

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 update report

Recommendation

Cabinet is recommended to note the report

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes – No direct legal duties as report is for information however this is reporting to inform members to carry out their duty to establish a balanced budget	No	No
Signing off officer	Simon Hewings	Nick Bennett	Dominic Lamb	Lorne Grove

Purpose of report

1. The purpose of this report is to inform the Cabinet of progress made to date in preparing the proposed revenue budget for 2025/26 and the capital programme for 2025/26 to 2029/30, and to report on the funding issues that need to be considered when Council sets a revenue budget and capital programme in February 2025.

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

3. In February 2025 Cabinet will consider a report on the proposed revenue budget for 2025/26 and the capital programme for 2025/26 to 2029/30 and will then make a recommendation to Council. This report provides an update on progress of the budget setting process.
4. In October 2024 Cabinet received a budget scene setting report which provided an update on progress to date along with the proposed activities and a timetable of events, which included the proposal of a revised base budget to be reported in December 2024.

Revenue base budget setting 2025/26

5. The work completed to date includes a robust review of all service areas by the Strategic Finance team. The officer budget challenge process has been completed and the member budget challenge process is in progress and will be completed by Christmas.
6. As part of the challenge process:
 - Budget lines have been scrutinised to identify and remove overbudgeting,
 - Vacant posts have been removed from base budgets where these are no longer needed,
 - An externally supported review of fees and charges is almost complete. This review looked at the council's top ten fees and charges to compare them to benchmarks and ensure that cost recovery is in place where required. Any resulting changes to fee levels will be reflected in the final budget proposed in February 2025.
7. The resultant base budget identified for 2025/26 is £24,262,240 an increase of £1,922,046 over the 2024/25 budget. The base budget affords resources to allow the council to continue to provide services at the current standards and reflects previously agreed policy decisions by both Council and Cabinet.
8. These figures are provisional and may be subject to change as the work continues for refining the budget. The paragraphs below identify how the budget requirement for 2025/26 has been reached.

2025/26 revenue base budget build changes

9. Appendix A.1 summarises the movements in the base service budgets from 2024/25 to 2025/26. The following paragraphs detail these movements.

Opening budget adjustments (appendix A.2)

10. A total of £387,687 has been added to the base budget in 2025/26 for one-off items agreed in previous budgets.

Inflation, salary increments and other salary adjustment (appendix A.3)

11. Together these total £1,127,086. For all council employees an estimate of the increase in salary is budgeted for 2025/26. The final pay award is under negotiation with UNISON. Increments payable to council employees not at the top of their salary range total £153,865. Other salary adjustments represent a cost of £96,424. We have not budgeted for the two per cent increase in employer's National Insurance contributions as the Government has indicated that councils will be compensated for the additional direct staff costs they incur following this change.

Essential Growth (appendix A.4)

12. These items total £987,250. They comprise of additional expenditure, which is considered unavoidable, and reflect changes that have occurred in the current year, or which are known will happen in 2025/26. These have been through a robust scrutiny by officers to ensure that they are essential growth items.

Base budget savings (appendix A.5)

13. These items total £579,977. These base budget savings are reductions in costs identified by officers which are the result of more efficient working or previously agreed policy decisions, cost reductions outside the council's control, or correction to budgets.

Revenue contingency

14. The contingency budget was set at £400,000 for 2024/25, and it is proposed to leave this unchanged in 2025/26.

Managed vacancy factor

15. For 2024/25 the managed vacancy factor was set at £500,000, and it is proposed to leave this unchanged in 2025/26, noting that this may require vacancies to be held back for a period of time, when they arise.

In year savings target

16. Included within the base budget is £100,000 of ongoing savings per annum from transformation activity, representing an in-year savings target. This does not represent a target for the team as not all transformation savings will emanate from the work of the transformation team, but instead represents an acknowledgement of the need to continually seek improvement and efficiencies in service delivery and is something that has been regularly achieved by the Council over time.

Discretionary revenue growth and savings

17. Discretionary revenue growth and savings do not form part of the base budget build, and none are therefore included in the budgets here. Any such items that are brought forward as part of the final budget setting proposals in February 2025 must reflect

activities linked to corporate plan priorities and will need to reflect the impact on the Councils longer term financial position. These may include member aspirations and bids.

Investment Income

18. Interest rates have remained higher than anticipated for longer than expected. As such it is currently expected that £4,078,195 will be earned from the council's investments in 2025/26 which will be used to support revenue expenditure in 2025/26. The estimate of investment income will be further refined ahead of the final budget setting report.
19. The proposed transfers from previously agreed earmarked reserves total £662,446 and reflects:
 - A transfer **to** reserves of representing the affordable homes element of the New Homes Bonus (NHB) payment,
 - A transfer **from** reserves to fund the council's one-off costs associated with the exit and service transformation required when the Five Councils' Partnership contract ends in September 2025.

Government funding for revenue expenditure

20. At the time of writing this report the government has not issued the draft settlement. This is expected to be issued just before Christmas. In November, the government did issue a Local Government Finance Policy Statement. Whilst the policy statement did not confirm the amount of grant funding, it did confirm the following which are relevant to estimating the amount of funding the council will receive:
 - No council would see a reduction in "Core Revenue Spending Power", which represents the sum of government grants included in the settlement, plus council tax. However, in calculating core revenue spending power, it is assumed by government that council tax will rise in line with the maximum allowed under the proposed referendum limits. This means that, for some councils, the government grant funding element of core revenue spending power will reduce,
 - New Homes Bonus, which has become critical to the council's sustainability, remains in 2025/26. However, the policy statement clearly signalled that councils should assume, and therefore budget, that 2025/26 is the last year of the scheme,
 - A new income stream, the Extended Producer Responsibility for Packaging (pEPR) scheme, will come into force in 2025/26. This has not been included in the definition of core revenue spending power in 2025/26, although the policy statement and officials have indicated that that could change in future years. Indicative figures were subsequently provided to the council that have been included in the council's budget estimates for 2025/26. The government advised that, once confirmed figures have been provided, then the council will be guaranteed to receive at least that income in 2025/26.
21. Based on the contents of the policy statement, an estimate of government funding is shown in table 1 below. It should be noted that:

- The Settlement Funding assessment and associated indexation will increase with inflation,
- Business rates growth above baseline is estimated to remain unchanged,
- Government has indicated that it will cease the rural services delivery grant, and the services grant. These are immaterial to the council, and their loss in 2025/26 will be covered by the core revenue spending power guarantee referred to above,
- The New Homes Bonus figures has been estimated by LG Futures based on council data returns to government,
- It has been assumed that the council will not see its core revenue spending power increased. As such, the “Additional Funding/Funding Guarantee” amount represents a balancing figure to ensure the overall core revenue spending power is maintained.

Table 1: Estimate of government funding 2025/26

	2024/25 Settlement £	2025/26 Estimate £
Settlement Funding Assessment	(2,712,321)	(2,793,690)
Indexation	(474,137)	(488,361)
Business rates growth above baseline	(296,576)	(296,576)
Settlement Funding Assessment	(3,483,034)	(3,578,627)
Other funding		
New Homes Bonus	(2,292,019)	(1,595,827)
Rural Services Delivery Grant	(10,675)	0
Lower tier services grant	(15,083)	0
Additional funding/funding guarantee	(2,196,774)	(2,518,475)
Grand total	(7,997,585)	(7,692,929)
pEPR	0	(1,180,000)
Total settlement funding	(7,997,585)	(8,872,929)

22. At this stage, based on estimates of government funding and the latest base budget position, and without discretionary increases proposed by Cabinet, there will be a balanced budget proposal to Council for 2025/26. At this time officers are aware that responding the proposals included within the devolution white paper will almost certainly require additional staff resources over the medium-term.

Capital programme 2025/26 to 2029/30

23. The capital programme has been reviewed in detail by heads of service in conjunction with finance staff as part of the budget monitoring and challenge process and has been changed to reflect recent decisions and current expectation of the spending profile. This is the latest capital programme as at 18 November and does not reflect decisions taken after that date. A table summarising the latest capital programme is shown below and a detailed capital programme included as Appendix B. As with revenue expenditure no discretionary growth beyond that previously agreed has been included in this capital programme.

Table 2: Summary of capital programme & financing 2025/26 to 2029/30

	2024/25 Latest Budget	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Capital programme approved	21,891	12,012	7,000	7,082	3,706	2,674	54,365
Earmarked CIL funding - subject to individual scheme approval	615	832	195	55	50	0	1,747
Total Expenditure	22,506	12,844	7,195	7,137	3,756	2,674	56,112
Financing							
Grants and Contributions	8,398	2,343	2,346	2,627	2,786	1,974	20,474
Developer contributions - S106	710	2,976	635	406	171	171	5,068
Developer Contributions - CIL	8,210	1,904	247	115	60	10	10,545
Borrowing	0	3,785	3,967	3,989	739	519	13,000
Useable capital receipts	5,189	1,836	0	0	0	0	7,025
Total Financing	22,506	12,844	7,195	7,137	3,756	2,674	56,112
Estimated useable capital receipts at 31 March 2030							1,461

Issues for consideration

24. In 2024/25 the council increased council tax by £5, the maximum permitted without triggering a referendum. The MTFP estimate for 2025/26 assumed that council tax would also increase by £5 assuming the same referendum principles apply. The policy statement confirmed that the draft referendum principles for council tax for 2025/26 will be unchanged, so the maximum increase before a referendum will again be £5 and this will be reflected in the proposed budget.

Future prospects

25. Whilst the Local Government Finance Policy Statement has provided a clear indication of the minimum level of government funding the council can expect to receive in 2025/26, beyond that there is now considerable uncertainty. As such, officers have not prepared a draft Medium Term Financial Plan (MTFP) at this stage.
26. It is hoped that the forthcoming settlement details, which the policy statement suggests will include initial consultation around future funding principles, will give an indication of the likely changes in future government funding.
27. The policy statement makes clear that the government's intention is to make sure that "funding reflects local need and demand for services, and an area's ability to raise income locally". It indicates the following steps to achieve this:
- For 2025/26, "introduce a new 'Recovery Grant', worth £600 million, which will increase the efficiency of our funding by targeting money towards areas with greater need and demand for services (we have used deprivation as a proxy for this), and less ability to raise income locally". Officers do not that anticipate the council receiving any significant income from this new funding stream,
 - "From 2026-27, we want to fundamentally improve the way we fund councils and direct funding to where it is most needed, based on an up-to-date assessment of need and local resources. These reforms will build on the proposals set out in the previous government's review of Relative Needs and Resources (also referred to as the 'Fair Funding Review'), using the best available evidence to inform local authority funding allocations. We will move gradually towards an updated system and will invite views on possible transitional arrangements to determine how local

authorities reach their new funding allocations". The narrative of the policy statement does suggest that some councils could lose government funding in future, based on the revised assessment of needs and resources, with such funding being "redirected" elsewhere – it remains to be seen if, and to what extent, this council will be so affected,

- Also in 2026/27, *"We intend to 'reset' the business rates retention system, as was originally intended when the previous government established the system. This is long overdue given that there has been no reset of the system since its introduction in 2013-14"*. Under a reset business rates growth above baseline is at risk, and this income won't be relied upon in future estimates of funding until further clarity is provided.

28. In preparing the final budget report for Cabinet, officers will use the most up to date information available to prepare an MTFP for approval as part of the budget setting report. It is likely that the future financial position will be challenging as, as well as the uncertainty over future government funding, the council faces significant uncertainty in a number of other areas.
29. The council continues to benefit from interest rates remaining higher than expected. At some point however, interest rates will fall, and the council will see a reduction in income from its investments that will reduce the amount of money available to fund revenue expenditure. Investment income will also reduce as the council's capital reserves are used to fund the current capital programme. In short, any reduction in the level of reserves, will always create an associated unfunded revenue pressure.
30. As previously reported, the council has a number of significant contracts for service provision coming to an end within the next three years. These are:
 - Five Councils' Partnership - 2025
 - Car parking services – 2025
 - Waste and street cleaning – 2026
 - Leisure services - 2026
31. For the Five Councils' Partnership and car parking service, the 2025/26 base budgets include officers' latest estimates of the costs of future service provision. However, the future costs of waste, street cleansing and leisure services provision are not known, and have not been estimated at this time, but work to address this, based on officers' professional opinion, will be undertaken before the budget report to Cabinet.

Financial Implications

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

Legal Implications

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

Climate and ecological impact implications

34. 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.

Equalities implications

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

Risks

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

Other Implications

37. None

Conclusion

38. This report brings together all known, relevant income and expenditure and funding information. This should aid members in understanding the issues to be faced in setting the 2025/26 budget and allow them to consider and challenge that information before Cabinet recommends its 2025/26 revenue and longer-term capital budget to Council in February 2025.

Appendices

Appendix A.1 Revenue budget 2025/26

Appendix A.2 Opening budget adjustments

Appendix A.3 Inflation, salary increments and other salary adjustments

Appendix A.4 Essential growth

Appendix A.5 Base budget savings

Appendix B Latest capital programme