

STRATEGIC FINANCIAL PLANNING FOR 2025/26 BUDGET

Head of Service:	Brendan Bradley, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?	No
Appendices (attached):	Appendix 1 – Financial Planning Timetable Appendix 2 – Revenue Budget Forecast Appendix 3 – Efficiency Plan

Summary

This report seeks guidance on the approach to producing the Council's budget for 2025/26.

Recommendation(s)

The Group is asked to recommend to Strategy & Resources Committee:

- (1) The proposed approach to 2025/26 budget setting as set-out in sections 7 and 8 of this report;**
- (2) That officers work to progress the workstreams set out in section 7 of this report, to produce specific income generation and savings options, in addition to savings already targeted;**
- (3) That the proposed Five Year Plan and the budget process are aligned to ensure that any commitments are affordable;**
- (4) The budget reporting timetable in Appendix 1.**

1 Reason for Recommendation

- 1.1 Approving the recommendations will provide a clear framework for the Council to develop its budget for 2025/26. Strategy and Resources Committee has agreed one of its key priorities is to achieve financial stability for the Council.

2 Background

Financial Strategy Advisory Group

12 July 2024

- 2.1 The Medium Term Financial Strategy (MTFS) 2024-28 was agreed at Full Council in February 2024. The MTFS aims to maintain the financial health of the Council whilst delivering the priorities in the Corporate Plan. This report proposes the approach needed to achieve a balanced budget for 2025/26 and future years during the term of the financial strategy.
- 2.2 The report proposes revenue and capital budget reporting timetables for preparing the 2025/26 budget.

3 Financial Position 2023/24

- 3.1 The Council is among a minority within Surrey to have audited accounts up to 31 March 2023, and has prepared unaudited accounts for 2023/24 which will be subject to audit over the summer.
- 3.2 The draft revenue outturn for 2023/24 shows that expenditure exceeded income by £121,000. An appropriation for this amount has been made from the general fund working balance and as at the end of 2023/24 the balance on this reserve was £2.99 million.
- 3.3 The Council had an approved capital programme of £5.1 million for 2023/24 and spent £2.2m with the majority of the unspent capital programme expected to be carried forward in to 2024/25. The level of uncommitted capital receipts reserves stood at £2.2m at the end of 2023/24.
- 3.4 More detail on the Council's financial performance for 2023/24 will be provided in the Provisional Financial Outturn report to Strategy & Resources Committee at the end of July.

4 Budgeted Position for 2024/25

- 4.1 The 2024/25 budget provides a good platform for budget planning. The service estimate, agreed by Council in February this year, required £2.3m of strategic reserves to fund services and balance the budget. Of this contribution from reserves, £1.7m was to fund non-recurring items (ie one-off factors such as the collection fund deficit due to government business rate relief announcements) and £0.6m was to fund an underlying budget gap. Shortly after the budget papers were produced, government announced an additional £96,000 funding for this authority, which reduces the underlying budget gap to £0.53m for 2024/25 and has been factored into the updated estimates provided at Appendix 2.
- 4.2 The approved budget includes a £500,000 revenue contribution to assist in the funding of the annual capital programme.

Financial Strategy Advisory Group

12 July 2024

- 4.3 The Council is also expected to benefit from additional retained business rates by £150,000 in 2024/25 due to being invited to participate in the Surrey/Sutton Business Rate Pool. However, the invitation is for 2024/25 only, and not beyond.
- 4.4 The Council also set aside a c.£500,000 provision in 2024/25's budget, which acts as a contingency to mitigate financial risk, enabling the Council to fund elevated utility and operational costs due to elevated inflation.

5 Revenue Reserves

- 5.1 The current level of revenue reserves is reported to FSAG as a separate agenda item.
- 5.2 The Council uses its reserves proactively to manage risks, to invest in service transformation for the future, or to respond to unexpected events or emerging needs. Generally, reserves should not be used to fund day-to-day services on an ongoing basis, as reserves would eventually become depleted without a plan for replenishing them.
- 5.3 The 2024/25 budget plans to use c.£0.5m from the Council's reserves to balance an underlying deficit, which was considered a reasonable approach in the short term, as this use of reserves has provided the Council with time to consider a scheduled review of services (due to be reported to S&R Committee in July).
- 5.4 In agreeing to temporarily use reserves to fund 2024/25's budget, members supported this approach to identify savings to remove unsustainable reliance on reserves to fund the day-to-day revenue services.
- 5.5 The importance of removing reliance on reserves has been recently reiterated by the Council's external auditors, Grant Thornton, whose 2022/23 Annual Auditor's Report (dated March 2024) recommends:
- 5.6 *"The Council should continue to acknowledge the importance of seeking ways other than use of reserves to manage the financial budget gap in the medium term, given the finite nature of reserves. The challenges will continue so the need for the structured and disciplined approach to managing finances and reserves will continue to be crucial".*

6 Budgeted Forecast 2025/26 and Beyond

- 6.1 The 2024/25 local government finance settlement appeared to largely represent a 'holding position' until the next Parliament. As part of the settlement, Government also ruled out a business rates reset and a 'Fair Funding Review' until at least 2025/26, which should provide the Council with relative external funding stability until then. In addition, late in the budgeting process government announced an additional £96,000 funding for EEBC, which is included in the updated forecast at Appendix 2, and summarised in the following table:

Financial Strategy Advisory Group

12 July 2024

Budget Forecast	<u>2024/25</u> <u>Agreed</u> <u>Budget</u>	<u>2025/26</u> <u>Forecast</u>	<u>2026/27</u> <u>Forecast</u>	<u>2027/28</u> <u>Forecast</u>	<u>2028/29</u> <u>Forecast</u>
	£000	£000	£000	£000	£000
Net Cost of Service b/f (before interest and planned use of reserves)	11,393	12,457	12,041	12,118	12,252
Pay & Prices Increases	1,482	699	713	728	742
Service Changes and Pressures	394	-476	70	100	-100
Increases in Fees & Charges	-456	-483	-256	-264	-272
Identified savings	-356	-156	-450	-430	0
Forecast Net Cost of Services	12,457	12,041	12,118	12,252	12,622
Interest on Balances	-1,125	-1,000	-875	-750	-750
Use of New Homes Bonus	-225	0	0	0	0
Transfer from Collection Fund Reserve	-974	0	0	0	-250
Contribution from Property Income Equalisation Reserve	-700	0	0	0	0
Contribution from Corporate Projects Reserve	-528	0	0	0	0
Transfer from Working Balance (-)	0	0	0	0	0
Forecast Net Expenditure	8,905	11,041	11,243	11,502	11,622
Retained Business Rates Forecast	1,749	1,784	1,820	1,856	1,392
Compensation for underindexing the business rates multiplier	292	301	306	312	318
Council Tax Income Forecast	7,636	7,904	8,182	8,470	8,767
Council Tax Surplus	58	0	0	0	0
Retained Business Rates Surplus	-1,037	0	0	0	0
Revenue Support/Other Grants	207	479	415	423	425
External Funding*	8,905	10,468	10,723	11,061	10,902
<i>Funding Shortfall / Savings to be Identified</i>	<i>0</i>	<i>573</i>	<i>520</i>	<i>440</i>	<i>720</i>

6.2 It can be seen that the updated forecast anticipates that savings/additional income of c.£0.5 million per annum will be needed through to 2027/28 to achieve a balanced budget at the end of this period. Key assumptions within the forecast are as follows:

6.2.1 Annual staff pay inflation (i.e. the 'cost of living' uplift) and prices inflation are forecast at 2% per annum. This assumption will be updated when any new pay deal is agreed.

6.2.2 Fees and charges income is forecast to increase by 6% in 2025/26, then by 3% per annum (CPI +1%) until 2027/28, as per the Medium Term Financial Strategy agreed at Full Council in February 2024.

Financial Strategy Advisory Group

12 July 2024

- 6.2.3 Council tax increases are forecast at 3% per annum for a Band D equivalent.
 - 6.2.4 Treasury management investment income earned on reserves is projected to achieve a 4% annual return in 2025/26, reducing to 3% by 2027/28 as base rates (set by the Bank of England) are expected to decrease.
 - 6.2.5 Revenue funding towards the financing of a sustainable capital programme is forecast to increase to £550,000 per annum by 2026/27.
 - 6.2.6 Existing agreed savings totalling £1.4m will be delivered between 2024/25 and 2027/28, as set-out in the Efficiency Plan at Appendix 3.
 - 6.2.7 Commercial property income will continue to be collected in line with existing lease agreements. In particular, the forecast assumes that rental income at the Council's subsidiary's Bracknell property (Arlington Square) will increase from half rent to the full annual rent of £1.77m from 1 April 2025, in line with the lease agreed at S&R Committee in March 2023.
 - 6.2.8 Retained income from business rates and government grants is forecast to remain broadly stable until 2027/28, with the Fair Funding Review starting to adversely impact this funding stream from 2028/29. However, there is a specific risk that if central government's ongoing Fair Funding Review were implemented sooner, either by the current or a new incoming government, this income stream could reduce earlier than 2028/29.
- 6.3 The Fair Funding Review was being undertaken by the Conservative central government to re-assess the distribution of government and business rates funding between councils. When complete, it had been expected to favour unitary and upper tier councils, ahead of districts such as Epsom & Ewell Borough Council. However, with a General Election taking place on 4 July 2024, there is uncertainty regarding any incoming government's plans. As such, these forecasts will be updated and reported back to members when any new government policy becomes clear.
- 6.4 The highest service financial risks are considered to be the reliance on higher risk income streams from commercial property, the impact of increased inflation on the Council's costs and income streams, and the potential for increased demands for housing and homelessness prevention.

7 Approach to Achieving a Sustainable Balanced Budget

Financial Strategy Advisory Group

12 July 2024

- 7.1 Officers have drafted a work programme to assist in addressing the £0.5m annual funding shortfall for 2025/26, rising to £0.7m by 2028/29 as set out in Table 1.
- 7.2 The key features of the programme comprise:-
 - 7.2.1 Service reviews focusing primarily on discretionary services to be considered at Strategy & Resources in July 2024, with the aim of increasing efficiencies and effectiveness whilst reducing cost.
 - 7.2.2 Ongoing review of existing asset utilisation to realise cost reductions in Council operational buildings and increased income from investment properties.
 - 7.2.3 Officers to be tasked with identifying further efficiencies and opportunities, although these are becoming harder to achieve after over a decade of austerity.
 - 7.2.4 A base review, which entails reviewing the year end position for 2023/24, identifying any potential savings, additional cost pressures and areas where savings can be developed.
 - 7.2.5 Continue to investigate and bring forward income streams which maximise revenue from new and existing services, such as invest to save opportunities. Ensure any new powers are considered to generate additional income for the Council, such as any new charging policy for waste.
 - 7.2.6 Undertake a review of reserves to be reported to Financial Strategy Advisory Group to seek support for recommended minimum reserve balances (see separate agenda item 4).
 - 7.2.7 A target to increase fees and charges income by 6% in 2025/26 (as previously agreed at Full Council in February 2024), then by CPI+1% from 2026/27 onwards. Increased income can come from higher volumes and does not necessarily have to be through increasing the published fee. Heads of Service review fees and charges annually to ensure any increases are achievable and report to policy committees for approval.
 - 7.2.8 To maximise external funding and partnership opportunities, for example submitting grant applications as opportunities arise.

8 New Five Year Plan and Budget

- 8.1 Available resources will need to be matched to deliverables within any new corporate plan, to ensure that objectives within the plan are prioritised, resourced and deliverable. To achieve this, the proposed Five Year Plan and budget setting process will need to be in alignment with each other.

Financial Strategy Advisory Group

12 July 2024

- 8.2 It is proposed that owing to the Council's projected budget deficit, any additional new revenue growth items (i.e. service enhancements resulting in increased net expenditure) supported by Policy Committees will need to be fully funded from existing budgets.

9 Timetable for Delivery of 2025/26 Budget

- 9.1 A proposed formal committee timetable for the revenue and capital programme is presented at Appendix 1.
- 9.2 In addition to the formal committee meetings, officers will maintain engagement with Policy Chairs throughout the budgeting process.
- 9.3 The Council needs to make significant progress in achieving a balanced budget with no reliance on revenue reserves to fund the delivery of services. Based on the latest forecasts, the Council is anticipating a funding shortfall of £0.7m by 2028/29.

10 Risk Assessment

Legal or other duties

10.1 Risk Assessment

10.1.1 The Council has a statutory duty to set a balanced budget each year, demonstrating how planned expenditure on services will be fully funded.

10.1.2 Should the Council not progress the proposed budget strategy and fail to achieve a significant net reduction in its cost of services, there is a clear risk that reserves will continue to diminish with the Council eventually becoming unable to set a balanced budget.

10.1.3 A full budget risk assessment will be presented to Full Council alongside the final 2025/26 budget proposals in February 2025.

10.1.4 There is particularly heightened risk around commercial property and leisure centre income in the current environment. Should a tenant leave or rent reductions have to be agreed to retain them, the Council's budget deficit could increase significantly (this applies both for property owned by the Council and its subsidiary, EEPIC), and in the event of tenant departure, the Council would become liable for running and maintenance costs while a new tenant is found. To mitigate this risk, officers proactively engage with tenants and the Council holds the Property Income Equalisation Reserve as a buffer to mitigate the risk of income loss in the short term.

10.1.5 In addition, the risk of increasing homelessness expenditure remains significant, with the Council pursuing its Homelessness Reduction Action Plan to mitigate this pressure.

Financial Strategy Advisory Group

12 July 2024

10.2 Crime & Disorder

10.2.1 None arising from the contents of this report.

10.3 Safeguarding

10.3.1 None arising from the contents of this report.

10.4 Dependencies

10.4.1 The Council's proposed Five Year Plan should be set to be deliverable within the Council's available financial resources.

10.5 Other

10.5.1 None arising from the contents of this report.

11 Financial Implications

11.1 The provisional financial outlook for 2025/26 and future years is covered in this report.

11.2 In preparing the Council's 2025/26 budget, the Council will also need to approve a new pay policy, enabling details from the new approved policies to be incorporated into the budget.

11.3 The Council has adequate resources to carry out a budget review supporting the delivery of the efficiency plan. Should the Council require a more comprehensive review of services, additional resources and expertise may be required.

11.4 **Section 151 Officer's comments:** The 2025/26 budget must ensure that the Council's finances are sustainable whilst delivering the priorities of the Council.

12 Legal Implications

12.1 The Council has a statutory responsibility to set a balanced budget each year.

12.2 The provisions of section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to the Council's budget setting meeting in February.

12.3 **Monitoring Officer's Comments:** None arising from the contents of this report.

Financial Strategy Advisory Group

12 July 2024

13 Policies, Plans & Partnerships

- 13.1 **Council's Key Priorities:** The following Key Priorities are engaged:
Effective Council.
- 13.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 13.3 **Climate & Environmental Impact of recommendations:** Funding of the Climate Change Action Plan is determined on a business case basis, as funding opportunities arise.
- 13.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 13.5 **Partnerships:** None arising from the contents of this report.

14 Background papers

- 14.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2024/25 Budget Report to Full Council, February 2024

Other papers:

- [Medium Term Financial Plan 2024-2028](#)