

Cabinet Report



Listening Learning Leading

Report of Head of Finance

Author: Simon Hewings

Telephone: 01235 422499

E-mail: simon.hewings@southandvale.gov.uk

Wards affected: All

South Cabinet member responsible: Pieter-Paul Barker

Tel:

E-mail: pieter-paul.barker@southoxon.gov.uk

Date:

CABINET 31 January 2025

SCRUTINY 4 February 2025

COUNCIL 13 February 2025

Revenue Budget 2025/26 and Capital Programme 2025/26 to 2029/30

Recommendations

a) That Cabinet recommends to Council that it:

- sets the revenue budget for 2025/26 as set out in appendix A.1 to this report,
- approves the capital programme for 2025/26 to 2029/30 as set out in appendix D.1 and D.2 to this report, together with the capital programme changes as set out in appendix D.3 and appendix D.4 to this report,
- sets the council's prudential limits as listed in appendix E to this report,
- sets the medium-term financial plan to 2029/30 as set out in appendix F to this report,
- allocates £590,000 to fund the Communities Capital and Revenue grant scheme,

b) That Cabinet agrees that the head of finance, in consultation with the cabinet member for finance, may make minor adjustments to this report and the prudential indicators should they prove necessary prior to its submission to Council on 13 February 2025.

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes

Signing off officer	Simon Hewings	Nick Bennett	Kim Hall	Ruth Lewin-Leigh
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Purpose of report

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

Corporate objectives

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

Revenue budget setting

Background

5. In October 2024 Cabinet received a budget scene setting report which provided an update on progress to date along with the proposed activities and a timetable of budget setting activity. A second, budget update report was considered by Cabinet in December 2024 which included a latest revenue base budget, together with estimates of government funding.

Revenue base budget setting 2025/26

6. The budget update report considered by Cabinet in December discussed the construction of the council's base budget and reported on progress to date.
7. **Appendix A.1** summarises the movements in the base budget in 2025/26 – these were discussed at length in the December update report. These movements are detailed below:
 - Opening budget adjustments £37,838 (**appendix A.2**),
 - Inflation, salary increments and other salary adjustments £1,169,785, (**appendix A.3**),
 - Essential growth £1,052,456 (**appendix A.4**),
 - Base budget reductions £654,496 (**appendix A.5**).
8. Since the December update report was published there have been a small number of further adjustments to the base budget. These are shown in **appendix A.6**. Included in these costs is the estimated increase in employer National Insurance contributions of £280,000.
9. The following budgets remain unchanged:
 - The revenue contingency budget (£400,000),
 - in-year organic savings target (£200,000, including £100,000 included in the base budget), and
 - managed vacancy factor (£500,000).
10. As a result of these changes the council's revised base budget for 2025/26 is **£25,287,154**, an increase of £1,841,651 over 2024/25.

Revenue growth

11. Revenue growth of **£260,000** to support corporate plan priorities has been included in the budget for 2025/26. This is detailed in **appendix B.1**.

Gross treasury income

12. Investment returns for 2025/26 are currently forecast to be **£7,344,822** and will be allocated as follows:
 - **£5,000,000** to support future revenue budgets,
 - **£1,984,822** to support in-year revenue expenditure,
 - **£360,000** reinvested in financial instruments.
13. More details of treasury income can be found in the council's Treasury Management Strategy report.
14. Including revenue growth and savings, borrowing costs and treasury income results in a net expenditure budget for the council of **£18,202,332 (Appendix A.1)**.

Reserves and other funding

Funding from reserves (excluding investment income)

15. This amounts to **£695,793** and represents two elements:

- A transfer **to** reserves of **£86,800** representing the affordable homes element of the New Homes Bonus (NHB) payment.
- A transfer **from** reserves of **£782,593** representing funding from reserves for the council's costs associated with the exit and service transformation required when the Five Councils' Partnership contract ends in September 2025.

Transfer to reserves – investment income

16. This amounts to **£360,000** and represents the following:

- The transfer **to** reserves of **£5,000,000** to support future revenue budgets,
- The transfer **to** reserves of **£360,000** reinvested in financial instruments,
- The transfer **from** reserves of **£5,000,000** earned in 2024/25 to support revenue expenditure in 2025/26.

17. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed from government settlement, council tax and unearmarked reserves in 2025/26 is **£17,866,539**.

Funding

Local government settlement

18. The provisional local government settlement for 2025/26 was announced in December 2024. This followed the publication of the Local Government Finance Policy Statement in November. As reported in December, based on the policy statement officers did not expect the council to receive an increase in core revenue spending power from 2024/25. The provisional settlement confirmed this when it was published. This means the government funding for the council through the settlement for 2025/26 reduced by the amount that council tax would increase, if the maximum increase in council tax under the referendum rules of £5 for a band "D" property is agreed.

19. In addition to government funding through the settlement, and as covered in the December update report, the council will receive funding from the Extended Producer Responsibility for Packaging scheme (pEPR). The council will also receive a contribution from government towards the costs of increased employer National Insurance contributions. No figures have been provided by the government for this funding, but based on analysis by LG Futures, we expect to receive £180,000, which is less than the estimated additional cost of £280,000 as discussed earlier.

20. Table 1 below details the government's provisional funding for the council in 2025/26. When the final figures are published it is not anticipated that they will be materially different from those anticipated.

Table 1: provisional local government finance settlement 2025/26

	2025/26 Estimate £
Settlement Funding Assessment	(2,995,965)
Indexation	(576,321)
Business rates growth above baseline	(779,526)
Settlement Funding Assessment	(4,351,812)
Other funding	
New Homes Bonus	(1,437,665)
Funding floor	(496,980)
Grand total	(6,286,457)
Domestic abuse safe accommodation	(36,545)
NI increase compensation	(180,000)
Extended Producer Responsibility for Packaging (pEPR)	(1,310,000)
Total settlement funding	(7,813,002)

21. Whilst government funding included in core revenue spending power reduced, overall the council has received an increase in funding in 2025/26 as a result of the pEPR scheme and the compensation for increased employer National Insurance costs, albeit as noted above the latter is expected to be insufficient to cover the increase in such costs.
22. Included within the government’s definition of core revenue spending power is NHB, which has become critical to the sustainability of the council’s MTFP. As identified above funding has been provisionally announced along with the settlement this year at **£1,437,665** for 2025/26. This represents one year’s worth of NHB only, which is much reduced from the original scheme of six years. Its inclusion within the definition of core revenue spending power in recent years also represented a change from the initial messaging about the financing, which was that it represented additional government funding. However, as noted in December’s budget update report, government has indicated that councils should assume that 2025/26 is the last year of the scheme.
23. Included within the settlement is a “Funding floor” of **£496,980**. This is the mechanism by which government has ensured that core revenue spending power for all councils has been maintained.
24. On top of government funding allocation, officers have assumed that there will be growth in business rates, or Non Domestic Rates (NDR), above the baseline of **£779,526**. This is the same level as in 2024/25 and recent work on business rates income has indicated that this estimate of growth can be prudently included again in the budget for this year. This will continue to be monitored.
25. As noted in the December update report, there is considerable uncertainty over future funding levels. This is discussed further later in this report.

Business rates from renewable energy

26. Business rates retained by the council as planning authority relating to facilities generating renewable energy within the district is estimated at **£369,182** (MTFP row 53).

Collection fund

27. The surplus on the collection fund is estimated in 2025/26 to be **£460,858** (MTFP row 60).

Use of reserves

28. The difference between expenditure requirement and the funding available is smoothed over the medium-term financial plan by transfers to and from the general fund balance. The net impact of these budget proposals is a transfer to reserves of **£401,401** in 2025/26.

Revenue budget proposal

29. Based on the amendments detailed above, and as shown in **appendix A.1** of this report, the budget proposal, including growth, is for a budget requirement of **£18,202,332**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£151.24**.
30. **Appendix C** shows the breakdown of the revenue budget.

Capital programme 2025/26 to 2029/30

Current capital programme

31. The latest capital programme (before growth) is summarised in **appendix D.1**, detailed in **appendix D.2** and is summarised in table 2 below. It is the capital programme as set by Council in February 2024 plus: -

- slippage (caused by delays to projects) carried forward from 2023/24,
- new schemes approved by Council during 2024/25,
- re-profiling of expenditure on schemes from the 2024/25 financial year to future years where delays to schemes have occurred or additional information is now available to support more accurate profiling,
- the deletion of previously agreed schemes that have completed or are no longer being pursued at this time in their original form.

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

Cabinet capital programme proposals

33. **Appendix D.3** contains a list of new capital schemes that are being recommended as part of this budget proposal and **Appendix D.4** contains schemes that have been approved since the December update report was written. All of the CIL funded

schemes included in appendix D.3 can be funded from receipts already received by the council.

34. To support the council's housing ambitions, it is proposed that £10 million of the £50 million held long term by the council will be used to fund the council share of the costs of properties purchased under the Local Authority Housing Funding (LAHF) schemes. This includes purchases made to date and under future schemes, up to the value of £10 million. It had been previously planned that such purchases would be funded through borrowing.
35. Whilst not formally included in the budget at this time, should officers be able to identify opportunities to expand our directly owned housing stock that are in line with the council's capital strategy, support the council's ongoing financial sustainability and support service delivery needs, they will seek to bring forward those proposals for due consideration at the earliest appropriate time, up to a total cumulative value of a further £10 million.

Financing the capital programme

36. Where permitted, capital expenditure is funded in the first instance from specific government grants, earmarked reserves and other external contributions. The balance of the programme is funded from the council's capital receipts reserve or through prudential borrowing.
37. **Table 2** contains a schedule showing the current and proposed capital programme and how it will be financed, including the growth proposals, if they are approved.
38. The total planned capital expenditure, including the current financial year is **£135.023 million** over the programme period. The council's usable capital receipts, based on current estimates, are expected to be **£1.524 million** by the end of 2029/30.
39. The ongoing increases in borrowing, as usable capital receipts are used up, creates increased costs to be borne by the revenue budget over the life of the borrowing, at a time when there is ongoing uncertainty over future funding for the council. In light of the likely financial pressures in the later years of the MTFP, officers intend to conduct a further review of the capital programme early in 2025/26 in which all schemes that are not funded through Section 106 or government grant funding will be scrutinised to ensure that they should proceed.

Table 2: current and proposed capital programme with financing

	2024/25 Latest Budget £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	GRAND TOTAL £'000
Capital programme approved	26,679	11,211	6,960	3,498	3,691	2,571	54,610
Provisional capital programme	5,314	26,384	22,984	4,327	426	396	59,831
Capital growth proposals (appendix D3)		8,972	2,946	3,894	100	100	16,012
Previously agreed capital growth proposals (appendix D4)	2,750	1,820					4,570
Total Expenditure	34,743	48,387	32,890	11,719	4,217	3,067	135,023
Financing							
Grants and Contributions	10,711	8,439	3,883	2,786	2,987	1,867	30,673
Developer Contributions - S106	2,936	12,961	2,997	159	159	159	19,371
Developer Contributions - CIL	8,460	11,107	4,801	1,789	47	23	26,227
Other Contributions	9	30	6	2,113	6	0	2,164
Borrowing	3,000	8,920	12,400	3,750	500	500	29,070
Useable capital receipts	9,627	6,930	8,803	1,122	518	518	27,518
Total Financing	34,743	48,387	32,890	11,719	4,217	3,067	135,023
Estimated balances as at 31 March 2030							
Useable capital receipts							1,524

The prudential code and prudential indicators

40. In setting its revenue and capital budgets for 2025/26, the council must agree prudential indicators in accordance with the prudential code (see below). When recommending its budgets to Council, Cabinet must also recommend the prudential indicators.
41. From 1 April 2004, government control of local authorities' borrowing was abolished and replaced by a prudential system of self-regulation. Authorities are able to borrow based on need and affordability, which they demonstrate through compliance with the prudential code developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and which, like other CIPFA codes, is a binding requirement on local authorities by government regulation.
42. The key objectives of the prudential code are to ensure that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that authorities have had regard to these objectives, the prudential code sets out a number of indicators that must be considered covering five distinct areas – capital expenditure, affordability, prudence, external debt and treasury management. Council must approve the indicators through the budget process before 1 April each year, but they can be revised during the year if required.
43. The key indicators that will drive the capital budget decision making process will be those concerning long term affordability, as these measure the impact of capital investment decisions on the overall revenue budget and in particular the precept against the collection fund.
44. In setting or revising the prudential indicators the council is required to have regard to:
 - affordability e.g. implications for the precept
 - prudence and sustainability e.g. implications for external borrowing
 - value for money e.g. option appraisal
 - stewardship of assets e.g. asset management planning
 - service objectives e.g. strategic planning for the council

- Practicality e.g. achievability of the forward plan.

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

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

The Medium-Term Financial Plan (MTFP)

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

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

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

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

- The business rates reset will be phased over three years. As such, the council will see a phased reduction in its earnings above baseline before the reset, with the council seeing modest growth in retained business rates above the baseline in later years,
- pEPR and compensation for increased employer National Insurance contributions will continue to be paid at current levels,
- Core revenue spending power will be maintained over the duration of the MTFP – this will mean that government funding will fall as council tax increases. It is assumed that the current council tax referendum limits will continue to apply,

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

Table 3: Estimates of future government funding

	2025/26 Estimate £	2026/27 Estimate £	2027/28 Estimate £	2028/29 Estimate £	2029/30 Estimate £
Core revenue spending power:	(15,168,374)	(15,168,374)	(15,168,374)	(15,168,374)	(15,168,374)
Council tax	(9,624,898)	(10,092,244)	(10,571,445)	(11,062,751)	(11,566,418)
Government grant funding	(5,543,476)	(5,076,130)	(4,596,929)	(4,105,623)	(3,601,957)
Retained business rates	(779,526)	(569,684)	(359,842)	(150,000)	(200,000)
pEPR	(1,310,000)	(1,310,000)	(1,310,000)	(1,310,000)	(1,310,000)
NI compensation	(180,000)	(180,000)	(180,000)	(180,000)	(180,000)
Total	(17,437,900)	(17,228,058)	(17,018,216)	(16,808,374)	(16,858,374)
Total government funding	(7,033,476)	(6,566,130)	(6,086,929)	(5,595,623)	(5,091,957)
Annual reduction in government grant funding		467,346	479,201	491,306	503,667
Cumulative reduction in government grant funding		467,346	946,547	1,437,853	1,941,519

51. At the foot of the MTFP is an illustration on the use of reserves based on the above assumptions. To support ensuring future financial sustainability, officers are recommending that parameters for the sustainable use of reserves to support the revenue budget are introduced. It is proposed that the maximum use of reserves to balance the budget should be no more than ten per cent of general fund balance. The parameters will not apply in years when:

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

52. Row 63 of the MTFP shows the amount of reserves being used to support the revenue budget, whilst row 69 shows the closing balance on the general fund that is available to support the revenue budget. As can be seen, in 2025/26 and 2026/26 a contribution is made to reserves. However in later years, reserves are used in all years of the MTFP to support the revenue budget, ranging from just under £2.8 million in 2027/28 to over £5.4 million in 2029/30.

53. Under the recommended parameters for sustainable use of reserves, the first three years of the MTFP period show a sustainable use of reserves. However, from 2028/29 onwards, the use of reserves is increasingly unsustainable and if future government funding is as estimated, action will be required by the council to address the increasing budget gap.

54. Should action to address this be necessary in future years, the council will need to prioritise its revenue spend in the following order:

- Statutory obligations,
- Appropriate governance,
- Council plan priorities.

55. In addressing funding gaps, the main options open to the councils are as follows:

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

Whilst the council has been able to avoid cutting services up until now, it may not be possible to do so in future.

56. It was noted in the December update report that the council has a number of significant contracts for service provision coming to an end within the next three years. These are:

- Five Councils' Partnership - 2025
- Car parking services – 2025
- Waste and street cleaning – 2026
- Leisure services – 2026

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

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

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

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

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

61. The council's MTFS states that the council will hold £50 million of investments of which up to £35 million can be invested in capital schemes that will produce a return of certainty. The remaining balance can be invested in treasury investments. Whilst the treasury investments may in some cases be capable of being realised, investment in capital schemes is not capable of being realised.
62. As at 31 March 2030 the council is currently projected to have invested or earmarked the £35 million permitted in capital schemes, including an ongoing £15 million loan to South Oxfordshire Housing Association. A further £15 million has been invested in long term financial instruments.
63. Excluding the £50 million investment, the council is projected to hold £23.8 million of general revenue balances and £5.5 million earmarked revenue reserves as at 31 March 2030. Projections of future reserve holdings are based on draft figures prepared for the 2023/24 accounts which have not yet been audited.

Communities Capital and Revenue Grant Scheme

64. On an annual basis, the council has considered the amount to be made available for the Community Capital Grant Scheme. From 2018/19, some of this funding has been allocated to revenue projects. The council is asked to consider the amount to be made available for the Community Capital and Revenue Scheme and it is recommended that a grants budget of £590,000 be set for 2025/26 comprising:

- £270,000 for individual councillor grants,
- £320,000 for the communities' capital grants scheme.

Any underspend on the individual councillor grants will be available to fund additional spend on the communities' capital grants scheme.

Financial Implications

65. All financial implications are covered in the report.

Legal Implications

66. The Cabinet needs to make recommendations to the council on its spending proposals. Under the Local Government Act 2000 it is the council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 13 February 2025 in order to set the budget, and the council tax including amounts set by the town and parish councils, Oxfordshire County Council and the Police and Crime Commissioner for Thames Valley.
67. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the head of finance as chief finance officer to make a report to the authority on the robustness of the estimates and the adequacy of reserves are addressed within the body of this report.

Climate and ecological impact implications

68. As agreed with the climate team, the use of the Climate Impact Assessment Tool is not appropriate for this report as it is looking at the Council's overall budget.

Equalities implications

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

Risks

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

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

Other Implications

72. Agreement of the revenue and capital budgets authorises expenditure in accordance with the council’s delegated powers and financial procedure rules but is not a requirement to spend. The officer, councillor or councillor body taking those decisions will take into account the human resources, sustainability and equality and diversity implications of individual spending decisions, at the time they are made, as required by law.

Conclusion

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

74. In light of the information provided Cabinet must make a number of recommendations to Council regarding the revenue budget, the capital programme and the prudential indicators.

Appendices

Appendix A.1	Revenue budget 2025/26
Appendix A.2	Opening budget adjustments
Appendix A.3	Inflation, salary increments and other salary adjustments
Appendix A.4	Essential growth
Appendix A.5	Base budget savings
Appendix A.6	Amendments to base budget post December update report
Appendix B.1	Revenue growth and savings
Appendix C	Service budget analysis
Appendix D.1	Current capital programme – summary
Appendix D.2	Current capital programme - detailed
Appendix D.3	Capital growth bids
Appendix D.4	Amendments to the capital programme since December 2024 (Confidential)
Appendix E	Prudential indicators
Appendix F	Medium term financial plan

