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| <b>This report is public.</b>                       |   |
| <b>Budget and Business Planning Process 2025-26</b> |   |
| <b>Committee</b>                                    | Executive   |
| <b>Date of Committee</b>                            | 9 September 2024  |
| <b>Portfolio Holder presenting the report</b>       | Portfolio Holder for Finance, Property and Regeneration, Councillor Lesley McLean |
| <b>Date Portfolio Holder agreed report</b>          | 27 August 2024  |
| <b>Report of</b>                                    | Assistant Director of Finance (S151 Officer), Michael Furness                     |

## Purpose of report

To inform the Executive of the proposed approach to the 2025/26 Budget and Business Planning Process and provides context and background information on the existing Medium-Term Financial Strategy and information on latest government announcements relevant to the Strategy.

### 1.0 Recommendations

The Executive resolves:

- 1.1 To approve the Budget and Business Planning Process for 2025/26.
- 1.2 To approve the base assumptions to be used for the 2025/26 budget.
- 1.3 To approve a five-year period for the Medium-Term Financial Strategy to 2029/30 and five-year period for the Capital Programme to 2029/30.
- 1.4 To approve the revised Reserves Policy at Appendix 4.

### 2.0 Introduction

- 2.1 This report is the first in the series on the Transformation Budget and Business Planning process for the forthcoming year. It forms context and background information and is part of the process which will culminate in Council setting a budget for 2025/26; a medium-term financial strategy to 2029/30, the capital programme to 2029/30 and a Council Plan in February 2025.
- 2.2 The Council Plan will set out the council's vision and strategic priorities, aims and activities over a five-year period. It will be underpinned annually through the production of an Annual Delivery Plan, which will set out clearly the key objectives and deliverables for the year ahead. This will ensure there is a clear direction for the Council on an annual basis to support the delivery of its overarching vision and strategic priorities.

- 2.3 The Council Plan will inform the Medium-Term Financial Strategy, a key policy framework of the Council, through ensuring that the annual budget and Annual Delivery Plans are aligned. Therefore, Annual Delivery Plans will form part of the annual budget cycle and approval process for the Council.
- 2.4 The Medium-Term Financial Strategy (MTFS) to 2028/29, agreed by Council in February 2024, identified savings of £7.038m to be delivered in 2025/26. The MTFS also reflects expected growth for demographic and other additional directorate spending needs and inflationary costs plus impacts of agreed savings and other income growth.
- 2.5 Information on latest government announcements and their impact, as well as an overview of new and emerging pressures which will need addressing through the Budget and Business Planning process for 2025/26, are set out in the report.
- 2.6 There is uncertainty in government funding for 2025/26 and beyond; it is strongly suggested by our funding advisors that the 2025/26 finance settlement will largely be a rollover settlement and this is the base planning assumption. The Council does not expect to have received the Provisional Financial Settlement until December. In addition, announcements are awaited with regards to the introduction of a new Fairer Funding Formula, alongside a Business Rates Reset, and whether time limited grant funding will continue in future years. The updated planning assumption is for time limited grant funding to fall out in 2026/27 and a reset of business rates related income to be phased over three years, beginning in 2027/28 within the MTFS. This level of uncertainty remains as high as last year; however, in reviewing and updating the MTFS prudent assumptions will be made based on the latest information available and using scenarios and a sensitivity analysis to form a view.

## Implications & Impact Assessments

| Implications              | Commentary   |         |          |            |
|---------------------------|--|---------|----------|------------|
| <b>Finance</b>            | There are no immediate financial implications associated with agreeing a budget process.<br>Joanne Kaye, Head of Finance, 7 August 2024  |         |          |            |
| <b>Legal</b>              | The Council legally has to set a balanced budget each year. Ensuring there is a robust process in place will help to achieve this.<br>Shahin Ismail, Interim Head of Legal Services, 7 August 2024   |         |          |            |
| <b>Risk Management</b>    | The Council faces significant risks given the scale of the financial challenge for 2024/25 and 2025/26. Having a robust process in place to develop budget proposals and the associated Corporate Plan will help to mitigate these. These risks are managed as part of the operational and leadership risk register.<br>Celia Prado-Teeling, Performance Team Leader, 28 August 2024 |         |          |            |
| <b>Impact Assessments</b> | Positive   | Neutral | Negative | Commentary |

|  |                         |   |  |   |
|--|-------------------------|---|--|---|
| <b>Equality Impact</b>   |                         | X |  | There are no Equality, Diversity and Inclusion implications arising as a direct consequence of this report. However, as per our equalities framework, all proposals are developed in line with the Equality Act 2010.<br>Celia Prado-Teeling, Performance Team Leader, 28 August 2024   |
| <b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?               |                         | X |  |   |
| <b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users? |                         | X |  |   |
| <b>Climate &amp; Environmental Impact</b>  |                         | X |  | There are no sustainability implications arising directly from this report to initiate the budget process. However, the implications of proposals arising from the process will need to be reviewed to consider whether they have sustainability impacts. As the Council looks to reduce its spend it would be hoped that this would also lead to a reduction in carbon impact as well.<br>Jo Miskin, Climate Action Manager, 6 August 2024 |
| <b>Council Priorities</b>  | All                     |   |  |   |
| <b>Consultation &amp; Engagement</b>   | See section 3.37 – 3.41 |   |  |   |

## Supporting Information

### 3.0 Report Details

- 3.1 This initial report sets the context and the timetable for the Budget and Business Planning process. It sets out the assumptions on which the existing MTFS agreed in February 2024 is based, information arising from government and other announcements plus new and emerging financial issues for 2025/26 and beyond which impact on the existing MTFS.

3.2 The following appendices are attached to this report:

- Appendix 1: Previously agreed Savings 2024/25 – 2028/29
- Appendix 2: Previously agreed Growth 2024/25 – 2028/29
- Appendix 3: Budget and Business Planning timetable for 2025/26
- Appendix 4: Reserves Policy

3.3 It is proposed that the MTFS continues to cover a five-year time frame given the financial challenges the Council is facing and is therefore extended by one year to cover 2029/30. It is also proposed that the Capital Programme also cover the same five-year period to 2029/30 as the MTFS.

### **Assumptions in the approved Medium-Term Financial Strategy**

#### **Additional Spending & Savings**

3.4 The 2024/25 – 2028/29 MTFS agreed by Council in February 2024 identified the requirement for additional annual savings of £7.038m in 2025/26 to offset funding reductions and to meet additional expenditure needs – this is in addition to the £0.042m savings already planned for 2025/26. Delivery of savings identified in February 2024 for implementation in 2024/25 of £1.710m are being monitored through the monthly reporting to Executive throughout the financial year. To the extent that savings anticipated in 2024/25 are not delivered on an ongoing basis this will increase the level of savings required in 2025/26. The Council is working to minimise any ongoing savings non-delivery in 2024/25.

3.5 The existing MTFS has provided for inflation on pay, contracts, and fees and charges within the budget. It assumes that there will be 5 percent pay awards in the three years to 2025/26. In the remaining two years of the MTFS period pay awards are assumed to increase at 2.5 percent annually. Contract inflation had been provided for at 2 percent in 2024/25 in the February 2024 MTFS. Fees and charges have been reviewed and increased by around 10 percent for 2024/25 to reflect cost recovery and are then assumed to increase by 2 percent annually.

3.6 Details of the savings and growth assumed in the existing MTFS, approved by Council in February 2024, for 2024/25 to 2028/29 are set out in Appendix 1 and 2.

#### **Funding**

3.7 The MTFS for 2024/25 approved by Council in February 2024 identified temporary funding received as a result of the delay to the proposed reset of business rates growth within the Business Rates Retention System and a further one year payment of the New Home Bonus grant prior to its winding down. Despite this, the existing MTFS has a budget shortfall of £7.038m in 2025/26.

3.8 The business rates reset was expected to be delayed until 2025/26 and phased over 3 years. The income retained from the Business Rates Retention Scheme was forecast to reduce by £10.3m in 2025/26 on the assumption that growth in business rates above the baseline reduces with the expectation of a business rates reset in April 2025.

- 3.9 Revenue Support Grant, which was extended for another year in 2024/25, was expected to drop out in 2025/26. The continuing phased reduction of the New Homes Bonus grant assumed the payment would drop out in 2025/26.
- 3.10 Maximum council tax increases of £5 for a Band D property are assumed across all years of the existing MTFS. It is assumed the Council Tax base will increase 1.6% on average annually. Total income from Council Tax (not including collection surpluses) is estimated to be £10.7m a year by 2028/29.
- 3.11 Details of the MTFS approved in February 2024 are set out in Table 1 below.

Table 1: MTFS as approved February 2024

| MTFS Movements                 | 2024/25         | 2025/26      | 2026/27      | 2027/28      | 2028/29        |
|--------------------------------|-----------------|--------------|--------------|--------------|----------------|
|                                | £m              | £m           | £m           | £m           | £m             |
| Base budget buff               | 28.284          | 0.000        | 0.000        | 0.000        | 0.000          |
| Service Pressures              | 0.608           | (0.292)      | 0.172        | (0.093)      | 0.001          |
| Service Savings                | (1.710)         | (0.042)      | (0.204)      | (0.113)      | (0.092)        |
| Capital Impact                 | 0.051           | 0.097        | 0.035        | 0.118        | 0.116          |
| Corporate changes              | (1.475)         | (3.188)      | 0.778        | 0.469        | 0.066          |
| Inflation                      | 1.607           | 1.226        | 0.541        | 0.560        | 0.525          |
| Use of reserves                | 0.117           | 0.749        | 0.472        | 0.050        | 0.000          |
| Additional government grants   | (0.494)         | 3.487        | 0.000        | 0.000        | 0.000          |
| <b>Net Budget Requirement</b>  | <b>26.987</b>   | <b>2.037</b> | <b>1.794</b> | <b>0.991</b> | <b>0.616</b>   |
| Revenue Support Grant          | (0.328)         | 0.328        | 0.000        | 0.000        | 0.000          |
| Council Tax                    | (9.318)         | (0.149)      | (0.404)      | (0.440)      | (0.452)        |
| Business Rates                 | (15.966)        | 3.447        | 2.904        | 2.647        | (1.026)        |
| New Homes Bonus                | (1.375)         | 1.375        | 0.000        | 0.000        | 0.000          |
| <b>Total Income</b>            | <b>(26.987)</b> | <b>5.001</b> | <b>2.500</b> | <b>2.207</b> | <b>(1.478)</b> |
| <b>Funding Gap / (Surplus)</b> | <b>0.000</b>    | <b>7.038</b> | <b>4.294</b> | <b>3.198</b> | <b>(0.862)</b> |

### Earmarked Reserves and General Balances

- 3.12 When the Council set its budget in February 2024, earmarked reserves (reserves held for a specific purpose) were forecast to be £27.4m as at the end of 2024/25. The latest forecast estimates that general balances will remain around £6.2m at the end of 2024/25. As with general balances, the level of earmarked reserves is reviewed each year as part of the Budget and Business Planning process. A risk assessment to determine the level of appropriate balances will also be undertaken as part of the Budget & Business Planning process.
- 3.13 Executive approves the Reserves Policy (Appendix 4) which is reviewed periodically. Section 6.1 of the policy introduced far tighter restrictions on the ability to use reserves with the Executive being required to approve contributions to and from reserves where there is not a specific ringfence around how the money must be spent. In cases where such a ringfence exists, the S151 Officer is able to authorise expenditure in line with the specific ringfence.

- 3.14 The proposed amendment to section 6.1 is to also delegate authority to the S151 officer for the capital receipts reserve. The capital receipts reserve's primary use is to hold capital receipts received until the Council identifies a capital project to which the receipt can be applied as financing. Applying a capital receipt as financing for a project reduces the annual Minimum Revenue Provision (MRP) charge, and so improve the Council's revenue provision going forward. As such, there is little reason to not use capital receipts for financing as soon as possible and maximise the saving to the revenue budget.
- 3.15 The only alternative use for capital receipts is through the flexible use of capital receipts direction as laid out by the Ministry of Housing, Communities and Local Government. This flexibility allows certain revenue costs to be funded from capital receipts. The costs must be in relation to projects that deliver ongoing savings or improved efficiency.
- 3.16 To use this flexible use of capital receipts direction, full council must first approve a flexible use of capital receipts strategy outlining the intended usage. If the S151 officer feels there would be a benefit to using this direction then they must bring a proposed strategy for full council to approve before any use in line with the direction could take place.

### Revised assumptions in the updated Medium Term Financial Strategy

- 3.17 The MTFS approved in February 2024, has now been reviewed and prudent assumptions made based on the latest information available and using scenarios and a sensitivity analysis to form a view.

### Funding

- 3.18 The revised planning assumptions within the MTFS are:
- time limited grant funding to fall out in 2026/27.
  - the reset of business rates related income moves to 2027/28 and phased over three years.
  - 2.5% pay inflation in 2025/26 and thereafter.

Table 2: Revised MTFS

| MTFS Movements                | 2025/26       | 2026/27      | 2027/28      | 2028/29      | 2029/30      |
|-------------------------------|---------------|--------------|--------------|--------------|--------------|
|                               | £m            | £m           | £m           | £m           | £m           |
| Base budget b/f               | 26.987        | 0.000        | 0.000        | 0.000        | 0.000        |
| Service Pressures             | (0.292)       | 0.172        | (0.093)      | 0.001        | 0.001        |
| Service Savings               | (0.042)       | (0.204)      | (0.113)      | (0.092)      | (0.102)      |
| Capital Impact                | 0.112         | 0.093        | 0.209        | 0.166        | 0.211        |
| Corporate changes             | (3.356)       | 0.536        | 0.051        | 0.174        | 0.110        |
| Inflation                     | 0.976         | 0.816        | 0.835        | 0.800        | 0.800        |
| Use of reserves               | 2.914         | (1.693)      | 0.050        | 0.000        | 0.000        |
| Additional government grants  | 0.026         | 3.461        | 0.000        | 0.000        | 0.000        |
| <b>Net Budget Requirement</b> | <b>27.325</b> | <b>3.181</b> | <b>0.939</b> | <b>1.049</b> | <b>1.020</b> |
| Revenue Support Grant         | (0.328)       | 0.328        | 0.000        | 0.000        | 0.000        |

|                                |                 |              |              |              |              |
|--------------------------------|-----------------|--------------|--------------|--------------|--------------|
| Council Tax                    | (9.467)         | (0.404)      | (0.440)      | (0.452)      | 0.000        |
| Business Rates                 | (16.155)        | (0.494)      | 3.656        | 3.593        | 3.586        |
| New Homes Bonus                | (1.375)         | 1.375        | 0.000        | 0.000        | 0.000        |
| <b>Total Income</b>            | <b>(27.325)</b> | <b>0.805</b> | <b>3.216</b> | <b>3.141</b> | <b>3.586</b> |
| <b>Funding Gap / (Surplus)</b> | <b>0.000</b>    | <b>3.986</b> | <b>4.155</b> | <b>4.190</b> | <b>4.606</b> |

### Cost-of-Living Crisis

- 3.19 The economy is still feeling the impact of the cost-of-living crisis and the government's first steps are "to deliver economic stability with tough spending rules, so we can grow our economy and keep taxes, inflation, and mortgages as low as possible".
- 3.20 The government plans to introduce new legislation and regulatory reforms to significantly benefit small businesses. The details of these changes have not yet been released. It remains unclear whether businesses will be able to continue to operate and grow at the rates assumed in the MTFs. If the economic recovery is not swift enough, then some businesses may not continue in 2024/25 putting at risk the anticipated growth of business rates. In addition, if business rates growth is less than anticipated for 2024/25, this will result in a deficit to the Collection Fund which will have to be considered when setting the 2025/26 budget.
- 3.21 In addition to the reduced rates of growth in business rates, there is a risk that, as the cost-of-living crisis continues, levels of working age Council Tax Support could increase. This could have the impact of reducing levels of Council Tax that will be received by the Council compared to the MTFs.

### Government Announcements

- 3.22 Since Council approved the 2024/25 budget, MTFs and Capital Programme, there has been a General Election and change in government. The new Chancellor announced there will be a Budget on 30 October 2024, in which one year budget allocations for 2025/26 will be announced. A multi-year spending review, covering at least 3 years from 2026/27, will be announced in Spring 2025. There remains uncertainty as to what funding reforms (if any) this government is considering. The introduction of any reforms will be difficult to implement unless it coincides with the start of longer-term settlements (e.g. 2026-27).
- 3.23 There have been no announcements on the following that will impact the Council:
- the government's manifesto pledge for a new business rates system designed to "raise the same revenue but in a fairer way"
  - the future of the NHB scheme
  - Extended Producer Responsibility – waste reforms and the impact this will have on the Council when collecting waste and recycling.

### Further Medium-Term Uncertainty

- 3.24 There is uncertainty in government funding for 2025/26 and beyond, and it is suggested by our funding advisors that the 2025/26 finance settlement will largely be a rollover settlement. The Council does not expect to have received the Provisional Financial Settlement until December.

- 3.25 As there is so much uncertainty around future local government funding, in particular from 2025/26 onwards, the MTFS will continue to be updated based on the latest information available and using scenarios and a sensitivity analysis to form a view.

### **Savings Proposals**

- 3.26 Given the challenging situation relating to funding and the high levels of uncertainty, the Council will undertake to identify savings options to address the MTFS gap should it materialise.
- 3.27 In line with the MTFS approved in February 2024 the Council will:
- Adopt a transformational approach to service delivery to shape the thinking for the future design of the Council.
  - Review the Council's service level priorities and alignment of resources to maximise delivery of priorities within the resources available
  - Maximise income opportunities
  - Continue to lobby policy makers
- 3.28 Savings proposals will take the form of both expenditure reduction and increases in income. These will take into account the impacts identified in the MTFS approved in February 2024, and the ongoing financial impact of the cost-of-living crisis. Assumptions will be revisited and revised as information becomes clearer, but it is important to note that the actual implications will not be known until very late in the Budget and Business Planning process.
- 3.29 The Budget and Business Planning Process will consider the impact that savings proposals may have on the strategic priorities of:
- Housing that meets your needs
  - Supporting environmental sustainability
  - An enterprising economy with strong and vibrant local centres
  - Healthy, resilient, and engaged communities
- 3.30 The strategy for identifying savings will be based on the plan to address the MTFS gap which was approved by Council in February 2024. The Council will look to identify what savings can be provided by services and how they impact on priorities. In addition, the Council will undertake a cross-cutting review of the Council's strategic delivery themes identified in the Business Plan. The council is enhancing the planning process by developing a baseline for service provision, which will allow the council to identify the implications of differing service level options in the future.

### **New Vision, Strategy and Council Plan**

- 3.31 Work is currently underway to develop a new Council Plan that will reflect a refreshed vision and strategy for the council. It will set out the Strategic Outcomes we are seeking for the communities of Cherwell as well as the ways in which the council will work to deliver them.
- 3.34 When completed, the new Council Plan will drive the Annual Delivery Plan, the MTFS and business planning across the council.

### **Consultation and Engagement**



- 3.37 Residents and service users expect to be consulted about council spending and council tax levels. There are no prescriptive guidelines on how and when councils should consult. Some councils prefer to consult early and explore the principles by which the council could approach balancing its budget i.e. on the 'shape of the budget', whereas others prefer to consult later and consult on the 'substance' of the budget when more formed proposals have been developed. Some council's do both and some do neither.
- 3.38 The common law duty to consult applies to budget consultation as residents' and service users' views and feedback could legitimately be expected to inform the council's budget setting process. There are also legal duties to consult residents and services users on the detail of specific service change proposals and particularly cuts, and these are judged on a case-by-case basis.
- 3.39 Under section 65 of the Local Government Finance Act 1992, billing authorities must 'consult persons or bodies appearing to be representative of persons subject to non-domestic rates under section 43 and 45 of the 1998 Act about the rateable value (hereditaments) of properties.' We will engage businesses in our autumn consultation set out below.

### **Formal consultation**

- 3.40 A public consultation will be published at the end of November on the 'substance' of the budget, to give the wider population and stakeholders (including businesses to meet our statutory duty) the opportunity to feedback on the council's 'formed' budget proposals. It does not, however, replace the need to specifically consult on service change proposals relating to significant service changes and where there is a legal requirement to do so.
- 3.41 Our approach will be digital first, using Cherwell District Council's consultation platform, Citizens Space Cherwell. In line with our commitment to Equality, Diversity and Inclusion, paper copies of both the booklet and questionnaire will also be available and customer services will be fully briefed to support residents if they need to request materials in alternative formats A communications promotional plan will support this exercise.

### **Budget and Business Planning Timetable**

- 3.42 An online public consultation on CDC's budget proposals will commence when the information is published at the end of November 2024, with Budget Planning Committee (BPC) considering the budget pressures, savings and Fees & Charges proposals on 10 December 2024. Comments from BPC, along with other responses, will feed into the final formulation of proposals. As in previous years, we will look to invite all members to BPC, so they have the opportunity to comment on the proposals, subject to the Committee Chair's approval for this approach.
- 3.43 Capital proposals will also be considered by Budget Planning Committee on 10 December 2024. The Capital & Investment Strategy which incorporates the Treasury Management Strategy will be considered at the meeting in January 2025.
- 3.44 At this time, there are no indications when we can expect the provisional local government finance settlement, though it is anticipated that it will be received in late December as in previous years. This will confirm the general Government funding

available to the Council for 2025/26 and the Council Tax referendum limit to be applied.

- 3.45 The Executive will take into consideration the comments from the BPC in December 2024 and comments from the public consultation alongside the funding available announced as part of the provisional settlement, at its meeting on 3 February 2025 in setting out its proposed budget to Council.
- 3.46 The Council meeting to agree the 2025/26 revenue budget, MTFs and capital programme will take place on 24 February 2025.
- 3.47 A timetable for the Budget and Business Planning process is attached at Appendix 3.

## **4.0 Conclusion and Reasons for Recommendations**

- 4.1 The Council has a legal obligation to set a balanced budget and ensure it maintains a suitable level of reserves each year. The process laid out in this report will allow CDC to develop budget proposals that will allow it to meet these legal obligations.

## **5.0 Consultation**

None required.

## **6.0 Alternative Options and Reasons for Rejection**

- 6.1 The Council has a legal obligation to set a balanced budget and evaluate its level of reserves to ensure they are held at a suitable level. Therefore, there are no alternative options other than to carry out a budget process that reviews the levels of reserves and identifies a budget proposal that can be delivered within the overall level of resources available to the Council.

## **Decision Information**

|   |     |
|---|-----|
| <b>Key Decision</b>                       | N/A |
| <b>Subject to Call in</b>                 | Yes |
| <b>If not, why not subject to call in</b> | N/A |
| <b>Ward(s) Affected</b>                   | All |

## **Document Information**

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|--------------------------------------|--|
| <b>Appendices</b>                    |  |
| <b>Appendix 1</b>                    | Previously agreed Savings 2024/25 – 2028/29  |
| <b>Appendix 2</b>                    | Previously agreed Growth 2024/25 – 2028/29   |
| <b>Appendix 3</b>                    | Budget and Business Planning Timetable for the 2025/26 Process   |
| <b>Appendix 4</b>                    | Reserves Policy  |
| <b>Background Papers</b>             | None   |
| <b>Reference Papers</b>              | Council 26 February 2024: Budget Setting for 2024/25 and the Medium-Term Financial Strategy up to 2028/29    |
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