Slough Borough Council

REPORT TO:	**Corporate Improvement Scrutiny Committee**
DATE:	**17 December 2024**
SUBJECT:	**General Fund Revenue Budget 2025/26 and Medium-Term Financial Strategy 2025/26 to 2028/29**
CHIEF OFFICER:	**Annabel Scholes, Executive Director, Finance and Commercial**
CONTACT OFFICER:	**Dave McNamara, Director of Financial Management**
WARD(S):	**ALL**
PORTFOLIO:	**Councillor Smith – Leader of the Council** **Councillor Chahal – Lead Member Financial Oversight**
KEY DECISION:	**No**
EXEMPT:	**NO**
APPENDICES	**A: Cabinet's response (18/11/24)** **B: Significant changes to the MTFS since Cabinet, July 2024** **C: Draft Budget 2025/26 by Directorate** **D: Draft Budget Proposals** **E: Draft Capital Programme 2025/26 – 2029/30** **F: Draft Treasury Management Strategy**

1. SUMMARY and RECOMMENDATIONS

1.1. This report sets out the draft budget for 2025/26 and Medium-Term Financial Strategy (MTFS) for 2025/26 to 2028/29 which was put before Cabinet on 18 November 2024 in accordance with the Council's budget process as set out in the Constitution. Cabinet's responses are set out in Appendix A.

1.2 CISC members are to note the following:

i. This is Phase one of 2025/26 budget proposals for revenue; (Section 4)

ii. Phase two 2025/26 budget proposals for revenue will be presented to CISC in January to reduce the £17.351m projected gap and to include the local government finance settlement due in December;

iii. A Draft five-year capital programme for 2025/26 to 2029/30; (Appendix F)

iv. An Update on the Medium-Term Financial Strategy 2025/26 to 2028/29 (Section 3).

1.3 The Budget task Group has met on 3 occasions since September 1 2024 and has received information about budget pressure for 2024/25 and 2025/26.

1.4 It has also received more detailed information about pressures in 2024/25 in relation to Adult Social Care (ASC) and a further ‘deep dive’ will have been undertaken on December 4 2024.in relation to Temporary Accommodation.

1.5 The task group will feed its findings into the pre-meeting on 11 December to inform the committee’s key lines of enquiry in relation to this report.

Recommendations:

1.6 That CISC members:

a. Note the draft budget for 2025-26 and revised MTFS 2025-2029

b. Where appropriate, raise issues of concern and/or recommendations for the attention of Cabinet at its meeting in January.

Commissioner Review

The Council has made significant progress throughout 2024 to identify and address many of the legacy issues in the balance sheet, systems, processes and core baseline budgets, in order to provide a stronger financial foundation on which to build, whilst seeking to move closer to a sustainable annual revenue budget over the course of the medium term.

This report updates the medium term financial strategy, draft revenue budget and capital programme and also takes account of service growth and savings developed by service directors across the Council. Together these deliver a first phase package of measures for consideration in addressing the challenges and projected budget shortfalls in 2025/26 to 2027/28.

However, despite the progress made on delivery of the proposals underpinning this report, the Councils projected budget deficit remains substantial, assumes additional borrowing and the level of usable reserves available as a cushion is reducing. A more significant response will be required across the Council in considering the next phase of measures in addressing the residual gap and improving the delivery confidence levels attributed to the proposals.

The Committee should objectively consider this phase 1 iteration of the draft Budget and Medium-Term Financial Strategy, assess the strengths and weaknesses of the growth and savings proposals, seek any explanation or information needed to better understand the proposals, and the impact that savings and growth will have on local people. Between now and budget setting, should committee members or party groups want to take proposals off the table for policy reasons or propose the addition of proposals to the schedule to bridge the residual budget gap, in the context of ensuring a balanced budget can be achieved, it is critical that they seek to identify alternative options in a timely manner to enable the proposal to be appropriately evaluated and impact assessed, to secure long term financial sustainability.

2. REPORT

2.1. The council's budgetary and policy framework within the council's constitution requires the council to set out a budget for the forthcoming financial year and MTFS. Legislatively, the council is required to set a balanced budget and council tax by 11 March of the preceding financial year.

2.2. The budget takes into consideration the council's 'A Fresh Start Corporate Plan 2023 – 2027' which sets out the council's vision and what the council hopes to deliver. The three key priorities are:

2.3. In delivering the priorities the council seeks to be:

2.4. This report presents the draft revenue and capital budget for 2025/26, the draft budget proposals for 2025/26 and MTFS, taking into consideration the council's corporate plan, the national context and economic outlook for local government and then how this may impact on the council. The provisional finance settlement is not expected to be published until December which will provide further certainty on the council's available funding for 2025/26. The council currently use Pixel Financial Management to support funding modelling and assumptions.

3. NATIONAL CONTEXT AND ECONOMIC OUTLOOK

3.1. Uncertainty in local government funding in recent years has remained a topical point of discussion within the public sector mainly receiving single year funding settlements and no conclusion to funding reforms. Councils including organisations representing local government have continued to lobby government on more funding following years of austerity measures and funding not keeping pace with increased demand for services and rising costs. This has made it challenging for councils to budget beyond a one-year horizon robustly. Core spending power, the measurement of core revenue funding available to councils through the local government funding settlement has increased by an average of 3.1% per annum since 2019/20 (recent quote by a senior researcher at Institute for Government).

3.2. The Local Government Association surveyed council chief executives[1] undertaken prior to the Chancellor's Autumn Statement, published findings including:

3.2.1. One in four (25%) councils could be applying for exceptional finance support in the next couple of years, this rises to 40% for councils with social care responsibilities;
3.2.2. If exceptional finance support did not exist, potential section 114 notices that could be issued by Chief Finance Officers could be around 18% in 2025/26 rising to 33% by 2027/28 based on the likely and don't know responses of 195 survey respondents; and
3.2.3. Single tier council services areas of most concern were children's social care, adults social care, special education needs and disabilities (SEND), homeless and temporary accommodation and home to school transport.

3.3. The Chancellor's Autumn Statement on 30 October 2024 committed to reforms to local government funding by introducing multi-year settlements from 2026/27, and for 2025/26 committed to £1.3 billion of extra funding through the local government settlement suggesting around 3.2% real terms increase in core spending power.

3.4. In addition, local authorities are expected to receive around £1.1 billion of new funding in 2025/26 through the implementation of the Extended Producer Responsibility scheme to improve recycling outcomes from January 2025, equivalent to a further c.1.6% real-terms increase in local government resources. Exceptionally for 2025/26 only, and recognising the importance of local authorities being able to effectively plan their budgets, the Treasury will guarantee that if local authorities do not receive Extended Producer Responsibility income in line with the central estimate there will be an in-year top up, with the detail on this to be set out through the Local Government Finance Settlement (LGFS) process

3.5. Other measures announced include extending the Household Support Fund, SEND funding, funding to tackle homelessness including the affordable homes programme, funding for bus service improvement plans and local roads maintenance. The Statement also announced business rates measures for businesses which councils would be fully compensated for and also announced a rise to the minimum wage which could impact council's supplies and services contracts.

[1] Council finances and Autumn Budget 2024 Survey of chief executives

3.6. From an economic position, the Office for Budget Responsibility (OBR’s) assumes Consumer Prices Index (CPI) to be 2.6% in 2025/26 before falling to 2.1% by Q4 2028. The table below is the OBR’s economic and fiscal outlook for October 2024.

	RPI	RPIX	CPI
2024Q4	3.6	3.0	2.4
2025Q4	3.4	3.0	2.5
2026Q4	3.1	2.9	2.1
2027Q4	3.1	2.9	2.1
2028Q4	2.9	2.8	2.1
2029Q4	2.9	2.8	2.0

MEDIUM TERM FINANCIAL STRATEGY 2025/26 – 2028/29

3.7. Based on our published corporate plan, the below presents ten key facts about Slough that inform our resourcing decisions

3.8. The financial challenges and other issues facing the council are of an unprecedented magnitude and face a council that is one of the smallest unitary councils in England and which therefore does not have the critical mass needed to be financially sustainable without radical action.

3.9. The council’s MTFS is therefore aimed at the objective of delivering finance resilience through the finance recovery plan and achieving onward sustainability.

3.10. The council remains in recovery and the recent announcement by the government that it is minded to extend government intervention for a further two years, recognising the need that over the medium to longer term the council needs to spend within its available resources.

3.11. In addition, social care services delivered by Slough Children First and services for children with special educational needs and disabilities which sit in the council are both subject to separate Statutory Directions. The Statutory Directions mandate the need for significant improvements to practice but these must also be within the agreed financial envelope.

3.12. The council is working within an incredibly challenging financial context with increasing future demand from residents to address more complex issues. Society is also changing rapidly, with different expectations and needs. The council is therefore proactively designing its future shape and how it will continue to deliver services to its residents, businesses, partners and attracting people and businesses to Slough. The strategy includes:

a) Development of an operating model that continues to take the council through recovery and out of intervention;

b) Developing our data and analytics capability including a base budget review to inform decision making and integrating corporate planning with financial resources;

c) Driving down demand for temporary accommodation; It is deeply disappointing that the Government has chosen not to increase Local Housing Allowance given the scale of the homelessness crisis and price inflation in the rental sector, We will however work to both better manage increasing demand and to reduce controllable costs through more efficient and creative purchasing;

d) Driving down demand for adult social care services by supporting more residents to access local community and voluntary services and by increasing aware of assistive technology and access to equipment to maximise independence;

e) The Department of Education (DfE) is considering reducing the amount of funding given to both Slough Children First and Slough Borough Council to meet the additional costs of running a Company from 2025/26, taking account of the progress towards sustainable service delivery. With this in mind, the DfE have requested a joint review of SCF and SBC corporate services with steps being taken to align these services and enable a continued, ambitious tapering of DfE funding. A project group is now in place to undertake a review of corporate services and any improvements required to allow for successful merger or transition of services to the Council with a target date of April 2025. It is important to note that no decision has yet been made and the Council and SCF are engaging with MHCLG and DfE commissioners on progress of this review. Further details will be provided in the SCF Business and Improvement Plan, which will be presented to Cabinet in December 2024.

The project group is also looking ahead to consider how the services provided by SCF can successfully be merged back into the Council when the Contract comes to an end in August 2026. The Council remains under statutory intervention of the

DfE and during this period the Secretary of State must consent to the Council exercising significant rights under the contract, including termination or expiry;

f) Implementing borough wide parking controls to manage airport and other anti-social parking and improve resident amenity. Alongside the implementation of a range of measures to improve road safety, reduce pollution and promote active travel;

g) Utilising our operational assets such as buildings, car parks and green spaces to generate income while improving the cultural and leisure offer in the borough. Maximising opportunities for sponsorship and advertising to meet public realm costs income generation opportunities from Public Realm with digital screens, bus shelters & benches. Evaluating event sponsorship and seeking partnering opportunities with local businesses and exploring naming rights for public facilities;

h) Introducing an updated Asset Management Strategy incorporating a Corporate Landlord model will enable optimum revenue savings to be driven from across the Councils whole property and asset portfolio. The new Asset strategy will enable the council to identify those assets that are costly to operate and maintain and seek alternative provision with Partners and external stakeholders whilst ensuring front line services are delivered. The Strategy if approved at the November Cabinet has identified an updated two year disposal programme that will deliver significant capital receipts, although a reduction on the original assumptions and year on year revenue savings; and

i) Overall, develop services, particularly those that are non-statutory to be self-financing or better and develop a commercial strategy that meets our longer term financial sustainability.

3.13. As a council in recovery and intervention, it is acknowledged that there is still a significant journey to move from recovery to become financially sustainable and develop a financial strategy that underpins the corporate plan and the resources available to the council.

3.14. In preparing the draft budget for 2025/26 and draft MTFS, the council since early summer has undertaken the following activity with its Cabinet members and Corporate Leadership Team.

a) Reviewed the budget gap in the context of the provisional outturn 2023/24, Quarter 1 and Quarter 2 2024/25 forecast outturns;
b) Held Star Chamber budget challenge meetings with Portfolio leads and director’s
c) Continued with weekly corporate leadership teams incorporating a budget discussion; and
d) Set up three project rooms with representation from across the council to look at costs and opportunities on adult social care, temporary accommodation and other significant spend. Over the course of two weeks, the project rooms generated opportunities of £16.7m of which following initial due diligence reduced to £10.9m. Tracking these opportunities, business cases have subsequently been developed and £13.1m has been included within the MTFS being a combination of reduced growth requirements and new saving opportunities.

3.15. The Council has reviewed the Chancellor's Autumn Statement to assess the potential impact on Slough including the future changes to local government funding arrangements. This approach is expected to benefit Slough and recognise the increase in population and of need since the 2011 census. However, in our modelling of the distribution of additional funding to Slough we have attempted to be prudent in our assumptions.

3.16. The methodology that the Government applies in the distribution of additional funding is critical in determining the actual cash allocation. Table 1 sets out some of the options for the distribution of funding that the Government could adopt, based on existing funding arrangements. They are extremely varied and as a Unitary authority, which for this exemplification is differentiated from Inner and Outer London Boroughs, the range of funding varies from 22.97% as per our existing Settlement Funding Assessment allocation to 38.18% if a model that reflected local Indices of Multiple Deprivation (IMD) was used.

3.17. The Government's commitment to a broader redistribution of funding through a multi-year settlement from 2026/27 is to be welcomed as it should more fully reflect the needs of the residents of Slough and give greater certainty around budget for future years that will greatly assist planning.

Table 1

	SFA Share (%)	**Overall IMD weighted Share (%)**	**Combined SFA/ IMD Share (%)**	**Social Care Grant (full eq) Share (%)**	**TOTAL (SFA/ IMD, SCG) Share (%)**
Inner London boroughs	9.69%	8.68%	9.08%	8.79%	8.95%
Outer London boroughs	8.95%	10.61%	9.96%	8.22%	9.16%
Metropolitan districts	26.16%	32.21%	29.83%	30.56%	30.17%
Unitary authorities	22.97%	38.18%	32.18%	25.77%	29.22%
Shire Districts	3.44%	2.02%	2.58%	0.00%	1.39%
Combined fire authorities	2.66%	0.00%	1.05%	0.00%	0.57%
Shire counties	16.26%	8.29%	11.43%	26.65%	18.46%
Metropolitan fire authorities	1.66%	0.00%	0.65%	0.00%	0.35%
Greater London Authority	8.22%	0.00%	3.24%	0.00%	1.75%
England	100.00%	100.00%	**100.00%**	**100.00%**	**100.00%**

3.18. The government will set out further details through an upcoming local government finance policy statement in November, in advance of the provisional local government finance settlement in December.

3.19. The £1.3bn will includes £600m for additional social care funding and £700m for targeted funding. Subject to clarification on the methodology of the distribution our current assumptions are that we may receive a further £3.4m of funding. We had already assumed an increase in the Adult Social Care grant so whilst confirmation of this is to be welcome it does not significantly reflect the Council's position.

3.20. Table 2 provides Cabinet with the draft budget 2025/26 and MTFS projections which were refreshed following the approved budget and MTFS in March 2024. Cabinet received an update on changes since the approved budget. Appendix B provides an update of changes made since July Cabinet meeting. The draft budget 2025/26 by Directorate can be seen in Appendix C.

3.21. Phase one budget proposals presented to this Cabinet meeting are not sufficient to balance the 2025/26 budget with a remaining projected gap of £17.351m still to close. Therefore, phase two budget proposals will be presented to Cabinet in January after the provisional local government settlement has been published.

3.22. The focus of this report has been on the 2025/26 financial position and growth assumptions for future years have retained generic assumptions rather than progressing to detailed service specific trend analysis which continues to be developed.

Table 2

MTFS Scenario Planning		2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Underlying Gap	Underlying gap rolled forward	23.078	13.909	9.151	3.260
PRESSURES					
Prior Year Gap b/f		0.000	17.351	26.043	32.404
Pay Award	2% pa from 2025/26	1.394	1.411	1.439	1.468
Contract Inflation	CPI & RPIX - keep under review	1.274	1.424	1.462	1.501
Growth	Growth and Pressure submissions	31.342	5.149	3.552	4.823
2024/25 Impacts	24/25 pressures picked up in 25/26 proposals	-8.864	0.000	0.000	0.000
Recovery Plan	Recovery Plan	6.239	1.000	0.000	0.000
CD Adjustments	MRP, Assets, Time Limited Budgets, Pension Deficit Companies, Reserves, Interest	1.954	0.041	1.291	1.157
	TOTAL GROWTH/PRESSURES	**33.339**	**26.376**	**33.787**	**41.353**
FINANCING					
Grants	Revised estimates, drawing on Pixel	-3.559	0.549	-0.503	-0.513
Council Tax	Increase by max allowed 4.99	-5.073	-4.912	-5.056	-5.333
Business Rates	Based on revised estimates	-5.736	-0.692	-0.690	-0.751
Reserves	From Smoothing Reserve and carry forward	0.000	2.000	0.000	0.000
	TOTAL FINANCING	**-14.368**	**-3.055**	**-6.249**	**-6.597**
Savings	Savings Target	**-28.140**	**-28.079**	**-33.429**	**-38.017**
	NET BUDGET GAP	**13.909**	**9.151**	**3.260**	**0.000**
	Savings Proposed	-10.789	-2.036	-1.025	0.000
	Gap to be closed	**17.351**	**26.043**	**32.404**	**38.017**

3.23. The council's original budget strategy recognises that its expenditure greatly exceeds its available funding and will continue over multiple years as part of its recovery journey to become a sustainable council and remodel its service provision. The council requested exceptional financial support again for 2024/25 and is likely to do so for 2025/26. The expectation is for the council to meet the exceptional financial support through its asset disposal programme. The asset disposal programme is under review and the current estimates for the exceptional finance support as part of a capitalisation direction is as follows:

	Up to 2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Exceptional finance support	298.645	23.078	13.909	9.151	3.260	0	348.045

4. BUDGET PROPOSALS 2025/26

4.1. Budget proposals have been developed over the summer and presented within this Cabinet report in Appendix D for Cabinet approval to consult upon. The proposals cover both pressures, including rightsizing budgets and savings. The tables below summarises the budget proposals by category including previously agreed growth and savings that impact on the 2025/26 budget.

Growth Proposals	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Draft Budget proposals 2025/26	31.342	5.149	3.552	4.823

Saving Proposals	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Budget proposals carried forward MTFS 2024/25 (already approved)				
Original approved savings	6.836	1.796	-	-
Reversal of savings during 2024/25 (Reported in Budget Monitoring)	(3.340)	(0.760)		
Subtotal (1)	3.496	1.036	-	-
Draft Budget proposals 2025/26				
Savings – Service Reductions	0.721	-	-	-
Savings – Efficiencies	2.985	-	1.025	-
Savings – Income Generation	3.587	-	-	-
Subtotal (2)	**7.293**	**0.568**	**1.025**	**-**
Total (1) + (2)	**10.789**	**1.604**	**1.025**	**-**
Risk Deliverability Assessment				
High (The approach to delivery is dependent on either a policy change and / or implementing new technology / processes and / or consultation)	0.430			
Medium (The approach to delivery is to be finalised)	7.124			
Low (A robust approach to delivery is clear including timescales and any change factors have been agreed or are in place)	3.235			

*Saving proposals will be reclassified into the Target Operating Model themes during the budget setting process and reported to the next budget Cabinet meeting.

4.2. A deliverability risk assessment has been undertaken on each saving to determine underlying risks in delivering the saving in full. Currently 4% of savings have been identified as high risk to deliver. The business cases will need to clearly articulate how these savings can be delivered and actions that are required to mitigate against non delivery of savings. Similar action will also be required on amber savings which equate to 66% of overall savings.

5. CORE FUNDING ASSUMPTIONS

5.1. The following table outlines the core funding assumed in the budget 2025/26 and MTFS.

Funding Source	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Council Tax Income	(87.697)	(92.609)	(97.664)	(102.998)
Business Rates - Local Share	(42.042)	(42.734)	(43.424)	(44.174)
Revenue Support Grant	(7.999)	(8.159)	(8.322)	(8.489)
Targeted Deprivation Funding Stream	(2.747)	(2.802)	(2.858)	(2.915)
Other Government Grants	(11.672)	(10.908)	(11.192)	(11.482)
Capitalisation Direction	(13.909)	(9.151)	(3.260)	-
Total Funding	**(166.066)**	**(166.363)**	**(166.721)**	**(170.058)**

5.2. The table includes projections modelled by Pixel Financial Management following the Chancellor's Autumn Statement which will be refreshed once the local government provisional settlement is announced later in December. For future years, Pixel Financial Management have taken into consideration Fair Funding formulae which projects an additional £20m funding due to the council. There are a number of unknowns including how government would distribute funding across all council's, it is therefore prudent to remain with future projections remaining in line with pay award and inflation assumptions.

6. COUNCIL TAX

6.1. The following table outlines the council tax estimates within the MTFS.

	2025/26	2026/27	2027/28	2028/29
Council tax base (Band D - Equivalent Properties)	45,687.60	45,992.30	46,233.80	46,475.30
Band D £0.00	1,923.09	2,019.05	2,119.80	2,225.58
Collection Rate	98.25%	98.25%	98.25%	98.25%
Council Tax £m	**(86.324)**	**(91.236)**	**(96.291)**	**(101.625)**
Sensitivity impact				
1% change + / (-)	**(0.822)**	**(0.869)**	**(0.917)**	**(0.967)**

6.2. Assumptions within the council tax estimates are as follows;

a) An increase of 4.99% council tax increase (council tax standard increase 2.99% and adult social care increase of 2.00%), rising from band D £1,831.69 in 2024/25 to £1,923.09 in 2025/26;
b) Future years assume a 4.99% council tax increase;
c) Growth assumptions assume a growth of 275 properties in 2025;
d) Council tax collection rate has been reduced from 99.00% to 98.25% taking into account a lower rate of collection this year (bringing the assumed collection rate to 98.60%) and the potential impact of a change to the Council Tax Support Scheme taking a further 0.35% off the collection rate subject to consultation;
e) The impact of the potential change to the Council Tax Support Scheme is to add an estimated 901 band D equivalent properties to the Council Tax base in 2025/26;
f) the referendum limits for council tax and additional Adult Social Care precept will be confirmed in the LGFS; and
g) Each 1% increase in Council Tax, taking account of the impact of the collection rate, nets an additional £0.822m in 2025/26.

6.3. Cabinet at an extraordinary meeting to be held on 14 November will consider the basis of options for consultation on the Council Tax Support Scheme. The council is proposing to make changes to its scheme for working age households which seeks to deliver a net saving of £1.739m, before any allowance for non-collection, and align the scheme more with other local authorities. The Council is also considering how to utilise a hardship fund to support those who are in financial hardship for a period of time.

6.4. The January 2025 cabinet meeting will receive a report recommending the Council Tax Base for 2025/26, following consultation on the proposed Council Tax reduction scheme, and any refinement to other assumptions that may be deemed appropriate.

6.5. Under legislation, the council manages the collection of council tax through the collection fund. Based on the current and predicted future performance of the collection fund, the council is expecting to be able to recognise the following contributions into the General Fund. This recognises the timing differences between setting the council tax for the forthcoming financial year and the performance of growth assumptions and collection rates.

7. BUSINESS RATES - (National Non-Domestic Rates - NNDR)

7.1. Table 4 outlines the business rates estimates within the MTFS. An assessment of the business rates collection fund surplus or deficit is subject to due diligence.

Table 4

	2025/26	**2026/27**	**2027/28**	**2028/29**
Business Rates (£m)	**(42,042)**	**(42.734)**	**(43.424)**	**(44.174)**

7.2. The Chancellor's Autumn Statement announced measures for private schools in England no longer being eligible for charitable relief, updates to the retail, hospitality and leisure relief, a freeze to the small business rate relief. Councils will be fully compensated for the loss of income and administration costs for these measures.

7.3. Assumptions within the Business Rate estimates are as follows;

a) No growth assumed in rateable values;
b) An inflationary increase of 1.7% based on September's CPI and 2% uplift thereafter.
c) Collection rate remains at 99.2% per annum; and
d) The 2018/19 and 2019/20 business rate returns (NNDR3) have been restated and submitted to MHCLG for approval. This is a sequential process and each year's amended return to 2022/23 will have to be submitted Until this matter has been closed and prior year accounts updated, there is no collection fund surplus / deficit included in future years.

8. CORE SPENDING POWER – FUTURE

8.1. Core spending power, the measurement of core revenue funding available to councils through the local government funding settlement is expected to increase in real terms by £3.4bn, or 5.25% in cash terms (£1.3bn grant increase, £2.1bn council tax increase).

8.2. Looking forward, the Government is committed to returning the sector to sustainability through a comprehensive set of measures to support local authorities in England. These will need to be developed over the next 1-2 years.

8.3. Whilst there are no firm proposals on which to model future years' settlements the approach will be to reform funding allocations within the Local Government Finance Settlement by redistributing funding to ensure that it reflects an up- to-date assessment of need and local revenues.

8.4. The Government will also simplify the wider local funding landscape, reducing the number of grants and consolidating them into the Local Government Finance Settlement. The Government wants to move towards a multi-year settlement for local government so local authorities can plan more effectively. Whilst it is anticipated that the Council will benefit significantly from these proposals, given the redistributive nature of the settlement it is possible that benefits may be dampened down over a number of years to mitigate the impact on councils who would be adversely affected be the changes.

9. CORE EXPENDITURE ASSUMPTIONS

9.1. In developing the draft budget for 2025/26 and MTFS the following assumptions have been incorporated:

	2025/26	**2026/27**	**2027/28**	**2028/29**
Pay Award	2.00%	2.00%	2.00%	2.00%
Inflation CPI	1.70%	2.00%	2.00%	2.00%
Inflation RPI	3.20%	3.00%	3.00%	3.00%
Contract specific:				
Finance & Commercial (Risk & Insurance, Revenues & Benefits)	5.00%	5.00%	5.00%	5.00%
Children's Services (PFI Unitary Charge)	5.00%	5.00%	5.00%	5.00%

9.2. It is prudent to allow for a corporate contingency to manage fluctuations and budget risks including the pay award assumptions for 2025/26. The contingency, amounting to £9.327m, comprises the following:

	£m
Pay award for 2025/26 plus retained savings from a lower pay award in 2024/25	2.900
Potential cost of change to Employer's National Insurance	1.058
General Contingency	1.812
Revenue Impact of Asset Sales, including retained savings from fewer asset sales in 2024/25	0.842
Non Delivery of Savings	0.500
Creation of risk reserve for demand pressures	2.215

9.3. Cabinet note that further work is required to balance the budget for 2025/26, internal challenge sessions are continuing to find opportunities to drive down cost, reduce demand or find other saving proposals. Work is therefore continuing on modelling scenarios, service provision and sensitivity analysis to ensure that the council develops a balanced budget for 2025/26.

10. FEES AND CHARGES

10.1. The budgetary impact of fees and charges proposals is built into the figures outlined in this report. The full schedule of fees and charges proposed will be taken to Cabinet and Licensing Committee in January 2025.

11. CAPITAL PROGRAMME

11.1. Cabinet agreed in July a revised capital programme 2024/25 to 2027/28, taking account of those schemes from 2023/24 that had encountered slippage, a review of forecast expenditure for the current and future years, and approvals for a number of new externally funded schemes. In accordance with the Council's approved capital strategy, expenditure proposals must be affordable, sustainable and prudent, and aligned to the Council's corporate plan priorities, with a focus on the following;

- Ensuring essential services are deliverable;
- Investment that minimises revenue expenditure in the context of financial challenges the authority is facing; and
- Maximising external funding sources.

11.2. The revised General Fund Programme to 2027/28 did not assume any new prudential borrowing but did assume the use of some £9.8m of capital receipts arising from asset disposals. Since then, a review has been undertaken of the General Fund asset disposal programme and this has identified that the value of disposal assumptions, as set out in the approved Treasury Management Strategy 2024/25, are proving to be unrealisable over the current medium term financial planning period. That has implications for capital investment requirements, the debt reduction strategy and financing of the Capitalisation Directions.

11.3. Previous assumptions were that the CDs would be primarily funded by capital receipts. As this is no longer the case, it will be necessary to redirect those capital receipts assumed in the future years' capital programme, if they have an asset life assumed to be over 20 years, to finance the CDs - meaning that any essential approved new investment from 2024/25 onwards, not financed externally, will need to be financed through new prudential borrowing.

11.4. Officers have continued to review both the General Fund and HRA capital programmes, with a view to providing an affordable programme over the next five years. As part of that review officers have identified some additional works and vehicle acquisitions that require Cabinet consideration and approval during 2024/25. These are detailed in Appendix E along with funding. If approved there will be in-year additional prudential borrowing requirements arising from these proposals to the value of £0.057m, and with the redirection of capital receipts for the remainder of the MTFP that will require borrowing on schemes from 2025 onwards. If schemes are approved, it will mean prudential borrowing to the value of £11.2m over the 5 year period to 2029/30. Cabinet are asked to review and approve their inclusion into the 2024/25 capital programme, subject to their business case development and any additional guidance received from MHCLG through the LGFS. Those with revenue implications will require full financial appraisal before commitment of any expenditure.

11.5. The detailed revised 2024/25 and indicative five-year programme 2025/26 to 2029/30 and funding implications are set out at Appendix E. It should be noted future years' specific grant allocations have yet to be announced. Final proposals for consideration by council will be presented to at the January meeting. The implication of this indicative programme is a requirement for additional borrowing to the value of some £11.2m over the 5-year period. It is anticipated that there may be more guidance through the LGFS that the Council will need to ensure compliance with.

11.6. All proposals that will require prudential borrowing will be subject to the council's budget consultation process.

11.7. The estimated capital financing costs arising from the requirement for new borrowing against the indicative GF programme will be some £0.05m in 2025/26 rising to £0.60m in 2029/30. This is reflected in the revised Treasury Management Strategy assumptions.

11.8. The draft HRA Capital Programme to 2029/30 is set out in Appendix E. Again, this is indicative subject to finalisation of the updated HRA 30-year business plan. It is anticipated the programme will be funded from a combination of major repairs and revenue reserves, right-to-buy and other unapplied capital receipts. No additional borrowing is anticipated to be required to fund the programme.

11.9. Officers are recommending a number of changes to the current year's programme that requires Cabinet approval. These are outlined as follows;

- Transfer of £2.66m earmarked for decarbonisation works to Roof Replacement programme which will increase that budget to £4.600m for this financial year – the capital resources to be put back into decarbonisation during the remainder of the MTFS period.

- Transfer of £1m earmarked for purchase of the Foyer, Beacon House to support additional build costs for the Garrick House (phase 2) development during this financial year. The purchase of the Foyer is no longer deemed feasible.

11.10. A summary of the indicative programme is set out in Table 5 below.

Table 5

	2024/25 Revised	2025/26	2026/27	2027/28	2028/29	2029/30	Total
	£m	£m	£m	£m	£m	£m	£m
Expenditure							
HRA							
Repairs & Maintenance (RMI)	15.582	16.464	18.429	19.996	20.796	23.613	114.879
Affordable Homes	5.058	6.242	1.500	0.000	0.000	0.000	12.800
Total expenditure	**20.640**	**22.706**	**19.929**	**19.996**	**20.796**	**23.613**	**127.679**
External funding including capital receipts	(20.640)	(22.706)	(19.929)	(19.996)	(20.796)	(23.613)	(127.679)
Borrowing Requirement							
HRA		0.000	0.000	0.000	0.000	0.000	0.000
Total Borrowing Requirement	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

12. HOUSING REVENUE ACCOUNT

12.1. A separate report to update the HRA 30-year Business Plan & 2025/26 Budget Report is being developed and will be presented for consideration by Cabinet alongside the 2025/26 Council Budget report in January 2025.

13. UPDATED TREASURY MANAGEMENT STRATEGY

13.1. The updated Treasury Management Strategy is set out as Appendix F. It reflects the reduced asset disposal assumptions, as at September, and the need to redirect capital receipts from the revised capital programme to finance Capitalisation Directions.

13.2. It is important to note that this does not yet include the outcomes of the asset review reported elsewhere on this agenda which are considered immaterial for the 2025/26 position but will be included in the main budget and MTFS report to cabinet in January 2025.

13.3. It should also be noted that the Capital Financing Requirement assumptions (setting out the council's underlying need to borrow) remain estimated pending finalisation of the backlog accounts, and further decisions relating to the capital programme as part of this budget process.

13.4. The Treasury Management Strategy will be approved by Full Council in February 2025.

14. DEDICATED SCHOOLS GRANT

14.1. At the time of drafting this report, the 2025/26 indicative DSG allocations have not been released. The DfE have indicated that the annual funding cycle will differ from previous years, it is expected that the DSG funding allocations will be announced in December 2024. The Schools Forum is due to meet on the 15th of January to agree the local formula.

14.2. The 2024/25 DSG allocations and approximate funding allocations from the Autumn Statement are outlined in Table 6.

Table 6

Dedicated Schools Grant (DSG)	2024/2025 DSG allocation £m	Autumn Statement Indicative Allocation £m	Approximate Total Allocation for 2025/2026 £m
Schools block	42.875	2.176	45.051
Central school services block allocation	0.840	0	0.840
High needs block allocation	27.755	2.674	30.428
Early years block	21.810	6.446	28.256
Total DSG allocation	**93.280**	**11.295**	**104.576**

14.3. The Dedicated School Grant (DSG) balance has been in deficit for several years mainly due to overspends on the High Needs Block. This mainly relates to increased demand for out of borough SEN placements, post 16 services and places at Special schools.

14.4. In March 2023, the Council entered into a safety valve agreement with the Department for Education.

14.5. By March 2022, the deficit of the High Needs Block of the DSG had risen to £25.5m.

£m	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
B/F	5.7	4.9	2.4	5.4	7.5	13.4	20.6
In-year	-0.8	-2.5	3	2.1	5.9	7.2	4.9
C/F	**4.9**	**2.4**	**5.4**	**7.5**	**13.4**	**20.6**	**25.5**

14.6. At the time of entering into negotiations with the DfE and prior to finalising the Safety Valve agreement the forecast, if unchecked predicted that the deficit would grow to £41.4m.However by putting in to effect the mitigation measures that now form part of the Safety Valve programme it was estimated that cumulative savings of £14.4m could be achieved and that the deficit could be contained to £27m.

Projected cumulative DSG Deficit

£m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Unmitigated	20.6	27.8	29.1	32.1	35.4	38.5	41.4
Mitigated	20.6	25.5	27.6	28.1	28.1	27.7	27.0
Difference	**0.0**	**(2.3)**	**(1.5)**	**(4.0)**	**(7.3)**	**(10.8)**	**(14.4)**

14.7. The mitigation measures started to have an impact as early as 2021/22 where the in-year deficit was contained to £4.9m as opposed to the previous forecast of £7.2m.

14.8. The Safety valve agreement was signed in March 2023 and subject to maintaining performance against the management plan, the DfE will pay an additional £27m to eliminate the cumulative deficit alongside actions taken by officers to contain the in-year deficit.

Year	**The Department agrees to pay to the authority an additional £m of DSG by year end**			
	Annual £m	**Total £m**	**Revised £m**	**Total £m**
2022/23	10.800	10.800	10.800	10.800
2023/24	3.240	14.040	4.410	15.210
2024/25	3.240	17.280	2.070	17.280
2025/26	3.240	20.520	3.240	20.520
2026/27	6.480	27.000	6.480	27.000

14.9. The government announced in the Autumn statement a £1 billion uplift in funding to support the reform of special educational needs provision to improve the outcomes for the most vulnerable children. The increase represents a 6% real terms increase. The approximate increase to the High Needs Block is £2.63 million.

14.10. The government also announced a £2.3 billion increase in funding for schools for 2025/2026, the approximate increase to the Schools Block is £21.76m.

14.11. Early Years funding will increase by £1.8 billion to continue the expansion of government-funded childcare to help more parents, particularly women, stay in and return to work. The approximate increase in the Early Years Block is £6.44 million.

14.12. Employers' National Insurance contributions will increase from 13.8% to 15% from 6 April 2025, the per-employee threshold at which employers start to pay National Insurance will be reduced from £9,100 to £5,000 per year. To support small businesses with these changes, the government is increasing the Employment Allowance from £5,000 to £10,500 and removing the £100,000 threshold, expanding this to all eligible employers. Employers can claim Employment Allowance if their Class 1 National Insurance liabilities were less than £100,000 in the previous tax year.

14.13. It is unclear whether the funding for Early Years will increase in 2025/2026 to account for the increase in National Insurance contributions that will affect some of the Early Years Providers.

15. FINANCIAL RISKS

15.1. The budget for 2025/26 and MTFS considers financial risks that may materialise and if not mitigated will impact on the council's resilience to manage within its resources. As part of approving the budget in February 2025, the Chief Finance Officer under Section 25 of the Local Government Act 2003 will report on the robustness of estimates and adequacy of reserves. This includes an assessment of financial risks. This report provides an initial view of financial risks which will continue to evolve as part of the budget setting process and can be seen in Table.7.

Table 7.

Risk	Mitigation	Impact £m 2025/26
Funding assumptions assumed differ from the local government provisional and final settlement creating an unbalanced budget. This includes the employer national insurance increase	Review provisional and final settlement. Incorporate estimates from Pixel and continue to monitor. Identify further savings One off use of reserves	2.000
Pay Award will not be known before the budget is set. A 1% change costs approximately £0.700m	2% has been allowed for, which is broadly in line with inflationary forecasts.	0.700
Adult Social Care – additional demand on services beyond the budget provision	Extensive work over the summer, and in the project rooms, has ensured projections are more evidence based than before. A risk reserve is being created.	4.000
Temporary Accommodation – additional demand beyond budget provision	Extensive work over the summer, and in the project rooms, has ensured projections are more evidence based than before. A risk reserve is being created.	5.000
Demand for our other services and / or cost is greater than budget estimates	CLT will continue to undertake monthly monitoring.	tbc
Supplies and Services - National living wage increase within service contracts is likely to be passed onto council contracts	Open book accounting has been implemented with social care providers. Further consideration will be given to this approach for other high value contracts.	2.000
Inflation in 2025/26 and across the MTFS is higher than projections built into the budget. OBR October 2024 forecast is greater than MTFS assumptions. Each additional 1% equates to approx £0.750m.	Inflation has been held at 2.00% and will be reviewed further before the final budget is proposed to Cabinet.	0.750
Savings not delivered resulting in additional pressure on the budget	The contingency budget contains an amount for non delivery of savings on the basis all low medium rated savings will be delivered.	0.430
Capital Borrowing Costs increase beyond MTFS assumptions	Monthly monitoring of borrowing costs.	tbc

Risk	Mitigation	Impact £m 2025/26
	Use of public sector partnership arrangement to achieve value for money	
Investment Rates volatility and decrease beyond MTFS assumptions	Monthly monitoring of investment rates.	tbc
Subsidy – loss of subsidy as TA rates are not fully covered by LHA rates 2011.	Maintaining cost effective TA rates and lobbying for an increase in LHA rate	5.000
Backlog Accounts – that liabilities are identified as part of the finalisation of the prior year accounts	Completion of the prior year accounts for 2023/24 and the balance sheet review	5.000
Council Owned Entities – risk that the retained losses need to be underwritten by the Council	All entities have been formally requested to update their business plans for consideration in advance of the final budget approval	10.000
Reserves is not sufficient to meet risks should they materialise and cannot be mitigated	An assessment will be undertaken as part of preparation of the Section 25 statement	tbc

16. RESERVES

16.1. The council maintains usable reserves to fund specific projects including meeting specific commitments, provide a working balance to meet uneven cashflows or as a contingency to meet costs for unforeseen events or emergencies including risks should they materialise that cannot be mitigated.

Table 8 shows a summary of the reserves held by the Council and the forecast balance as at 31 March 2025. As there remain several years of unaudited accounts prior to 2023/24 the figures are subject to change. By 31 March 2025 the council is expecting to hold reserves of £37.8m, of which £22.0m is set aside to meet unforeseen costs including any overspend in 2024/25 if risks materialise during the last two quarters. £22.0m is 13.6% of net revenue expenditure.

Table 8

	Balance at 1/4/2024 £m	Transfers (to) /from reserves (24/25 Budget) £m	Transfers (to) /from reserves (Recovery Actions) £m	Other forecast movements	Forecast reserve position as at 31/3/2025 £m
MTFS Reserve					
- Test and trace support grant	(0.385)	-	-	-	(0.385)
- Contain Outbreak Management Fund	(0.376)	-	-	0.376	(0.000)
- Client Management SCF	0.059	-	-	-	0.059
- Transformational Reserve	(2.660)	-	-	-	(2.660)
- Directorate Carry forwards	(3.792)	3.792	-	-	(0.000)
MTFS Reserve total	**(7.154)**	**3.792**	**-**	**0.376**	**(2.985)**
Better Care Fund	(5.302)	-	2.817	-	(2.485)
Public Health Reserve	(2.543)	-	0.081	1.933	(0.529)
Public Health Contingency Funding	(0.008)	-	-	-	(0.008)
Proceeds of Crime POCA	(0.324)	-	-	-	(0.324)
Insurance	(0.232)	-	-	-	(0.232)
Budget Smoothing reserve	(10.350)	2.000	-	2.000	(6.350)
Redundancy/Severance Payments	(5.884)	-	-	-	(5.884)
Earmarked reserves total	**(24.643)**	**2.000**	**2.898**	**3.933**	**(15.811)**
Unallocated general fund balance	(21.000)	(1.000)	-	-	(22.000)
General fund reserves total	**(45.643)**	**1.000**	**2.898**	**3.933**	**(37.811)**

16.2. The reserves are expected to deplete further including a further £2.000m drawdown from the budget smoothing reserve for the Financial Improvement Plan. For the council to be financially sustainable in the longer term, it is imperative that the council can live within its resources and increase reserves to mitigate against unforeseen events or risks that may materialise.

16.3. CIPFA publish a financial resilience index on key metrics across all English councils. One metric measures the percentage is usable reserves (excluding public health and schools). In 2022/23, the latest available information, council's nearest neighbours held between 23.66% and 94.32% of usable reserves compared to their net revenue expenditure. Whilst this provides comparative data, the council will need to consider its reserve strategy.

16.4. As part of the council's recovery and improvement plan, a reserves strategy will be developed that enables reserves to be replenished and set at an appropriate level to manage its financial health and risks.

17. CONSULTATION AND ENGAGEMENT

17.1. Cabinet will consider the current draft growth and savings proposals for input from relevant stakeholders, including residents, business community, partners, members and staff and other interested parties. The proposals do not yet fully provide a balanced budget for 2025/26 and further proposals will be necessary and present to Cabinet in January.

17.2. Engagement and consultation, as appropriate, will commence after Cabinet on 18 November 2024, with an update due to Cabinet in January 2025 before concluding by 31 January 2025 ahead of budget Cabinet on 17 February 2025 where Cabinet will recommend a budget to Full Council meeting on 27 February 2025. The engagement and consultation activity will be set to run for the maximum duration possible within the democratic decision setting process.

17.3. The main budget engagement will be undertaken through a survey via Citizen Space. This will involve a short set of questions covering corporate plan priorities, ways for councils to increase funds, proposed spending on core services and a question covering what services respondents currently use.

17.4. Separate consultation and/or engagement will be prepared for specific proposals - this will be delivered with advice from legal on the type of activity required and rolled out according to the decision-making timeline.

18. IMPLICATIONS of the RECOMMENDATIONS

Financial implications

18.1 This report outlines the council's approach for Cabinet to consider the budget 2025/26 and MTFS including the national and local context for developing next year's budget. As such, the report is a financial report with implications set out throughout the report.

18.2 This report will be refreshed for the next Budget Cabinet meeting which in turn will be recommended by Cabinet for budget approval by Full Council in February 2025.

Legal implications

18.3 Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. This requires consideration of the Council's estimated revenue expenditure for the year in order to perform its functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from general fund to collection fund. The Council is required to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council's statutory duties and to lead to a balanced budget.

18.4 Full Council is responsible for setting the overall budget framework. However, some of the proposed savings may be subject to further analysis and decision making and as such the savings are an estimate. Individual service decisions will be subject to officer or Cabinet approval, taking account of the statutory framework, any requirement to consult and consideration of overarching duties, such as the public sector equality duty.

18.5 On 1 December 2021 the Secretary of State for Levelling Up, Housing and Communities made a statutory direction requiring the Council to take prescribed actions and that certain functions be exercised from this date by appointed Commissioners, acting jointly or severally. The functions to be exercised by the Commissioners include the requirement from section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Council's financial affairs, and all functions associated with the strategic financial management of the Council, including providing advice and challenge to the Council in the setting of annual budgets and a robust MTFS, limiting future borrowing and capital spending. The Explanatory Memorandum to this Direction confirms that in practice most decisions are expected to the taken by the Council, however the Directions are designed to give the Commissioners the power to tackle weaknesses identified to ensure the Council is better equipped to meet the best value requirements. Cabinet must take account of the advice and comments of the Commissioners as set out in this report.

18.6 On 22 October 2024 MHCLG wrote to the Council stating it was minded to extend the statutory intervention for a further two years and issue new directions. The draft directions include a requirement to prepare, agree and implement an improvement and recovery plan that includes prescribed information, including a refreshed rolling Medium-Term Financial Strategy, Capital Strategy, and Treasury Management Strategy, aligned with the new TOM (target operating model) and Transformation Plan that demonstrates the Authority's financial sustainability and resilience over the period of the strategies.

18.7 Under the Local Government and Finance Act 1988, the Council's Chief Finance Officer (s.151 officer) has duties to report to Council in prescribed circumstances. This includes if it appears to her that the expenditure of the Council incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including borrowed) available to it to meet that expenditure. When making such an assessment, exceptional financial support from MHCLG can be taken into account. This permits capital or borrowing to be used to fund a proportion of revenue costs in accordance with the capitalisation direction.

Risk management implications

18.8 Financial risks and mitigations have been included in earlier in this report.

18.9 As part of approving the budget in February 2025, the Chief Finance Officer under Section 25 of the Local Government Act 2003 will report on the robustness of estimates and adequacy of reserves. This includes an assessment of financial risks. This report provides an initial view of financial risks which will continue to evolve as part of the budget setting process and can be seen in the next table.

Environmental implications

18.10 There are no specific environmental implications arising from this report.

Equality implications

18.11 A full equality impact assessment will be undertaken during the budget setting process.

Procurement implications

18.12 Any changes that result in changes to supplies and services contracts are subject to the Procurement Regulations and Council's procurement rules.

Workforce implications

18.13 There are key steps during the democratic year leading towards Budget Council. Communications and engagement are vital tools to ensure staff fully informed and able to comment on the proposals before Budget Council

18.14 Working with Internal Comms we will ensure our staff remain informed of key updates via all staff calls led by the Head of Paid Service and S151 and our staff newsletter.

18.15 We have recognised that as part of our ambition to deliver financial savings, there is likely to impact the shape and size of our workforce. To this end, we have recognised that we will be required to support our Officers to lead and manage their teams through change in addition to investing in Workforce development to ensure we retain a workforce with the right skills to deliver for our residents.

18.16 Given the legacy of previous workforce transformation programmes, we also recognise our staff may a feel an element of change fatigue and therefore we place greater attention to how we communicate and take our people on the journey. We remain committed to inclusivity and will prioritise our engagement with staff networks and our Union representatives to ensure the wider employee voice is incorporated to our planning and implementation of any workforce design and development.

Property implications

18.17 The Council is continuing its asset disposal programme as part of its recovery programme. The asset disposal strategy is recommended to Cabinet during their November 2024 meeting which includes disposal of operational assets. The budget proposals include the revenue savings associated with the disposal of operational assets and the relocation or changes in service provision.