

# Cabinet Report



Report of Head of Finance

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To: SCRUTINY COMMITTEE

28 January 2025

To: CABINET

31 January 2025

To: COUNCIL

12 February 2025

# Revenue budget 2025/26 and capital programme 2025/26 to 2029/30

## Recommendations

- a) That Scrutiny Committee consider the report of the Head of Finance on Budget Setting 2025, and make any recommendations to Cabinet
- b) That Cabinet recommends to Council that it:
  - Sets the revenue budget for 2025/26 as set out in appendix A.1 to this report,
  - Approves the capital programme for 2025/26 to 2029/30 as set out in appendix D.1 and D.2 to this report, together with the capital programme changes as set out in appendix D.3 and appendix D.4 to this report,
  - sets the council's prudential limits as listed in appendix E to this report,
  - Sets the council's medium-term financial plan to 2029/30 as set out in appendix F to this report.
- c) That Cabinet agrees that the head of finance, in consultation with the cabinet member for finance, may make minor adjustments to this report and the prudential indicators should they prove necessary prior to its submission to Council on 12 February 2025.

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes
Signing off officer	Simon Hewings	Nick Bennett	Jessie Fieth	Ruth Lewin- Leigh

## Purpose of report

1. This report, when presented to Cabinet, will:

- Bring together all relevant information to allow Cabinet to recommend to Council a revenue budget for 2025/26 and a capital programme for 2025/26 to 2029/30;
- recommends the prudential indicators to be set by the council in accordance with 'the Prudential Code' introduced as part of the Local Government Act 2003;
- contains the opinion of the council's chief financial officer on the robustness of estimates and adequacy of the council's financial reserves;
- contains the Medium-Term Financial Plan (MTFP) which provides details of the forward budget model for the next five years.

## Corporate objectives

2. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council and should reflect the council plan.
3. This budget setting report is written on the assumption that the council continues to exist in its current form for the duration of the Medium-Term Financial Plan period – five years. Given the proposals in government’s devolution white paper, published in December 2024, this is by no means certain. However, as no decision, or indeed firm indication has yet been given by government of a firm date when the council will be subject to reorganisation, this report assumes that the council carries operating in its current form for five years.
4. Until the council ceases to exist, it continues to be bound by best value legislation applicable to all local authorities, requiring it to continue to demonstrate economy, efficiency and effectiveness in all its activity. It must also continue to set balanced budgets and ensure ongoing financial sustainability. The council will however need to take into account specific directions and guidance from the Government or relevant bodies if and when those are issued in respect of local government reorganisation.

## Revenue budget setting

### Background

5. 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 budget setting activity. A second, budget update report was considered by Cabinet in December 2024 which included a latest revenue base budget, together with estimates of government funding.

### Revenue base budget setting 2025/26

6. The budget update report considered by Cabinet in December discussed the construction of the council’s base budget and reported on progress to date.
7. **Appendix A.1** summarises the movements in the base budget in 2025/26 – these were discussed at length in the December update report. These movements are detailed below:
  - Opening budget adjustments £387,687 (**appendix A.2**),
  - Inflation, salary increments and other salary adjustments £1,127,086, (**appendix A.3**),
  - Essential growth £987,250 (**appendix A.4**),
  - Base budget reductions £579,977 (**appendix A.5**).
8. Since the December update report was published there have been a small number of further adjustments to the base budget. These are shown in **appendix A.6 and total £478,335**. Included in these costs is the estimated increase in employer National Insurance contributions of **£260,000**.
9. The following budgets remain unchanged:

- The revenue contingency budget (£400,000),
- in-year organic savings target (£200,000, including £100,000 included in the base budget), and
- managed vacancy factor (£500,000).

10. As a result of these changes the council's revised base budget for 2025/26 is **£24,640,575**, an increase of £2,300,381 over 2024/25.

### Revenue growth

Revenue growth of **£120,000** has been included in the budget for 2025/26. This is detailed in **appendix B.1**.

### Gross treasury income

11. Investment returns for 2025/26 will be used to finance expenditure in-year. It is currently forecast that **£4,342,313** will be earned in 2025/26.

12. More details of treasury income can be found in the council's Treasury Management Strategy report<sup>1</sup>.

13. Including growth and gross treasury income results in a net expenditure budget for the council of **£20,418,262 (appendix A.1)**.

### Reserves and other funding

#### Transfers from earmarked reserves

14. This amounts to **£671,993** and represents the following elements:

- A transfer **to** reserves of **£110,600** representing the affordable homes element of the New Homes Bonus (NHB) payment, and
- A transfer **from** reserves of **£782,593** representing funding from reserves for the council's costs associated with the exit and service transformation required when the Five Councils' Partnership contract ends in September 2025.

15. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed from government settlement and from council tax 2025/26 is **£19,246,769**.

### Funding

#### Local government settlement

16. The provisional local government settlement for 2025/26 was announced in December 2024. This followed the publication of the Local Government Finance Policy Statement in November. As reported in December, based on the policy statement officers did not expect the council to receive an increase in core revenue spending power from 2024/25. The provisional settlement confirmed this when it was published. This

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<sup>1</sup> Considered by Cabinet 31 January 2025, Council 12 February 2025

means the government funding for the council through the settlement for 2025/26 reduced by the amount that council tax would increase, if the maximum increase in council tax under the referendum rules of £5 for a band “D” property is agreed.

17. In addition to government funding through the settlement, and as covered in the December update report, the council will receive funding from the Extended Producer Responsibility for Packaging scheme (pEPR). The council will also receive a contribution from government towards the costs of increased employer National Insurance contributions. No figures have been provided by the government for this funding, but based on analysis by LG Futures, we expect to receive £152,000, which is less than the estimated additional cost of £260,000 as discussed earlier.
18. Table 1 below details the government’s provisional funding for the council in 2024/25. When the final figures are published it is not anticipated that they will be materially different from those anticipated.

**Table 1: provisional local government finance settlement 2025/26**

	<b>Provisional settlement £</b>
Settlement Funding Assessment	(2,768,457)
Indexation	(492,208)
Business rates growth above baseline	(296,576)
<b>Settlement Funding Assessment</b>	<b>(3,557,241)</b>
<b>Other funding</b>	
New Homes Bonus	(1,595,820)
Funding floor	(2,339,662)
<b>Grand total</b>	<b>(7,492,723)</b>
Domestic abuse safe accommodation	(38,318)
NI increase compensation	(152,000)
Extended Producer Responsibility for Packaging (pEPR)	(1,180,000)
<b>Total settlement funding</b>	<b>(8,863,041)</b>

19. Whilst government funding included in core revenue spending power reduced, overall the council has received an increase in funding in 2025/26 as a result of the pEPR scheme and the compensation for increased employer National Insurance costs. However, as noted above the estimated increase in employer National Insurance costs is £260,000, so the estimated funding of £152,000 is insufficient to cover the increase in such costs.
20. Included within the government’s definition of core revenue spending power is NHB, which has become critical to the sustainability of the council’s MTFP. As identified above funding has been provisionally announced along with the settlement this year at **£1,595,820** for 2025/26. This represents one year’s worth of NHB only, which is much reduced from the original scheme of six years. Its inclusion within the definition of core revenue spending power in recent years also represented a change from the initial messaging about the financing, which was that it represented additional government

funding. However, as noted in December's budget update report, government has indicated that councils should assume that 2025/26 is the last year of the scheme.

21. Included within the settlement is a "Funding floor" of **£2,339,662**. This is the mechanism by which government has ensured that core revenue spending power for all councils has been maintained.
22. On top of government funding allocation, officers have assumed that there will be growth in business rates, or Non Domestic Rates (NDR), above the baseline of **£296,576**. This is the same level as in 2024/25 and recent work on business rates income has indicated that this estimate of growth can be prudently included again in the budget for this year. This will continue to be monitored.
23. As noted in the December update report, there is considerable uncertainty over future funding levels. This is discussed further later in this report.

### **Business rates from renewable energy**

24. Business rates retained by the council as planning authority relating to facilities generating renewable energy within the district is estimated at **£716,618** (MTFP row 59).

### **Collection fund**

25. The surplus on the collection fund is estimated in 2024/25 to be **£352,204** (MTFP row 62).

### **Use of reserves**

26. The difference between expenditure requirement and the funding available is smoothed over the medium-term financial plan by earmarked reserves and the general fund balance. The net impact of these budget proposals is a transfer from reserves of **£250,200** in 2025/26.

## **Revenue budget proposal**

27. Based on the amendments detailed above, and as shown in **appendix A.1** of this report, the budget proposal, including growth, is for a budget requirement of **£20,418,262**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£161.69**.
28. **Appendix C** shows the breakdown of the revenue budget.

## **Capital programme 2025/26 to 2029/30**

### **Current capital programme**

29. The December budget update report included the latest capital programme (before growth) following review and challenge as part of the budget setting process. This was correct as at 18 November 2024, and is summarised in **appendix D.1**, detailed in **appendix D.2** and summarised in table 2 below. It is the capital programme as set by Council in February 2024 plus:
  - slippage (caused by delays to projects) carried forward from 2023/24,

- new schemes approved by Council during 2024/25,
- re-profiling of expenditure on schemes from the 2024/25 financial year to future years where delays to schemes have occurred or additional information is now available to support more accurate profiling,
- the deletion of previously agreed schemes that have completed or are not being pursued at this time in their original form.

30. The capital programme also includes CIL receipts that are payable to Oxfordshire County Council and Buckinghamshire, Oxfordshire and Berkshire West Integrated Care Board.

### Cabinet capital programme proposals

31. **Appendix D.3** contains a list of new capital schemes that are being recommended as part of this budget proposal and **Appendix D.4** contains schemes that have been approved since the December update report was written. All of the CIL funded schemes included in appendix D.3 can be funded from receipts already received by the council and those forecast to be received over the capital programme period.

### Financing the capital programme

32. Where permitted, capital expenditure is funded in the first instance from specific government grants, earmarked reserves and other external contributions. The balance of the programme is funded from the council's capital receipts reserve or through prudential borrowing.

33. **Table 2** contains a schedule showing the current and proposed capital programme and how it will be financed, including the growth proposals, if they are approved. Reflecting an earlier decision of Cabinet, the council's share of purchase costs for all houses bought under the Local Authority Housing Fund (LAHF) schemes is proposed to be funded from Section 106 affordable housing contributions.

34. The total planned capital expenditure, including the current financial year is **£64.453 million** over the programme period. The council's usable capital receipts, based on current estimates, are expected to be **£0.370 million** by the end of 2029/30.

**Table 2: current and proposed capital programme with financing**

	2024/25 Latest Budget £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	GRAND TOTAL £'000
Capital programme approved	22,506	12,844	7,195	7,137	3,756	2,674	56,112
Capital growth proposals (appendix D3)	0	2,921	461	130	130	130	3,771
Previously agreed capital growth proposals (appendix D4)	2,807	1,763	0	0	0	0	4,570
<b>Total Expenditure</b>	<b>25,312</b>	<b>17,528</b>	<b>7,656</b>	<b>7,267</b>	<b>3,886</b>	<b>2,804</b>	<b>64,453</b>
<b>Financing</b>							
Grants and Contributions	8,398	2,343	2,346	2,627	2,786	1,974	20,475
Developer Contributions - S106	1,960	3,335	635	406	171	171	6,677
Developer Contributions - CIL	8,210	3,506	247	115	60	10	12,147
Borrowing	3,000	5,256	2,022	3,470	620	400	14,768
Useable capital receipts	3,745	3,088	2,405	649	249	249	10,385
<b>Total Financing</b>	<b>25,312</b>	<b>17,528</b>	<b>7,656</b>	<b>7,267</b>	<b>3,886</b>	<b>2,804</b>	<b>64,453</b>
<b>Estimated balances as at 31 March 2030</b>							
Useable capital receipts							370

35. The ongoing increases in borrowing, as usable capital receipts are used up, creates an increasing revenue budget pressure for the council over the life of the MTFP, at a time when there is ongoing uncertainty over future funding for the council. In light of the likely financial pressures in future years, officers intend to conduct a further review of the capital programme early in 2025/26 in which all schemes that are not funded through Section 106 or government grant funding will be scrutinised to ensure that they should proceed.

## **The prudential code and prudential indicators**

36. In setting its revenue and capital budgets for 2024/25, the council must agree prudential indicators in accordance with the prudential code (see below). When recommending its budgets to Council, Cabinet must also recommend the prudential indicators.

37. From 1 April 2004, government control of local authorities' borrowing was abolished and replaced by a prudential system of self-regulation. Authorities are able to borrow based on need and affordability, which they demonstrate through compliance with the prudential code developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and which, like other CIPFA codes, is a binding requirement on local authorities by government regulation.

38. The key objectives of the prudential code are to ensure that the capital investment plans of the authority are affordable, prudent, and sustainable. To demonstrate that authorities have had regard to these objectives, the prudential code sets out a number of indicators that must be considered covering five distinct areas – capital expenditure, affordability, prudence, external debt and treasury management. The council must approve the indicators through the budget process before 1 April each year, but they can be revised during the year if required.

39. The key indicators that will drive the capital budget decision making process will be those concerning affordability, as these measure the impact of capital investment decisions on the overall revenue budget and in particular the precept against the collection fund.

40. In setting or revising the prudential indicators the council is required to have regard to:

- affordability e.g., implications for the precept
- prudence and sustainability e.g., implications for external borrowing
- value for money e.g., option appraisal
- stewardship of assets e.g., asset management planning
- service objectives e.g., strategic planning for the council
- practicality e.g., achievability of the forward plan.

41. Under the code, the head of finance as chief finance officer is responsible for ensuring that the council considers all relevant matters when setting or revising indicators through a report and subsequently that these are complied with. The head of finance is therefore also required to establish procedures to monitor performance against all forward-looking indicators and report upon any significant deviations from forward forecasts with proposed actions.



42. **Appendix E** contains the recommended prudential indicators, which have been calculated based on the budget proposals.

## **The Medium-Term Financial Plan (MTFP)**

43. The MTFP provides a forward budget model for the next five years. **Appendix F** contains the MTFP for 2025/25 to 2029/30. This is a projection of the revenue budget up to 31 March 2030. It incorporates assumptions on interest income and other pressures on the council, such as inflation and salary increments. Clearly in the current economic climate, which is beyond the council's control, these assumptions are subject to greater volatility than experienced in recent years, rendering the estimates in the later years of the MTFP far more speculative than has been the case historically.

44. The MTFP makes assumptions regarding future government funding for the council. As noted in the December update report, future government funding for the council is uncertain, given that the government has committed to:

- A review of councils' needs and resources, which could include redirecting funding away from this council to other councils,
- A reset of the business rates retention system,
- The end of New Homes Bonus in its current form.

45. In estimating future government funding, officers have made the following assumptions:

- The business rates reset will be phased over three years. As such, the council will see a phased reduction in its earnings above baseline before the reset, with the council seeing modest growth in retained business rates above the baseline in later years,
- pEPR and compensation for increased employer National Insurance contributions will continue to be paid at current levels,
- Given the amount of funding the council has received under the funding floor (the ninth highest amount of any council), it is assumed that the council will see significant reductions to its government funding as part of the settlement. Officers have included a reduction – represented by the “estimated reduction in government grant funding” line in the table below - that would bring Vale's funding in line with that of South Oxfordshire District Council, which is receiving significantly less funding from the funding floor. It is also assumed that current council tax referendum limits will continue to apply.

46. The resulting figures are shown in table 3 below. Clearly these are estimates which may prove to be too optimistic or too pessimistic. Officers will continue to refine these estimates as more information about future funding becomes available.

### **Table 3: Estimates of future government funding**

	2025/26 Estimate £	2026/27 Estimate £	2027/28 Estimate £	2028/29 Estimate £	2029/30 Estimate £
Core revenue spending power:	(16,798,671)	(16,798,671)	(16,798,671)	(16,798,671)	(16,798,671)
Council tax	(9,564,206)	(10,037,443)	(10,524,617)	(11,026,078)	(11,542,181)
Government grant funding	(7,234,465)	(6,761,228)	(6,274,054)	(5,772,593)	(5,256,490)
Estimated reduction in government grant funding		600,000	1,200,000	1,800,000	1,800,000
Retained business rates	(296,576)	(247,717)	(198,859)	(150,000)	(200,000)
pEPR	(1,180,000)	(1,180,000)	(1,180,000)	(1,180,000)	(1,180,000)
NI compensation	(152,000)	(152,000)	(152,000)	(152,000)	(152,000)
<b>Total</b>	<b>(18,427,247)</b>	<b>(17,778,388)</b>	<b>(17,129,530)</b>	<b>(16,480,671)</b>	<b>(16,530,671)</b>
<b>Total government funding</b>	<b>(8,566,465)</b>	<b>(7,493,228)</b>	<b>(6,406,054)</b>	<b>(5,304,593)</b>	<b>(4,788,490)</b>
Annual reduction in government grant funding	0	1,073,237	1,087,175	1,101,461	516,103
Cumulative reduction in government grant funding	0	1,073,237	2,160,411	3,261,872	3,777,975

47. To support ensuring future financial sustainability, officers are recommending that parameters for the sustainable use of reserves to support the revenue budget are introduced. It is proposed that the maximum use of reserves to balance the budget should be no more than ten per cent of general fund balance, including reserves specifically earmarked to support general revenue expenditure. The parameters will not apply in years when:

- The maximums are breached due to revenue spend on transformation activity designed to reduce future costs, or
- Government funding changes significantly outwith previous estimates that are not communicated until too late in the budget setting process to undertake the necessary changes to the budget or organisation, or
- A material change to the costs of one or more services is identified too late in the budget setting process to undertake the necessary changes to the budget or organisation.

48. Row 65 of the MTFP shows the amount of reserves being used to support the revenue budget, whilst row 76 shows the closing value of reserves that are available to support the revenue budget. As can be seen, reserves are used in all years of the MTFP to support the revenue budget, ranging from £250,200 in 2025/26 to over £7.5 million in 2029/30.

49. Under the recommended parameters for sustainable use of reserves, the modest amount of reserves required to support the revenue budget in 2025/26 is clearly sustainable. The amount expected to be used in 2026/27, whilst much higher than that needed in 2025/26 would also be in line with the recommended parameters, based on current estimates. However, beyond 2026/27, or even potentially in late 2026 if current estimates prove to be too optimistic, the use of reserves would be clearly unsustainable and action will be required by the council to address the increasing budget gap.

50. At the point that officers identify that action is required, the council will need to prioritise its revenue spend in the following order:

- Statutory obligations,
- Appropriate governance,

- Council plan priorities.

51. The council will also need to consider the main options open to the councils facing budget gaps, which are as follows:

1. Ensure budgets are as accurate as possible, eliminating over budgeting for expenditure and under budgeting for income, whilst maintaining an adequate contingency,
2. Look to provide services more efficiently,
3. Ensure existing income streams are maximised by ensuring all costs are recovered,
4. Identify new income streams,
5. Cut services

Whilst the council has been able to avoid cutting services up until now, it may not be possible to do so in future if it is to maintain financial sustainability in the later years of the MTFP.

52. It was noted in the December update report that 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

Should there be increases in the costs of delivering these services in future then that will place additional pressures on council finances, over and above those discussed earlier.

53. As noted earlier, in light of the financial challenges in the later years of the MTFP, the capital programme will also be reviewed early in 2025/26.

54. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the head of finance) to report on the robustness of the estimates and the adequacy of reserves. The council must have regard to this report when making decisions about the setting of the budget. The construction of the budget has been managed by qualified accountants and as identified above, has this year been subject to challenge in a number of areas both by strategic management team and cabinet members.

55. A scene setting report was presented to cabinet October 2024, with a further update report, including the latest revenue base budget and updated capital programme, in December 2024. A detailed briefing on this budget proposal will be given all councillors.

56. In view of the process undertaken and his own knowledge of the budget, the head of finance is satisfied that the budget for 2025/26 is both prudent and robust. However, it will be a significant challenge to maintain that position in the later years of the MTFP period based on likely pressures and expectations around future funding.

57. The head of finance's full report will be available at full Council.

## **Financial Implications**

58. All financial implications are covered in the report.

## **Legal Implications**

59. The Cabinet needs to make recommendations to the council on its spending proposals. Under the Local Government Act 2000 it is the council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 12 February 2025 in order to set the budget, and the council tax including amounts set by the town and parish councils, Oxfordshire County Council and the Police and Crime Commissioner for Thames Valley.

60. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the Head of Finance as chief finance officer to make a report to the authority on the robustness of the estimates and the adequacy of reserves are addressed within the body of this report.

## **Climate and ecological impact implications**

61. 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**

62. There are no proposed service reductions included in this report – as such there are no direct equalities implications arising from this report, beyond those associated with the requirement to ensure that the council's approach to staff remuneration is consistent and reflects the agreements reached with UNISON as well as wider legislation.

## **Risks**

63. As noted under legal implications there is a legal requirement for the council to set a budget within proscribed timelines. If this is not achieved, then there is significant financial risk to the council in the short term of being unable to legally bill residents for council tax due and for wider intervention by Government.

64. The financial risks facing the council in the future have been detailed in the report.

## **Other Implications**

65. Agreement of the revenue and capital budgets authorises expenditure in accordance with the council's delegated powers and financial procedure rules but is not a requirement to spend. The officer, councillor or councillor body taking those decisions will take into account the human resources, sustainability and equality and diversity

implications of individual spending decisions, at the time they are made, as required by law.

## **Conclusion**

66. This report provides details of the revenue base budget for 2025/26, the capital programme 2025/26 to 2029/30, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

67. In light of the information provided Cabinet must make a number of recommendations to Council regarding the revenue budget, the capital programme and the prudential indicators and will do so after consideration of the views of Scrutiny.

## **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 A.6	Amendments to base budget post December update report
Appendix B.1	Revenue growth and savings
Appendix C	Service budget analysis
Appendix D.1	Current capital programme – summary
Appendix D.2	Current capital programme - detailed
Appendix D.3	Capital growth bids
Appendix D.4	Amendments to the capital programme since December 2024
Appendix E	Prudential indicators
Appendix F	Medium term financial plan