of Other Financial Forecasts in MTFP(15)

58 Several changes have been made to the Council's financial planning assumptions on increases in its cost base that need to be accommodated in the 2025/26 budget. A range of new budget pressures have also emerged that needs to be factored into the budget. The updated assumptions are explained below:

- (i) **Employer National Insurance Contributions (ENICs):** The 4 December 2024 Cabinet report included an initial assessment of the impact of the changes in ENICs, with an assumed budget pressure of £6 million referenced in the previous report.

Officers have had chance to consider the impacts more closely, particularly with regards to the teams that are funded by specific grants and those who working in trading service accounts and support the capital programme.

The financial forecasts in this report include additional provision for ENICs, covering all Council employees, excluding those working in maintained schools.

An additional £2.240 million has been included in the latest estimates to reflect the estimated cost impacts next year, bringing the total budget pressure to £8.240 million in 2025/26.

As referenced earlier, the Council's share of ENICs grant funding is estimated to be £4.744 million, which is £3.496 million less than the estimated costs of our employer national insurance costs next year. The funding being made available is likely to only cover 57% of the costs we will face next year.

- (ii) **Adult Social Care Costs:** Additional growth of £2.322 million has been added in 2025/26, and £2.750 million across the four years of MTFP(15), to reflect an updated assessment of the contract increases that will be necessary to adult social care providers to

compensate them for changes to employer national insurance rates and national living wage.

The latest estimates also factor in an updated assessment of the CPI rate that will apply to these contracts. CPI increased to 2.6% in November 2024, and this will have a direct bearing on the non-staffing inflationary costs of adult social care providers, particularly in residential care home settings.

The revised additional growth in adult social care budgets now stands at £16.876 million in 2025/26 and £42.268 million in total across the four-year period, with an assumption of a 4% increase in NLW being applied in each year from 2026/27 onwards and CPI assumptions in line with the OBR forecasts, as set out in the Autumn Budget Statement.

- (iii) **Adult Social Care demographic growth:** £1.0 million has been added in 2025/26 to reflect an increase in the demand for services by Older People in recent months, which is expected to continue across the four-year period of MTFP (15), for which a £4 million allocation is now in place across the four-year period.
- (iv) **Domestic Abuse and Safe Accommodation Budgets:** The £0.300 million of additional funding announced by the Government in the settlement on 18 December 2024 has been included and will be added to the current budget held in Adult and Health Services (2024/25 budget of £1.216 million).
- (v) **Children Looked After Placement Costs and Fostering Allowances:** The budget growth provided for previously has been uplifted by a further £2.881 million, to reflect the impact of ENICs costs on external residential placement providers, the announced 3.55% increase in the national fostering allowance next year and provision for a further uplift in growth provision to reflect an increase in the number and cost of external residential care placements compared to the previous estimates, which will increase the forecast in-year overspend position this year.

The budgetary growth provision in children's social care costs is now set at £16.610 million in 2025/26 and £26.738 million across the four-year period of MTFP(15).

- (vi) **Children's Placements Sufficiency Strategy and Prevention Initiatives:** A new growth item has been added totalling £2.763 million, which will be directly funded from the Children's Social Care Prevention Grant (of an equivalent funding amount).

As part of the second phase of work to address some of the issues relating to the escalating costs of Children's Social Care, a number of workstreams are being developed which will seek to tackle these

issues, including further investment in internal residential care placements, an expansion of our Edge of Care Provision to provide intensive support to children (and their families) who are at risk of being placed in care, more targeted measures to address the cost challenges in external residential placements and a further series of initiatives to bolster our provision of fostering care to support more suitable family-based placements.

An updated Children Looked After Sufficiency and Commissioning Strategy Mark 2 will be presented to Cabinet in March 2025.

- (vii) **Home to School Transport:** An additional budget allocation of £0.375 million has been set aside to reflect revised assumptions on the impact of ENICs on contractors, particularly in relation to the significant reduction in the threshold at which point an employer pays national insurance.

This additional budget provision increases the budgetary growth allocation in home to school transport to £2.966 million in 2025/26 and £8.191 million across the four-year period of MTFP(15).

- (viii) **Waste Management:** A new and additional budget allocation of £0.250 million has been set aside to cover the disposal costs relating to Persistent Organic Pollutants (POPs), which are poisonous chemical substances which break down slowly and get into food chains as a result. POPs are used in various products including pesticides and industrial chemicals. Whilst the manufacture, sale and use of the products containing POPs is now banned, the Council now faces rising disposal costs for upholstered seating or mixed waste containing POPs, which must be disposed of through incineration and collected separately from April 2025.

Additional budget provision for waste disposal is required to offset forecast additional cost pressures of £0.500 million. This has been included to reflect higher than expected cost pressures in this service due to increases in the tonnages being collected.

A budget allocation of £9.050 million has been set aside for expected disposal costs associated with the specific grant awarded for Extended Producer Responsibility Grant. Work is underway to better understand the recent DEFRA guidance, which will result in a fundamental and significant change to our proposals for Food Waste Collection in 2026/27 and will likely result in changes to how we collect other types of households and trade waste.

- (ix) **Highways and Fleet:** Following further assessment of the underlying budget pressures as outlined in the 2024/25 Quarter 1 and Quarter 2 Forecast of Outturn reports to Cabinet, additional budget provision has been added to reflect overspends on fuel and depot repair and running costs in Neighbourhoods and Climate

Change of £0.300 million and £0.330 million respectively. Inclusion of these items will ensure we will set a balanced budget next year as these cost pressures are anticipated to continue into 2025/26.

- (x) **Clayport Library:** An adjustment has been made to the assumed achievement of an MTFP(14) savings target relating to Clayport Library to enable the proposed changes to the service operating model to be implemented. The £0.200 million adjustment in 2025/26 is reversed back out in 2026/27 once the saving has been delivered.
- (xi) **Leisure Centre Income and operating costs:** Additional budgetary growth in 2025/26 has been added for Leisure Services, totalling £0.450 million. This reflects continued overspends at the two completed leisure transformation sites (Abbey and Peterlee) and the three sites expected to complete in year (Spennymoor, Louisa and Teesdale) due to operating costs and income generation not being in line with the levels anticipated / forecast as part of the Leisure Transformation programme – producing budget pressures as outlined in the 2024/25 Quarter 1 and Quarter 2 Forecast of Outturn reports to Cabinet. Inclusion of these items will ensure we will set a balanced budget next year as these cost pressures are anticipated to continue into 2025/26.
- (xii) **Homelessness Prevention and Temporary Accommodation:** Additional budgetary growth of £0.749 million has been set aside to fund additional temporary housing provision and homelessness prevention initiatives, which can be funded from the additional homelessness and rough sleeping funding of £1.149 million. The councils budgeted costs for temporary accommodation have been allocated against the additional funding that will be received, which is why the budget growth is c. £0.400 million less than the increase in grant funding being provided.
- (xiii) **Aykley Heads Joint Venture costs:** A budget allocation of £0.150 million has been set aside to reflect the need to provide staffing resource to oversee and support the Aykley Head Joint Venture from 2025/26. The formation of this company will be subject to approval by Cabinet on 12 February 2025 and the budget provision included in 2025/26 is in line with the commitments set out in the September 2023 Cabinet report.
- (xiv) **Transformation Programme Resource and Capacity:** The updated financial model includes a £3 million time-limited budgetary growth allocation for Transformation activity and support in 2025/26. This budget provision will fund the additional staff and digital investment to deliver the change that will be necessary to unlock further efficiencies and budget savings. The additional budget provision is subsequently withdrawn in 2028/29.

This funding, and the capacity that it will provide, will be critical to resourcing what will be a wide-ranging and extensive transformational review of the Council's service provision and ways of working. This level of investment is in line with the levels of budgetary investment of other neighbouring authorities, who have transformation programmes in place.

A full costed plan of the Transformational Activities will be produced in due course. Delivering an ambitious Transformation Programme requires investment in new technology and working practices and needs up-front investment to enable the delivery of longer-term improvements and associated management of demand and future savings. The Council is working in partnership with the Local Government Association on this work to provide assurance about the level of investment it is setting aside as part of finalising its plans, which will inform MTFP savings from 2026/27 onwards.

- (xv) **Capital Financing Costs:** The budget provision to meet existing MTFP(14) capital programme commitments for new prudential borrowing have needed to be increased, with an additional budget uplift of £1 million included in the revised forecasts for interest rates and costs of borrowing.

At its meeting on 19 December 2024, the Bank of England held the bank base rate at 4.75% and in doing so it was stated that interest rates are expected to stay higher for much longer than was anticipated just a few months ago.

Treasury Management Advisers have indicated that 40-year PWLB rates are likely to stay above 5% for the duration of 2025/26.

The Council has been pursuing a strategy of running down its cash balances whilst interest have been high and "internally borrowing" to fund its capital expenditure commitments rather than take on new borrowing at this time.

The Council tends to borrow from the Public Works Loan Board. The latest rates for borrowing from PWLB for a forty-year period are around 5.8%. The Council had set its budget assumptions for 2025/26 based on 40-year PWLB rates falling to around 4.5% by Spring 2025, and reflecting the fact our existing capital programme is going to require the Council to borrow £350 million across the next 18 months to two years.

The Council will seek to manage its Capital Financing costs by continuing to run down its cash balances as much as possible, delaying new borrowing for as long as possible and looking at options to borrow over a shorter period, in lieu of interest rates dropping.

Despite adopting this strategy, it is considered prudent to increase the Capital Financing Cost Budget by £1 million to reflect the likelihood that borrowing costs will stay relatively high and the Council will inevitably have to take out loans at a higher coupon rate than is provided for in the current budget provision. Borrowing costs linked to MTFP(15) and MTFP(16) new loans is retained at previous assumptions at this stage.

Summary

59 The updated summary Medium-Term Financial position compared to the previous forecast position is as follows:

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	TOTAL £'000
MTFP(15) Budget Deficit After MTFP(15) Savings Proposals – 4 December 2025	10,960	18,245	11,940	12,807	53,952
MTFP(15) Budget Deficit After MTFP(15) Savings Proposals – 15 January 2025	3,184	20,079	12,308	10,207	45,778
Change in MTFP(15) Forecasts	(7,776)	1,834	368	(2,600)	(8,174)

60 The revised assumptions detailed in this report which are detailed in Appendix 2, can be summarised as follows:

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Pay Inflation	8,850	7,458	6,047	6,147	28,502
General Inflationary Pressures	2,437	3,857	3,527	3,360	13,181
Employer National Insurance – All Staff	8,240				8,240
Adult Social Care Contracts	16,876	8,567	8,546	8,279	42,268
Demographic Growth - AHS	1,000				1,000
Domestic Abuse and Safe Accommodation	300				300
Children's Social Care Placements	16,610	5,798	2,629	1,701	26,738
Children's Care Placement Sufficiency Strategy & Prevention	2,763				2,763
Home to School Transport	2,966	1,555	1,636	2,034	8,191
Investment in EHCP Capacity	1,127				1,127
Investment in DLI Reopening	300				300

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Investment in Aykley Heads Strategic Capacity	150				150
Waste Collection & Disposal Costs	9,800	1,600		3,000	14,400
Housing Benefit Subsidy Loss, temporary accommodation and new homelessness-related spend	1,279	(280)			999
Electrification of Vehicle Fleet	102	358	988	211	1,659
Transformation Programme Resourcing	3,000			(3,000)	-
Capital Financing / TM Issues	9,590	8,187	3,761	1,978	23,516
Pension Fund Revaluation		1,000			1,000
Other	440	1,058	1,249	1,340	4,087
Total Budget Pressures	85,830	39,158	28,383	25,050	178,421
C. Tax Increases / Taxbase Growth	(14,400)	(8,800)	(9,100)	(9,450)	(41,750)
C. Tax Second Homes Premium	(650)				(650)
B. Rates Increases / Taxbase Growth	(4,448)	(2,250)	(2,000)	(2,000)	(10,698)
Govt. Grant – RSG Uplift / Grants Rolled into RSG	(3,092)	(995)	(903)	(843)	(5,834)
Specific Grants rolled into RSG	2,506				2,506
Additional domestic abuse and safe accommodation grant	(300)				(300)
Govt. Grant - Social Care Grant	(11,979)				(11,979)
Govt. Grant - Extended Producer Responsibility Funding	(9,800)				(9,800)
Govt. Grant – ENICs (DCC Directly Employed Staff)	(4,744)				(4,744)
Govt. Grant - Recovery Grant	(13,851)				(13,851)
Govt. Grant - Children social care prevention grant	(2,763)				(2,763)
Govt. Grant – CPI Top Up (SFA)	(2,138)	(3,283)	(2,905)	(2,652)	(10,978)
New Homes Bonus Grant	(1,495)				(1,495)
Govt. Grant - Service Grant	889				889
Govt. Grant - Homelessness and Temporary Accommodation Grant	(1,149)				(1,149)
Govt. Grant – Other Specific Grants	(909)	100	100	100	(609)

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Use of Reserves to Balance 2024/25	3,720				3,720
MTFP(14) Savings	(3,389)	(3,184)	(754)		(7,327)
New MTFP(15) Savings Proposals	(14,655)	(667)	(515)	1	(15,836)
Budget / MTFP Gap (Savings Req.)	3,184	20,079	12,308	10,207	45,778

- 61 The updated MTFP(15) forecasts assume that the £15.836 million of new savings proposals set out in the 4 December Cabinet report, which are currently being consulted on, with £14.654 million profiled into 2025/26, are delivered next year and that the Council agrees to increase core Council Tax by 2.99% next year and applies a 2.00% Adult Social Care precept also.
- 62 There remains a budget deficit of £3.184 million in 2025/26 to resolve, and a forecast budget deficit / additional savings requirement across the MTFP(15) planning period of £45.778 million.
- 63 The improved position next year is largely as a result of the inclusion of a 2.0% Adult Social Care precept in 2025/26, which will generate circa £5.8 million of additional Council Tax revenues next year. The balance (£1.976 million) is the difference between the additional costs that have been factored into the forecasts as a result of the updated budget assumptions (£27.861 million) and the additional grant income that is now forecast (£29.837 million) – of which, £15.435 million (52%) is specific grant funding.
- 64 Without the delivery of the £18.043 million of savings that are currently factored into the 2025/26 budget planning (inclusive of the previously agreed savings in MTFP(14)) the Council would be £21.227 million short of balancing its budget next year. This is because the cost pressures that need to be accommodated next year exceed the grant funding we will receive and the additional revenues that can be generated from a 4.99% council tax increase – and despite the additional grant being made available next year and the council benefitting from the focus on deprivation and low tax raising authorities.
- 65 Whilst the £3.184 million budget deficit next year is an improved position when compared to the forecasts set out in the 4 December 2024 report, there remains a significant concern over the budget deficit in 2026/27 of £20.078 million, which will create a cumulative gap of £23.262 million in 2026/27. Achieving savings of that magnitude will require the implementation of a series of transformational reviews and will inevitably require some fundamental changes to the services the council provides.
- 66 The position could change depending on the outcome and timing of the Government's commitment to implement a Comprehensive Spending

Review and Fair Funding Formula reforms in local government from April 2026. Whilst the formula funding changes being implemented next year are most welcome (with regards to the distribution of the additional funding being made available), as is Government's stated commitments to this being the first step in redistributing funding on a more equitable basis (by placing more emphasis on deprivation and council tax raising capacity), the impact of this and how this would be implemented are unclear at this stage.

- 67 There has been significant concern in some parts of the sector who have been disadvantaged by the changes being implemented in 2025/26 and there will be significant lobbying by representative groups to seek to reverse this policy position and ensure the pace of change and transitional protection is protracted. This means that we cannot prudently assume the Council's underlying funding position will radically improve at this stage and must therefore continue to plan appropriately.
- 68 The savings proposals as set out in the Cabinet Report on 4 December 2024 continue to be consulted on and the outcome of that consultation will be set out in the February budget reports, where decisions on whether to propose the savings for adoption as part of the budget report to Council on 19 February 2025 will be taken.
- 69 Further funding shortfalls in 2027/28 and 2028/29 remain, totalling £12.308 million and £10.207 million. On this basis, it will be essential that the Council work up an updated programme of savings for MTFP (16) which will need consideration in 2025. The Council will also develop an extensive range of transformational savings as a result of its Transformation Change Programme.
- 70 The updated MTFP(15) financial forecasts are attached at Appendix 2 and the report contains an explanation of the underpinning financial planning assumptions that support these financial forecasts and the various changes to the assumptions compared to the previous Cabinet report on 4 December 2024 (which are summarised in Appendix 3).

Reserves

- 71 As part of the 2023/24 final accounts, and in recognition of the financial challenges the Council will face in 2025/26 and beyond, a thorough review of all earmarked reserves was undertaken, with a key aim of seeking to replenish and increase corporate reserves such as the MTFP Support Reserve and the Early Retirement/Voluntary Redundancy (ER/VR) reserve to ensure corporate capacity is in place to support future MTFP's.
- 72 The redirection to corporate reserves ensured that there is sufficient capacity in place to meet corporate commitments going forward and strengthen the Council's ability to set balanced budgets over the coming years.

- 73 In total, £18.330 million of reserves were repurposed to replenish corporate reserves, with those reserves increased as follows:

Corporate Reserve	Amount £ Million
MTFP Support Reserve	9.330
Commercial Reserve	5.000
ER/VR Reserve	2.500
Elections Reserve	1.000
Culture Reserve - Lumiere	0.500
Total	18.330

- 74 The Council's General Reserve is forecast to be £26.727 million on 31 March 2025 based on the latest quarter two forecast of outturn. This is £1.5 million below the required 5% minimum threshold (of the Council's net revenue budgets) set out in the Reserves Policy agreed by Council and will necessitate a transfer from the MTFP Support Reserve at year end to ensure we enter the new year with at least 5%.
- 75 At 31 March 2025 the Council is forecasting that £163.4 million of earmarked reserves will be held, with £63.9 million of this related to corporate strategic reserves which are essential for MTFP(15) planning purposes and can be summarised as follows:
- (a) MTFP Support Reserve - £32.6 million (balance prior to required transfer to General Reserve);
 - (b) Early Retirement & Voluntary Redundancy Reserve - £8.4 million;
 - (c) Commercial Reserve - £14.1 million;
 - (d) Equal Pay Reserve - £2.5 million;
 - (e) Insurance Reserve - £4.1 million; and
 - (f) Elections Reserve - £2.2 million.
- 76 The Council's reserves' position is closely monitored and benchmarked against other local authorities and is a measure of the financial resilience of a local authority. An early warning sign of a financially distressed council is when a council is running its reserves down to an unacceptably low level or is running its reserves down at a very fast rate.
- 77 The CIPFA Financial Resilience Index has identified the Council as having the highest use of reserves over the last 3 years, in comparison to our statistical neighbours and an above average use of reserves compared to

all other Unitary Authorities in England – to 31 March 2023 – reflecting Cabinet decisions to progress plans and expend earmarked reserves on the issues for which they were set aside. The Council’s comparative position will be updated and reported to cabinet when comparative 2023/24 data becomes available.

- 78 In 2023/24 our reserves position reduced by a further £14 million. This reduction also reflects Cabinet decisions to progress plans and expend earmarked reserves on the issues for which they were set aside.
- 79 The Council has a significant risk around the potential need to write off the High Needs’ Cumulative Deficit, which sit in an unusable reserve because of a Statutory Override, and which could amount to around £40 million to write off by 31 March 2027 unless the statutory override is extended further.
- 80 The Quarter 2 forecast of revenue outturn position for 2024/25 shows an in-year General Fund overspend of £5.334 million (an increase of £1.2 million on the Quarter 1 projections) and the High Needs Cumulative Deficit as of 31 March 2025 will be around £22 million (and increase of £11.6 million in 2024/25). The in-year reduction in Earmarked Reserves in 2024/25 based on the quarter two forecast of outturn is £12.888 million.

Local Government Reform 2026/27 onwards

- 81 The Government have launched a consultation on funding reforms from 2026/27, which will run alongside the planned Comprehensive Spending Review next year to inform a multi-year settlement from 2026/27.
- 82 The Government has stated it intends to use the same principles as the previous government set out in a previous 2018 Consultation and for their review to be a continuation of the previous government’s review.
- 83 The scope of the review will include the overall funding included within the Settlement Funding Assessment, a resetting of the Business Rates Retention Scheme and a review and replacement of the New Homes Bonus. It is also likely that the review will be extended to specific grants in adult social care and public health, but this is not explicitly set out in the consultation proposals at this stage.
- 84 The consultation is live and will close on 12 February 2025. The Council will provide a detailed response to the consultation and a summary of its response will be included in the 12 February 2025 Cabinet report.
- 85 There will be a full business rates baseline reset in 2026/27, with further regular resets after that. Encouragingly, the Government have suggested that Business Rates income allocated from the reset will be “allocated based on the updated needs-based assessment.”

- 86 The Government have indicated at a very broad level that they recognise the strong correlation between deprivation and demand for services. It is likely that during 2025, the Government will present and consider a range of options for developing formulae for allocating funding to local government based on need.
- 87 The Government are also inviting views on how the formula should recognise and compensate for differing Council Tax Levels, and other factors influencing Council Tax resource, such as the use of Discounts, Exemptions, and Long Term Empty Property Premiums and Premiums on Second Homes, the Council Tax Collection Rate, and the split of Council Tax resource between tiers of local government.
- 88 The Council will provide a robust response to this consultation and will participate on any collective regional response that is developed. The tenure of the Councils response will be to support the policy objectives as currently articulated with regards to addressing the inequities in the current system caused by council tax raising capacity, the lack of a business rates reset and the need to properly reflect need / cost drivers in the formula and funding allocations.

Budget Timetable

- 89 The updated high-level timetable up to budget setting in February 2025 is set out below:

Date	Action
15 January 2025	MTFP(15) report to Cabinet – analysis of provisional local government settlement published in December.
17 January 2025	Phase 2 of the Budget Consultation Closes
21 January 2025	Corporate Overview and Scrutiny Management Board consider 15 January 2025 Cabinet Report
12 February 2025	Budget Report to Cabinet – outcome of Phase 2 Budget Consultation, finalising of savings plans and consideration of Capital Programme and update for Business Rates (NNDR 1) position.
13 February 2025	Corporate Overview and Scrutiny Management Board consider 12 February 2025 Cabinet Report
19 February 2025	Council Budget and MTFP(15) report and Council Tax Setting Report

Risk Assessment

90 A range of risks remain to be managed and mitigated across the short, medium and longer term. The risks faced are exacerbated by the Council's responsibility for business rates and council tax support, and the late timing of the Government's Local Government Finance Settlement, together with uncertainty over the outcome of the Comprehensive Spending Review and Fair Funding Review next year. All risks will continue to be assessed and managed / mitigated as far as possible throughout the MTFP(15) planning period. Some of the key risks identified include:

- (i) The Government have targeted the additional funding being made available in 2025/26 to those authorities with higher levels of deprivation / need and lower council tax raising capacity and have stated this is the first step in rebalancing the formula to ensure it is fairer to authorities like us. This has resulted in additional funding being received next year, but it is insufficient to be able to balance our budget. It is anticipated that these factors will be a key feature of the updated funding formulae going forward beyond 2026/27.
- (ii) It remains uncertain how changes to funding formulae will be made, the extent of the changes and over what period these funding changes are introduced. What is clear is that the formula used to distribute the additional funding made available in 2025/26 has caused significant unrest across many authorities who have historically benefited from previous formulae but who have been excluded from or received smaller allocations of the new funding being made available. These authorities will fight hard to avoid further, more fundamental changes being implemented from 2026/27, which could result in the pace of change being longer than we would want given the Council should benefit from such changes going forward.
- (iii) Whilst the Government have committed to undertaking a Fair Funding Review, which could be implemented in 2026/27, there is a risk this review could be delayed further or de-prioritised if significant political pressure is brought to bear. The timescales for implementation in 2026/27 are very tight. The fair funding review and reforms will coincide with significant reform of English local government structures – including potential creation of more unitary authorities in two-tier areas and an amalgamation of some unitary authorities. The Government are going to look at the responsibilities and roles of mayoral authority responsibilities as well, which adds a further layer of complication and risk in terms of potential delay.
- (iv) There remains a significant challenge to ensure a balanced budget and financial position is achieved across the MTFP(15) period – including balancing the Council's appetite to take decisions to

increase council tax, alongside the likely need to still must reduce service provision given the council inherent low tax raising capacity, high and increasing unavoidable demand / cost pressures and its reliance on Government grant funding.

There remains a budget deficit of £3.184 million next year to balance the budget and a forecast budget deficit / additional savings requirement across the MTFP(15) planning period of £45.778 million. Without the delivery of the £18.043 million of savings that are currently factored into the 2025/26 budget planning (inclusive of the previously agreed savings in MTFP(14)) the Council would be £21.227 million short of balancing its budget next year. This is because the cost pressures that need to be accommodated next year exceed the grant funding we will receive and the additional revenues that can be generated from a 4.99% council tax increase – and despite the additional grant being made available next year and the council benefitting from the focus on deprivation and low tax raising authorities.

Whilst the £3.184 million budget deficit next year is an improved position when compared to the forecasts set out in the 4 December 2024 report, there remains a significant concern over the budget deficit in 2026/27 of £20.078 million, which will create a cumulative gap of £23.262 million in 2026/27. Achieving savings of that magnitude will require the implementation of a series of transformational reviews and will inevitably require some fundamental changes to the services the council provides.

- (v) New savings plans presented on 4 December 2024 are being consulted on through to Friday 17 January 2025. There will need to be suitable levels of management oversight on the delivery of these savings to ensure they are delivered and realise the financial returns expected. Final decision on savings will not be taken until after the consultation responses have been carefully considered, alongside the Equality Impact Assessment. Any savings that are not delivered or which are delayed / deferred will only serve to widen the budget deficit next year and increase the reliance on reserves.
- (vi) The Council remains susceptible to drops in business rates income. The Council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals. Increasing business rate reliefs and the 'check and challenge' appeals process continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP(15). The Council would expect to be a beneficiary of any business rate reset as business rate income growth in the County has been lower than the national average since the implementation of Business Rates Retention in 2013/14, and the Council could because of this review expect to review increased Top-up Grant funding as a

Council which does not collect Business Rates income up to the national average. The Government have committed to implementing a Business Rate reset from 2026/27, which we would welcome but would have significant adverse implications on some authorities.

- (vii) The localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers. The Council's local council tax scheme is very generous compared to other neighbouring local authorities, and therefore any increase in uptake in this scheme has a compounding effect on the Council's income-generating tax base and is susceptible to any adverse economic fluctuations. A further review of this scheme in advance of 2026/27 will be required, and amendments may need to be made to make this scheme more affordable.
- (viii) The impact of future increases in inflationary factors such as the National Living Wage and Local Government pay awards, and the impact of additional costs of business for our suppliers associated with a significant increase in Employer National Insurance taxation are a key financial risk. The budget uplift provision in 2025/26 has been amended to reflect the additional costs providers will face next year. In later years, the Council is assuming national living wage increases will be 4% per annum. However, wage growth in the UK, which directly influences national living wage rates remain above 5% currently.
- (ix) Pay award assumptions remain predicated on a fairly notional uplift in later years. However, every 1% in terms of the pay award adds circa £3.0 million to the Council's pay bill, whereas every 1% increase in the National Living Wage adds circa £1.2 million of costs into the council's base budget for Adult Social Care – increasing the funding gap that needs to be bridged to balance the Council's budget. The increases in National Living Wage announced on 30 October 2024 of 6.7% were more substantial than originally forecast, so the Council will need to consider carefully update reports from the Low Pay Commission in the Spring to gauge whether the current assumptions are sufficiently prudent.
- (x) It is becoming very clear that the Government's funding for local authority employer national insurance contributions is not sufficient to cover the full costs of this new burden and our latest estimates indicate that this will only cover circa 57% of the cost pressures we will face. The additional funding received in the settlement for the Recovery Grant, though welcomed, has been offset by significant costs associated with social care and inflationary pressures.

- (xi) The Council continues to experience significant increases in demand for social care services – particularly children’s social. Significant budget allocations have been set aside in MTFP(15) for these areas. These allocations are being closely monitored and the forecasts have been externally validated, as in recent years the Council has seen the eventual outturn forecasts in these areas exceed the budget allocations set aside to fund these pressures. The Quarter 3 Children’s Social Care pressures are looking increasingly likely to show a worsening forecast position due to the proportion of children in care who require residential care.

The Council appointed external consultants to undertake a detailed diagnostic assessment of these costs, review existing mitigation measures and to suggest other measures that could be taken to offset an estimated rising trend of volumes of looked after children and overall costs per case. The findings of this review concluded that without taking additional substantial measures to mitigate this demand and cost pressure, over and above our existing plans, the Council will likely spend £30 million more than the assumed budgetary growth projections included in this MTFP(15) report. A series of measures to manage this demand are currently being developed and will be reported to Cabinet by March or April 2025. These measures will draw on the new grant funding being provided for prevention and looked after sufficiency measure but may also require a drawdown from reserves to pump-prime activities, additional capital investment and/or permanent base budget growth to support transformational change in how we manage children’s social care demand.

- (xii) High Needs Dedicated Schools Grant: officers have reported to Schools Forum and lobbied the new Government regarding its projections for the current and future High Needs Deficit Shortfall. At the end of 2023/24, this cumulative deficit was £10.595 million, with a further £11.572 million shortfall in 2024/25 predicted at Quarter 2, increasing the cumulative deficit to £22.167 million.

Local Education Authorities are required, using a statutory override, to charge the cumulative high needs deficit to an Unusable Reserve on the council’s balance sheet. This statutory override is due to end on 31 March 2026, and as things stand, the value of the high needs deficit the following year (31 March 2027) would need to be charged to the General Fund Reserves. The value of the deficit at that point (March 2027) was estimated to be £44 million and would place significant financial strain on the Council’s depleted reserves levels at this point. This level of deficit is also placing additional challenges on the Council’s cash-flow planning arrangements and it is estimated that loss of interest on the High Needs DSG deficit balance is around £0.750 million this year for the council.

The local authority sector is lobbying Government to highlight that many authorities are at risk of issuing s114 notices due to the emerging substantial high needs deficit balances.

As part of the Autumn Budget Statement, it was announced that there would be an additional £1 billion added to overall High Needs budgets. This means an increase to High Needs funding of over 9%, compared to 2024/25.

The Council have been provisionally notified it will receive an additional £7 million, which is lower than the assumption reported on 4 December 2024. Of this, a £3 million assumed increase was already factored in for notional inflationary uplifts. The extra £7 million is welcome, however Cabinet should note it does not fully cover the assumed planned High Needs Deficit forecast for 2024/25 let alone the forecast deficit that will materialise in 2025/26. The Council could therefore see, based on projected levels of demand, a deficit of £13.5 million, resulting in a cumulative deficit of £36 million by the end of 2025/26.

There remains uncertainty about the arrangements to continue the Statutory Override for carrying forward cumulative deficits or seek to write off these cumulative deficits from local education authority balance sheets. There was no clarity on this in the Local Government Finance Settlement. This omission is very concerning and heightens the risks of the statutory override ending and any deficit write-offs not being funded by central government.

- (xiii) Prudential Borrowing: The Council's current Capital Programme / Capital Investment Plans are predicated on high levels of future borrowing, with the Council currently managing a highly under-borrowed position, whereby the actual level of debt held is significantly below the levels of debt required to be held by the Council in line with its underlying Capital Financing Requirement. The Council will need to borrow c.£350 million over the next two-years from the date of this report to fund the existing programme and remain sufficiently solvent.

The existing MTFP(15) forecasts assumed that borrowing will be from the Public Works Loan Board at rates of between 4.0% to 4.5%, in the anticipation that rates will fall from their current levels of around 5.8% (for forty-year borrowing) between September 2024 and April 2025.

This planned fall in PWLB rates is not now likely to not happen, and therefore if PWLB rates were 1 percentage point higher than the assumed 4.5% in 2025/26, the borrowing costs for this additional necessary debt would be £3 million higher than the budget provision set aside.

In November 2024, the Monetary Policy Committee of the Bank of England cut the bank base rate by 0.25% but in doing so projected that interest rates may not fall as fast as originally anticipated during 2025. The Bank of England held interest rates in December 2024 and remain concerned about rising inflation in the UK economy.

Conclusion

- 91 This report provides an updated 2025/26 budget and MTFP(15) financial forecast, with the underpinning assumptions updated following more detailed analysis of the announcements made in the Chancellor of the Exchequer's Autumn Budget Statement on 30 October 2024, and the publication of the provisional local government finance settlement on 18 December 2024.
- 92 Several changes have been made to the Council's financial planning assumptions, which will need to be reflected in the final budget report that will be presented to Cabinet on 12 February 2025, in advance of Full Council considering and approving the Council's budget and MTFP on 19 February 2025, where final decisions will be made. The updated financial planning assumptions are set out in detail in this report and are summarised in the updated financial model at Appendix 2, with Appendix 3 tracking the changes in the financial planning assumptions when compared to the position set out in the 4 December 2024 Cabinet report.
- 93 The financial forecasts factor in the Provisional Local Government Finance Settlement published on 18 December 2024, where the Council received additional funding and confirmation that it may raise council tax by a total of 4.99% next year – inclusive of a 2.00% adult social care precept.
- 94 Though welcome, the additional funding and council tax raising capacity, is more than offset by a range of significant cost pressures in social care, employer costs, capital financing, the funding of transformation change programme and other key service budget pressures which require additional budget growth to ensure the Council can set a balanced budget and continue to deliver its services effectively next year.
- 95 There remains a budget deficit of £3.184 million next year to balance the budget and a forecast budget deficit / additional savings requirement across the MTFP(15) planning period of £45.778 million.
- 96 Without the delivery of the £18.043 million of savings that are currently factored into the 2025/26 budget planning (inclusive of the previously agreed savings in MTFP(14)) the Council would be £21.227 million short of balancing its budget next year. This is because the cost pressures that need to be accommodated next year exceed the grant funding we will receive and the additional revenues that can be generated from a 4.99% council tax increase – and despite the additional grant being made

available next year and the council benefitting from the focus on deprivation and low tax raising authorities.

- 97 Whilst the £3.184 million budget deficit next year is an improved position when compared to the forecasts set out in the 4 December 2024 report, there remains a significant concern over the budget deficit in 2026/27 of £20.078 million, which will create a cumulative gap of £23.262 million in 2026/27. Achieving savings of that magnitude will require the implementation of a series of transformational reviews and will inevitably require some fundamental changes to the services the council provides.
- 98 The Government have launched consultation on funding reforms for 2026/27 and the Council will actively participate in the Government's plans to consult and change the way local government funding is distributed. Consultation responses are required to be submitted by 12 February 2025.
- 99 Consultation on the new MTFP(15) budget savings proposals that were outlined in the 4 December 2024 Cabinet report is currently underway and will be concluded on 17 January 2025. The outcome of the consultation will be presented to Cabinet next month as part of the budget report, where decisions will be made on what will be recommended to Council as part of the final budget report.
- 100 A further report will be presented to Cabinet on 12 February 2025, providing a final set of budget proposals and MTFP (15) forecasts, which will be accompanied by a refreshed Capital Programme and Treasury Management Strategy.

Other useful documents

- Medium Term Financial Plan (14), 2024/25 to 2027/28 – Report to Council 28 February 2024
- Medium Term Financial Plan (15), 2025/26 to 2028/29 – Report to Cabinet 18 September 2024
- Medium Term Financial Plan (15), 2025/26 to 2028/29 – Report to Cabinet 4 December 2024
- Council Tax Base 2025/26 and Forecast Surplus / Deficit on the Council Tax Collection Fund – Report to Cabinet 13 November 2024

Author(s)

Rob Davisworth

Tel: 03000 261946

Appendix 1: Implications

Legal Implications

The council has a statutory responsibility to set a balanced budget for 2025/26. It also has a fiduciary duty not to waste public resources and recklessly run down reserves to an unacceptably low level.

Finance

The report includes a range of changes to the 2025/26 and MTFP(15) financial planning assumptions, some of which reflect announcements made in the Chancellor of the Exchequer's Autumn Budget Statement, which was presented to the House of Commons on 30 October 2024 and as a result of the publication of the Provisional Local Government Finance Settlement on 18 December 2024.

The report sets out an intention to seek Council approval to raise council tax by a total of 4.99% in 2025/26, and to continue to press on with the delivery of additional new MTFP(15) savings of £14.654 million in 2025/26 and £15.836 million in total across the MTFP(15) planning period (which are subject to an ongoing public consultation between 6 December 2024 and 17 January 2025).

There are £7.327 million of savings approved as part of MTFP(14) that can be delivered between 2025/26 and 2027/28, with the savings previously agreed having been reprofiled and reviewed.

The Local Government Finance Settlement provided clarification of additional grant funding and council tax raising capacity in 2025/26. However, the Council has identified a number of additional and emerging cost pressures and there remains a budget deficit in 2025/26 of £3.184 million, with a four-year budget deficit of £45.778 million.

The additional funding being made available next year does not match the significantly higher increases in cost pressures due to demand pressures in children's social care, school transport, payroll costs and adult social care costs (due to rising national living wage and employer national insurance costs).

Without the delivery of the £18.043 million of savings that are currently factored into the 2025/26 budget planning (inclusive of the previously agreed savings in MTFP(14)) the Council would be £21.227 million short of balancing its budget next year. This is because the cost pressures that need to be accommodated next year exceed the grant funding we will receive and the additional revenues that can be generated from a 4.99% council tax increase.

The Council is therefore likely to be required to utilise reserves to balance its budget next year.

The MTFP Support Reserve balance on 31 March 2024 was £36.299 million, however, £3.720 million was utilised to balance the 2024/25 revenue budget, leaving an unallocated balance of £32.579 million available to support MTFP(15).

The four-year financial gap of £45.778 million is far more than the remaining MTFP Support Reserve Balance. Therefore, additional savings measures and council tax rises (above the assumed annual increases of 2.99% already factored into planning assumptions for 2026/27 onwards) must be considered.

The outcome of any fair funding review may improve this position, but the indicative timescales for this review are challenging and may be heavily dampened in terms of their redistributive impact across English local authorities.

The use of reserves to excessive levels to balance budgets is not a sustainable long term budget strategy. There remains a significant risk that the Council may be forced to use its significantly depleted reserves to fund the writing off of any large cumulative High Needs Deficit as of 31 March 2027 (no clarity was provided regarding these arrangements in the Provisional Local Government Funding Settlement).

Consultation

A second round of consultation with AAP's and partners in relation to the new savings proposals included in the 4 December Cabinet report remains ongoing and open to 17 January 2025.

The Corporate Overview and Scrutiny Management Board continue to provide scrutiny of the MTFP(15) and budget setting process and will consider the contents of this report at its meeting on 21 January 2025.

Equality and Diversity / Public Sector Equality Duty

Under section 149 of the Equality Act 2010 all public authorities must, in the exercise of their functions, "have due regard to the need to" eliminate conduct that is prohibited by the Act. Such conduct includes discrimination, harassment and victimisation related to protected characteristics but also requires public authorities to have due regard to the need to advance equality of opportunity and foster good relations between persons who share a "relevant protected characteristic" and persons who do not. This means consideration of equality analysis and impacts is an essential element that Members must consider when considering these savings proposals.

Climate Change and Biodiversity

The council budget will be developed to provide resource to enable the council to meet the requirements set out in the council's Climate Change Emergency Response Plan.

Human Rights

Any human rights issues will be considered for all proposals agreed as part of MTFP(15).

Crime and Disorder

None

Staffing

The new savings proposals included in the 4 December 2024 Cabinet report would result in the deletion of around 214 full time equivalent posts, of which around one third to half of these posts are expected to be vacancies.

The previously agreed savings proposals that impact across the MTFP(15) planning period included 101 full time equivalent post reductions also.

Re-deployment of staff, deletion of vacant posts and Early Retirement and Voluntary Redundancy will be utilised where possible to minimise the potential for compulsory redundancy. HR processes will be followed to ensure fair treatment of staff.

Land and Property

Additional Budgetary growth of £400,000 has been included in MTFP(15) to cover additional revenue repair and maintenance costs associated with the Council's land and property and the updated budget planning assumptions factor in a further £330,000 of budget growth for depot repairs and running costs. More substantial allocations of capital funding will be required to augment existing capitalised maintenance and structural infrastructure investment budgets.

Risk

The Council is continuing to operate in a period of significant financial uncertainty. When the 2024/25 budget was approved on 28 February 2024, the council was concerned about the ongoing and consequential impact of high levels of demand for services and historic high levels of inflation. These concerns remain.

Prudent financial planning assumptions have continued to be made in terms of forecasting the base budget pressures the council will face over the coming years. The underpinning rationale is explained in detail in the report and a range of key risks and issues is set out in the body of the report.

Procurement

None