

Report for: Cabinet

Date of Meeting:	10 December 2024
Subject:	2025/26 Budget Update
Cabinet Member:	James Buczkowski – Cabinet Member for Governance, Finance and Risk
Responsible Officer:	Andrew Jarrett – Deputy Chief Executive (S151)
Exempt:	N/a
Wards Affected:	All
Enclosures:	Appendix 1 – MTFP Position per PDG Appendix 2 – Capital Programme (GF) Appendix 3 – HRA MTFP summary position

Section 1 – Summary and Recommendation(s)

To present to Member's options to update the 2025/26 Budget for consideration / approval.

Recommendation(s):

- 1. That Cabinet approve the contents of this report, specifically the inclusion in the 2025/26 of the adjustments that:**
 - a. Cabinet requested were considered at the last meeting (para 3.4);**
 - b. The adjustments to previously agreed budget options (para 4.2);**
 - c. The proposed budget options (Section 5) that will be calculated as data or Government announcements are made.**
- 2. That Cabinet consider the proposed Capital Programme covering the period 2025/26 to 2029/30.**
- 3. That Cabinet consider the updated Housing Revenue Account Medium Term Financial Position.**

Section 2 – Report

1.0 Introduction

- 1.1 The main purpose of the MTFP is to show how the Council will strategically manage its finances in order to support the delivery of the priorities detailed in the Corporate Plan 2024 – 2028 and future years beyond that plan.
- 1.2 This provides a consolidation of the progress made against setting the 2025/26 General Fund budget to date and outlines where options are being considered to fully close the remaining shortfall.
- 1.3 It also introduces an indicative Capital Programme covering the years 2025/26 – 2029/30 for consideration (**see Appendix 2**). Views are sought on the recommended programme and for approval on to Full Council in February.
- 1.4 Finally, this report provides an update on the HRA MTFP position (**see Appendix 3**). Views are sought on the forecast and options to balance the 2025/26 HRA budget.
- 1.5 The Council has a legal requirement to set a balanced budget and needs to ensure its overall costs are affordable i.e. they can be funded through income and planned short-term use of reserves. Members therefore need to take the necessary decisions and actions to manage net spending within affordable limits.

2.0 Background

- 2.1 On 17 September, the first draft MTFP covering the period 2025/26 to 2028/29 for the General Fund was presented to Cabinet. This estimated a funding shortfall of £1.2m in 2025/26 rising to £4.0m by 2028/29. This number is derived without any remedial action and is a cumulative figure – i.e. if the £1.2m is found to balance the 2025/26 position, the overall budget gap will reduce to £2.8m. Initial options were included for consideration that could reduce that £1.2m shortfall in 2025/26 to £390k.
- 2.2 Following consideration by the various PDG's during the September round of meetings, Cabinet agreed the majority of those options on 15 October, potentially reducing the shortfall down to £431k subject to further development of some options.

Original forecast Shortfall	£1,196k
Plus: Appendix 1 – proposed Green and Ambers Less: Appendix 2 – proposed Green and Ambers	+ £725k (£1,531k)
Revised recommended forecast Shortfall	£390k

Proposals made at the meeting:	
Plus:	
Appendix 1 row 7 Proposed increase to Climate Change Budget	£100k
Appendix 1 row 11 Proposed increase to Planning Enforcement Budget	£100k
Appendix 2 row 8 Let's Talk MidDevon Saving – rejected	£11k
Less:	
Appendix 2 row 23 Lease more space commercially within Phoenix House	(£50k)
Appendix 2 row 24 Property capturing benefits from CRM system	(£30k)
Appendix 2 row 26 Refresh out of date leases	(£10k)
Appendix 2 row 35 Additional Pre-App Planning Income	(£40k)
Appendix 2 row 37 Additional income generated from Planning Engagement in EUE proposals.	(£10k)
Appendix 2 row 44 Recover Waste set up costs from new housing developments	(£20k)
Appendix 2 row 54 Leisure Potential income from advertising on Apps	(£10k)
Revised forecast Shortfall	£431k

3.0 Review of Budget Options Cabinet requested for review

3.1 Following that meeting, the above budget options have been further considered by officers. The following is an update on those options where officers recommend they are not included:

- **Row 23 Lease more space commercially within Phoenix House – (£50k);**
This proposal is currently on hold whilst Phoenix House is revamped and the identified space is occupied. It is recommended to defer consideration of this until 2026/27.
- **Row 24 Property capturing benefits from CRM system – (£30k);**
Work has not yet begun to integrate the new CRM system within this service, as the benefits are currently greater for other service areas. It is recommended to defer consideration of this until 2026/27.
- **Row 44 Waste Recover set up costs from new housing developments – (£20k);**
The project continues to progress with further research and legal advice required on how the scheme would be utilised and applied by MDDC. Once obtained this will inform the level of extra income that could be gained. At time of writing, this is not being considered for inclusion in the 2025/26 Budget but will be discussed further at the next Service Delivery and Continuous Improvement PDG in December. A verbal update can be given to Cabinet at the meeting.

3.2 In addition, the section of Appendix 2 titled “Ideas that need more consideration to identify possible financial benefit” were requested to be developed further and feedback to Cabinet.

- 3.3 Again, officers have considered these options and have outlined their findings to the various Policy Development Groups. It is recommended that these budget options are not included within the 2025/26 but are considered for future years as in many cases, there will be a large amount of preparation to establish if the option is possible and then a lead time required to implement it.
- 3.4 Therefore, following further review, the above recommendations have the following impact on the 2025/26 budget shortfall.

Proposed forecast Shortfall	£431k
Plus:	
<u>Appendix 2 (October Cabinet)</u> – remove the following options	
Row 23 Lease more space commercially within Phoenix House	£50k
Row 34 Property capturing benefits from CRM system	£30k
Row 44 Recover Waste set up costs from new housing developments	£20k
Revised forecast Shortfall	£531k

4.0 2025/26 Budget Options – Further Development

- 4.1 The remainder of the Appendix 2 savings approved on 15 October have also been further reviewed and the following are recommended to be adjusted, or removed:

Pressures – Appendix 1 (October Cabinet)

- **Row 7 Proposed Reduction in Planning Income – £150k**
Based on the latest Quarter 2 forecast, planning income may not fall as much as originally projected. However, the announcements included within the Autumn Budget may impact the housing market, so an adjustment to this reduction of £50k is proposed.

Savings – Appendix 2

- **Row 14 Possible adjustment to estimated Fuel saving – (£50k)**
Based on the latest Quarter 2 forecast, and the latest announcement in the Autumn Budget to continue to freeze fuel duty, it is forecast that fuel savings could increase by a further £50k.
- **Row 15 Possible adjustment to estimated Utilities saving – (£150k)**
The latest prices from October 2024 have recently been received from Laser. Following assessment, based on projected usage, it is proposed that this budget saving could be increased by a further £100k.
- **Row 25 Possible adjustment to Financial Contribution or Transfer of Assets to Town / Parish Councils – (£60k)**

Although discussions continue, we are yet to reach a position of agreement on increased contributions or asset transfer, therefore this £60k savings is at risk of not being achieved.

- **Row 43 Possible adjustment to Recycling Income – (£100k)**
Based on the latest Quarter 2 forecast, it is projected that income from recycling could be further increased by £100k. Note this is a very volatile income stream, but current projections indicate this is achievable.
- **Row 52 Possible adjustment to Leisure Income – (£34k)**
Based on the latest Quarter 2 forecast, it is projected that income from Leisure could be further increased by £100k.

4.2 Based upon the above explanations, the following adjustments to the remaining budget shortfall are recommended:

Revised recommended forecast Shortfall (para 2.4 above)	£531k
Less:	
<u>Appendix 1 (October Cabinet)</u> Adjustment to Row 10 Reduction in Planning Income	(£50k)
<u>Appendix 2 (October Cabinet)</u> Adjustment to Row 14 Estimated Fuel saving	(£50k)
Adjustment to Row 15 Estimated Utilities saving	(£100k)
Adjustment to Row 43 Recycling Income	(£100k)
Adjustment to Row 52 Leisure Income	(£100k)
Plus:	
<u>Appendix 2 (October Cabinet)</u> Adjustment to Row 25 – Contribution from Town Councils	£60k
Revised forecast Shortfall	£191k

Officers are still reviewing the implications of the in-year budget position and government announcements that further clarity will be received over the next month. This could still have a material impact on the current projected position.

5.0 New / Further Options being considered

5.1 Further work is still ongoing with officers to bring forward additional savings to move this forward towards a balanced budgetary position. Key areas of focus are:

5.2 Revisiting income assumptions / demand

5.2.1 Services are finalising the recommended fees and charges for 2025/26 and these will be brought forward to January Cabinet for consideration.

Assumptions have already been included where key income streams are under or over achieving, or where the increase in fee makes a material difference to the budget. The January report will finalise the budget implications for 2025/26.

5.3 Business Rates and Council Tax

- 5.3.1 Row 20 Possible adjustment to estimated Council Tax income (£50k)
Based on the proposed Council Tax Taxbase to be approved at Cabinet on 12 November, and a confirmed referendum limit of 3%, the forecast income will vary from the original forecast. This will be considered later in the budget setting process.

It should be noted that 2025/26 will include the additional income generated from the increased premiums on 2nd homes approved during the last budget. However, it was also proposed that these additional sums, of circa £50k, are earmarked to support additional housing projects.

- 5.3.2 Row 21 Possible adjustment to estimated Business Rates income – (£50k)
Based on the latest Quarter 2 forecast and announcements included within the Autumn Budget, it is expected that income from Business Rates will vary from the original forecast. This will be considered later in the budget setting process.

5.4 Detailed follow up of announcements made in the Autumn Budget

- 5.4.1 On the 30 October 2024, the Chancellor of the Exchequer gave her first Autumn Budget statement. As trailed, it was a significant budget with many proposals included that ultimately are forecast to raise taxation by £40bn.

- 5.4.2 There were some significant announcements for local government and district councils. The main headlines were:

- Departmental revenue budgets will increase by 1.5% in real terms across the spending review period. However, there are also 2% departmental productivity, efficiency and savings targets included for next year;
- 3.2% real-terms increase in Core Spending Power (CSP) for the whole sector in 2025/26. This will include £1.3bn additional grant funding, of which at least £600m will be directed to social care;
- £233m new funding for homelessness prevention. This will be in addition to the £1.3bn grant funding;
- £1.1bn new funding through implementation of the Extended Producer Responsibility scheme for recycling;
- £500m increase to the Affordable Homes Programme in 2025/26;
- Right-To-Buy: councils will be permanently allowed to retain 100% of receipts locally and discount levels will revert to pre-2012 levels;

- Five-year rent settlement for social housing landlords: rents will rise by Consumer Price Index +1% each year during the period.
- UK Shared Prosperity Fund has been extended for 2025/26 at a reduced level of £900m, a 40% decrease on the current year.

5.4.3 There were key announcements which will affect councils as employers:

- Employer national insurance (NI) contributions will increase by 1.2% to 15% from April 2025. The threshold for paying this will decrease to £5k per year.
- National Living Wage will increase by 6.7% to £12.21. Minimum wage for 18- to 20-year-olds will increase by 16% to £10 per hour.

5.4.4 There were also a number of broader announcements which may offer opportunities or potentially risks to the council, including reforms to business rates and the overall Local Government Funding mechanism

5.4.5 The Government is expected to publish a finance policy statement in mid/late November to set out the key decisions and principles for the provisional Local Government Finance Settlement. The provisional Local Government Finance Settlement is still anticipated in mid-December. This will set out the detail of funding allocations for individual councils.

5.4.6 Overall, the funding package for local government is better than many expected and it contains some good news for district councils. However, it remains unclear how much of the new grant funding will come to district councils and whether the funding package will deliver a real-terms increase for districts.

5.5 Government Funding Settlement (Mid-December)

5.5.3 The provisional settlement is usually announced just prior to the Christmas recess. Although the above headlines appear positive, we require the detail to enable any analysis. The implications on the movement in our Core Spending Power will be included within the 2025/26 once available.

5.6 Finalisation of the Capital Programme and the financing implications

5.6.3 The proposed Capital Programme forms part of this report (Section 6). If agreed, the funding implications will be included within the 2025/26 Budget.

6.0 Capital Programme – General Fund

- 6.4 The Overall Capital Programme includes new bids for capital funding to support new programmes as well as updated to ‘rolling’ approvals from current and prior year’s Capital Programmes.
- 6.5 The draft Capital Programme has been reviewed/challenged by the Capital Strategy Advisory Group (CSAG) prior to being proposed. The final programme being brought forward for approval in February.
- 6.6 Generally, the bids are restricted to replacement equipment, largely based upon health and safety requirements in the leisure centres, new ICT kit, income generation schemes, economic regeneration schemes or invest to save bids.
- 6.7 **Appendix 2** provides a revised spend profile for the current approvals based on Quarter 2 forecasts. It also provides a summary of the new bids received from General Fund services areas and the Housing Revenue Account for the new 2025/26 – 2029/30 Capital Programme. In February, Member’s will be asked to approve the Year 1 programme and note the indicative future years
- 6.8 The table below, shows the forecast capital expenditure profile during the life of the MTFP. This forms the basis of the Deliverable Budget for each year. This is based upon limited information on the sources of potential funding, particularly in later years. Therefore at this time, the overarching assumption is any unfunded element of the programme is covered through external borrowing. This will be refined and updated as we move through the MTFP timeframe.

Expenditure Profile	2025/26 £k	2026/27 £k	2027/28 £k	2028/29 £k	2029/30 £k	Total £k
General Fund Existing Programme	10,538	15,373	14,252	1,474	1,382	43,019
General Fund New Bids	926	1,249	868	1,043	708	4,794
Housing Revenue Account	32,340	11,679	5,605	20,649	19,890	90,163
Overall Capital Requirement	43,804	28,301	20,725	23,166	21,980	137,976

Expenditure Profile	General Fund 2025/26 £k	General Fund Project Totals £k	HRA 2025/26 £k	HRA Project Totals £k
Revenue Funded	1,304	4,930	2,650	12,719
Capital Receipts	50	50	1,994	6,299
Capital Grants	5,568	34,840	11,715	27,514
Borrowing	4,542	7,993	15,981	43,631
Overall Capital Requirement	11,464	47,813	32,340	90,163

- 6.9 In terms of associated funding, the availability of capital receipts are based on a prudent basis, with no major asset sales factored into the model. Similarly, prudent assumptions are included for the availability of Capital Grant to help mitigate some of the proposed costs. If additional receipts are generated, or

grant received, the capital prioritisation list could be revisited to bring forward new schemes into the programme or decrease any borrowing requirement.

- 6.10 Currently any revenue contribution to the Capital Programme is limited to funding held within Earmarked Reserves (i.e. Sinking Funds). No additional use of the New Homes Bonus grant is planned to fund elements of the Capital Programme. Ultimately, any outstanding funding requirement after utilising revenue contributions, reserves and any external funding sources will need to be funded through Prudential Borrowing.
- 6.11 The Council currently operates a policy of “internal borrowing” whereby it utilises its cash balances rather than undertaking new loans. It is recommended that the Council continues to maximise its use of internal borrowing rather than seeking to fund projects through new external borrowing whilst cash balances remain above £10m. However, given the scale of the proposed Capital Programme, internal borrowing will not be sufficient to fund all bids. Therefore, the Council will need to carefully consider how best to fund the capital funding requirements.

7.0 HRA Medium Term Financial Plan

- 7.4 The HRA is a ring-fenced account within Mid Devon’s financial accounting system. This means that a balanced budget must be set each year including all income and expenditure pertinent to the Council’s landlord function and excluding all other income and expenditure (since this would be captured as part of the General Fund budget).
- 7.5 The Council continues to undertake valuable benchmarking work in conjunction with Housemark. These findings are then used to inform the budget setting process. In doing so, MDDC are able to better identify their position in relation to other authorities in the sector and identify areas for improved efficiency.
- 7.6 Some items of expenditure can be defined quite accurately, such as the staffing budget whilst others require managers to exercise business judgement based upon their experience, particularly in the case of new commitments. Where such judgement has been applied, the proposals have been reviewed and are based upon realistic assumptions.
- 7.7 The main expenditure changes for the 2025/26 budget can be summarised as follows:
- An assumed pay award for 2025/26 equivalent to 3% (plus the adjustment required to amend the 2024/25 following agreement of the pay offer);
 - Pension Contribution rate remaining at 19.0%;

- A 5% assumed inflationary increase in contractor and materials spend against the current year budget;
- Additional provision for essential repairs and maintenance and other legislative requirements.
- Increases capital financing requirement reflecting the desire to build new units.

7.7.3 It should be recognised that the impact of a fixed lump sum pay award for 2024/25 has a disproportionate impact on the HRA salary budget when compared against the assumed 4% increase.

7.7.4 The Autumn Budget increased the Employers National Insurance liability by £97k, which is reflected in the rise in employee costs of £170k. However based upon government announcements that Councils will be compensated in full, and this is reflected in the income section.

7.7.5 Further refinement will be made to the assumed increases covering utilities, transport and supplies and services budgets.

7.8 The main income changes for the 2025/26 budget can be summarised as follows:

- An inflationary increase of 2.7% is included on existing rents. This is linked to September CPI which was recently announced at 1.7%, and confirmation from Government that rent can be increased based on CPI +1%;
- An assumed reduction in Garage rents and Garage plot ground rent income as the development programme develops the land. At present the budget assumes no change to the weekly charge;
- Decreased interest yields on balances held.

7.8.3 Following the identification of a historic error in the calculation of the Social Rent Formula, where the majority of tenants have been undercharged, but some have been overcharged, the income forecast has been reset. Whilst it is proposed that any historical underpayments are not reclaimed, there is a reduction in ongoing income as we reduce the charge for those that were overcharged back to the correct formula rent, thus leading to a shortfall in rental income compared to the previous MTFP assumptions. A separate report is also included on the agenda for this meeting that sets out more detail of the issue and proposed correcting actions.

7.8.4 Currently there is no financial provision for recent announcements during the last few weeks and comments emanating from the labour party conference regarding the future of Right-to-Buy, changes to rent setting and new energy efficiency requirements. These are currently being assessed.

7.8.5 Previous legislation on Right to Buy means that we would normally sell several properties per year. However, based on the amendments to the scheme set out in the Autumn Budget, this is likely to fall.

7.8.6 Similarly, we forecast that we will have a number of void properties during the year. We have a prudent forecast of voids across the year based on an assessment of current void number is in line with previous years. This includes properties held to facilitate new development.

7.9 It has been deemed as prudent to maintain the HRA reserve balance at £2,000k and it is expected to remain so throughout 2024/25. At the start of 2024/25, other HRA revenue reserves totalled £21,330k. This included the following notable balances:

- £13,943k in the Housing Maintenance Fund (HMF);
- £746k in the Renewable Energy Fund (REF); and
- £189k for future decarbonisation works. It is intended that any expenditure funded from the REF monies be used on renewable energy schemes.

In addition there is also the PWLB repayment fund which is being built up in order to repay the loan taken out to originally buy the stock in 2012. This currently stands at £5.928m.

7.10 The budget summary for the 2025/26 HRA is shown in **Appendix 3**. It will continue to provide for an enhanced housing service which will allow for more capital investment and additions to our existing stock. Current estimates place the HRA budget gap at £515k for 2025/26 rising to £5,370k over the MTFP timeframe.

7.11 Note these projections use a number of assumptions that will be finalised over the coming few weeks. It is expected that the refinement of these assumptions will reduce that forecast. Further actions are being considered to enable the budget to be balanced by February. These will be clearly laid out in the February Cabinet report that proposes the budget to Full Council.

7.12 The ambition to build a significant number of new properties continues across the 5-year Medium Term Financial Plan. The prospect of building new social housing raises the issue of significant future capital financing requirements. Budget at assumed interest rates of circa 5% is included within the future years of the MTFP to finance the build of a number of new highly efficient (zero carbon) modular buildings, subject to securing sufficient funding. Members are reminded that the constraint on increasing stock is still an issue of affordability, not the access to borrowing.

8.0 Conclusion

- 8.4 Although progress continues to be made to balance the 2025/26 Budget, there remains a reduced shortfall to be mitigated. Therefore, all possible options to increase income or reduce costs must be considered.
- 8.5 There remains a number of areas where greater clarity from Government, or indeed local circumstances, that will impact on the 2025/26. Many of which are now in corporate or non-service areas. Updates and any new budget options will be brought forward for consideration over the next few months in the run in to setting the 2025/26 budget in February 2025.
- 8.6 Members will appreciate that all budget options will require political support and therefore if some suggestions are deemed to be unacceptable then other savings will need to be proposed. Members should indicate where these alternatives should be sought.

Financial Implications

By undertaking regular reviews of the MTFP the Council can ensure that its Corporate Plan priorities are affordable. The implications of the budget gap are set out within the paper. Many areas require greater clarity, particularly around national funding and possible changes to Government Policy. Therefore a number of key assumptions underpin the reported position, which will be refined as greater clarity is received through the budget setting process.

Legal Implications

None directly arising from this report, although there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

Risk Assessment

The MTFP makes a number of financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available. These continue to be kept under review and updated where necessary.

Impact on Climate Change

The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change, as the MTFP sets the broad budgetary framework for the Council over the coming years. However, some provision has already been included in the base budget. Significant investment is currently forecast within the Capital Programme, however this will be dependent upon full options appraisals and levels of Grant funding available.

Equalities Impact Assessment

No implications arising from this report.

Relationship to Corporate Plan

The Medium Term Financial Plan (MTFP) sets out the financial resources available to deliver the Council's ongoing Corporate Plan priorities.

Section 3 – Statutory Officer sign-off/mandatory checks

Statutory Officer: Andrew Jarrett

Agreed by or on behalf of the Section 151

Date: 26 November 2024

Statutory Officer: Maria De Leburne

Agreed on behalf of the Monitoring Officer

Date: 26 November 2024

Chief Officer: Stephen Walford

Agreed by or on behalf of the Chief Executive/Corporate Director

Date: 26 November 2024

Performance and risk: Dr Stephen Carr

Agreed on behalf of the Corporate Performance & Improvement Manager

Date: 26 November 2024

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

Contact: Andrew Jarrett – Deputy Chief Executive (S151)

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Background papers:

- 2024/25 Budget
- 2024/25 Qtr. 2 Budget Monitor