

Cabinet Report



Report of Head of Finance

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Wards affected: All

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To: CABINET

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Budget Setting 2025/26

Recommendation(s)

(a) to note the contents of the report

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes
Signing off officer	Simon Hewings	Pat Connell	Kim Hall	Lorne Grove

Purpose of report

1. To set the scene for this year's budget setting process to be carried out by officers, with appropriate member input, including the proposed timetable for activities and future cabinet reports to meet the requirement for officers to propose a revised base budget, reflecting the previous decision of council.

Corporate objectives

2. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council as outlined in their corporate plans and in the previous budget and Medium Term Financial Plan (MTFP) set by full council.

Background to Revenue budget setting

3. At its meeting in February 2024, Council approved the MTFP for the period 2024/25 to 2028/29, that illustrated an indicative revenue budget for 2025/26. This indicative revenue budget was, as with all years in the MTFP, balanced by the use of reserves. As noted in the February 2024/25 budget report, the budget is based on the following two key assumptions:
 - Government funding, referred to as core revenue spending power and including income from retained business rates, is maintained over the MTFP period, and
 - Council expenditure remains within the budgetary envelope with non -inflationary pressures being managed through savings and efficiencies, or revisions to service priorities.
4. At this stage the new government has not given any indication as to what future local government funding would look like, although there is an expectation that any changes for 2025/26 are likely to be limited given the time needed to make significant change and recent statements from the Chancellor regarding 'difficult decisions'
5. The user of reserves to balance the budget in 2024/25 was estimated to be £1.282 million. In addition to the two key assumptions identified above, the estimates for 2024/25 were based on a number of other key assumptions made when the budget was set. These include:
 - Council Tax – the referendum limit of £5 increase per annum is maintained, and an there is an ongoing 2 per cent increase in the council tax base
 - Investment income – future income levels are based on assumptions on interest rates and available balances to invest. By way of illustration, a one per cent change in the average interest rate on investments could equate for a £1 million change in investment income over a year,
 - Inflation – the pay award for 2025/26 was anticipated to be three per cent, with other inflationary increases expected to be five per cent,
 - Transformation activity – cumulative savings of £100,000 per annum arising from transformation activity were included in the budget,
 - Major contracts ending in 2025/26 – two of the council's most significant contracts, the five councils contract and the car parking services contract, are due to end in 2025/26. No assumptions were made about changes in the cost of service provision when those contracts end,
 - Managed vacancy factor and contingency – no changes were anticipated to the managed vacancy factor and contingency budgets

Revenue budget setting activity

6. The strategic finance team, which has recently been increased to support better financial management including budget setting activity, is now beginning to work with colleagues across the council on the first stage of revenue budget setting activity, which is building the base budget. The base budget will reflect the cost of continuing to

undertake all current activity, before any changes to service delivery are considered, and will therefore be directly comparable with the estimate for 2024/25 included within the MTFP approved in February 2024.

7. Base budget setting work will focus on mitigating the financial impact of non-inflationary, essential growth items that will be identified through the budget setting process so that the budget can remain within the envelope confirmed by full council in the MTFP. It will also seek to reduce the anticipated use of reserves, which will aid longer-term financial sustainability.
8. To achieve these aims, and following discussion between senior officers and cabinet members, officers are looking for savings through the base budget exercise of £1 million across the council. This is an ambitious target and may not be possible to achieve without service delivery impacts.
9. The approach to assisting in finding these additional savings is for the Strategic Finance Team to work with services and undertake the following steps:
 - Remove any overbudgeting both in terms of overstating expenditure budgets and understating income budgets. This includes reducing expenditure to focus on confirmed priorities, although the new Corporate Plan may offer an opportunity for further expenditure reductions,
 - Finalise the challenge and deletion of vacant posts across the council, several of which have been held to help achieve the vacancy factor,
 - Review the level of discretionary fees and charges with external support,
 - Review where transformation effort is directed to allow it to maximise savings, which may mean significant changes to how the council delivers its services.
10. The work to review base budgets will be completed by 15 September 2024 and an initial indication of what the revised base budget will be and therefore any budget gap will also be known. In early October the council's Strategic Management Team will need to consider how the base budget compares to the budget target and determine resulting recommended approaches/actions for members to consider and provide a steer on. This step is vital to ensure that officers comply with their duty to offer "best advice" and for members to consider that.
11. At that stage of the budget setting process members will need to consider whether service reductions are needed to enable the council to stay within its budgetary envelope, or conversely whether there is headroom to consider possible increases in service delivery. Cabinet may also choose to indicate a wish to vary from the budget envelope criteria agreed by Council in February 2024, but that outcome can only be agreed by Council and is likely to impact the Section 151 officer's statutory Section 25 statement on the robustness of the estimates and the adequacy of reserves relating to whether or not the proposals are able to be supported.
12. In terms of base budget challenge, the scope of this activity will be determined in early October but, where required, detailed officer budget challenge will be completed by 15 November 2024 and meetings for this have been provisionally booked with officers. Where relevant, Cabinet member budget challenge will also be undertaken through the

second half of November into mid-December. It is anticipated that the base budget exercise, including member engagement, will be finalised by 24 December 2024.

13. In addition to this report to Cabinet there will be a further report to Cabinet in December to update on the work to date, the funding position (if known from Government), the proposed base budget that officers are required to submit for consideration, with a comparison to budget target and the resulting options for consideration by Cabinet. The final budget setting report, which will reflect the options recommended by Cabinet will be presented to Scrutiny, Cabinet and Council in February 2025.

Budget 2026/27 and beyond

14. Revenue budget setting 2026/27 and beyond will continue to be heavily impacted by similar key factors that will be critical to 2025/26 budget setting, namely:

- Level of government funding, including level of retained business rates,
- Government limits on council tax increases,
- Inflation and increases in service cost, which evidence shows can run above headline inflation rates, and
- interest rates and expectations of investment income based on projected balances.

15. In addition to the above factors, in 2026/27, two more of the council's major contract – leisure services, and waste and street cleansing – come to an end. At this stage the likely future costs of service delivery are unknown but may well present a significant budgetary pressure in future years above the MTFP figures. It should be noted that waste collection is a statutory service that the council is required to deliver within Government requirements.

Capital Programme

16. Following on from the more detailed work on capital budget setting that took place as part of the 2024/25 budget setting process, capital budget setting activity will again follow a slightly different process to that for the revenue budget, with the capital challenge process to be carried out during September 2024.
17. The challenge process will aim to ensure that the capital budgets held in the programme are robust and profiled as accurately as possible. The process will also allow for officers to propose future capital bids for known upcoming projects in line with the council's capital strategy, with priority being given to externally funded schemes.
18. The member challenge for the capital programme will take place through October and November 2024.
19. Members are reminded that a significant proportion of our capital expenditure is either partially or fully funded via Government grants, and these come with their own conditions.
20. During this review officers will also be undertaking a review of the borrowing requirements for the council and will develop an approach to borrowing in consultation with the council's treasury advisors as necessary.

Financial Implications

21. The financial implications are set out in the body of this report.

Legal Implications

22. This report is for information only and therefore there are no direct legal implications.

Climate and ecological impact implications

23. As agreed with the climate team, the use of the Climate Impact Assessment Tool is not appropriate for this report as it is looking at the Council's overall budget. The climate and ecological impacts of each new area of spend will be assessed using the Climate Impact Assessment Tool as they come forward.

Equalities implications

24. This report is for information only and therefore there are no equalities implications.

Risks

25. This report is for information only and therefore there are no risk implications

Background Papers

- Budget papers 2024/25 – Council February 2024.