To:
All members of the Corporate Policy and Resources Committee

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Date: 29 November 2024

Supplementary Agenda

Corporate Policy and Resources Committee - Monday, 9 December 2024

Dear Councillor

I enclose the following items for which the report and appendix 3 have been updated, for the Corporate Policy and Resources Committee meeting to be held on Monday, 9 December 2024:

11. Outline Budget Report 2025-26 to 2028-29 **3 - 20**

Committee is asked to:

1.
   a) Note the proposed Outline Budget parameters for 2025-28 to 2028-29 and the issues and challenges raised in the Report.
   b) Note the current projected Budget shortfalls over the outline periods set out in Table 1 (section 6)
   c) Subject to the recommendation of the Commercial Assets Sub Committee, agree in principle to the use of £1m per annum (pa) in 2026/2027 up to £5m pa in 2030/31 revenue income from investment assets to accelerate the building up of the investment sinking fund reserves, resulting in less income to support annual service provision.
2.
   a) Agree the Outline Corporate Transformation Programme covering the years 2025 to 2031 which is fundamentally focused on closing the Outline Budget Gaps for the years 2025-26 to 2028-29 to ensure the ongoing financial viability of the Council. (**Appendix 2).**
   b) Agree to set up a Members Transformation Board, with draft terms of reference to be brought back to the next meeting of the Committee.

Yours sincerely

Karen Wyeth
Corporate Governance

To the members of the Corporate Policy and Resources Committee

Councillors:

J.R. Sexton (Chair)	R.V. Geach	S.C. Mooney
C. Bateson (Vice-Chair)	M. Gibson	L. E. Nichols
M. Beecher	K.M. Grant	O. Rybinski
J.R. Boughtflower	K. Howkins	H.R.D. Williams
J. Button	N. Islam	
S.M. Doran	M.J. Lee	

Substitute Members: Councillors: M.M. Attewell, S.N. Beatty, S.A. Dunn, J.T.F. Doran, A. Gale and K.E. Rutherford

SPELTHORNE
BOROUGH COUNCIL

Corporate Policy & Resources Committee

9th December 2024

Title	**Outline Budget Report 2025-26 to 2028-29**
Purpose of the report	To make a decision
Report Author	Management Team (MAT) and Mahmud Rogers, Joint Financial Services Manager
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing housing need Resilience Environment Services
Recommendations	**Committee is asked to:** 1 a) Note the proposed Outline Budget parameters for 2025-28 to 2028-29 and the issues and challenges raised in the Report. b) Note the current projected Budget shortfalls over the outline periods set out in Table 1 (section 6) c) Subject to the recommendation of the Commercial Assets Sub Committee, agree in principle to the use of £1m per annum (pa) in 2026/2027 up to £5m pa in 2030/31 revenue income from investment assets to accelerate the building up of the investment sinking fund reserves, resulting in less income to support annual service provision. 2. a) Agree the Outline Corporate Transformation Programme covering the years 2025 to 2031 which is fundamentally focused on closing the Outline Budget Gaps for the years 2025-26 to 2028-29 to ensure the ongoing financial viability of the Council. (**Appendix 2).** b) Agree to set up a Members Transformation Board, with draft terms of reference to be brought back to the next meeting of the Committee.
Reason for Recommendation	Councils have a statutory duty to balance their budgets. It is imperative that the Council takes immediate steps to facilitate a medium-term transformational approach to ensure it remains financially sustainable. This Report sets out the beginning of the

	process to address the issues and steps required which will culminate in the Budget presentation to Full Council in February 2025.

1. Summary of the report

What is the situation	Why we want to do something
• A robust budget planning process helps organisations to manage their resources with economy, efficiency and effectiveness. • The Council has until now, held all costs in relation to its housing development sites in capital budgets, rather than impacting the annual revenue budget. • The Council can no longer avoid absorbing revenue impacts on its housing sites and will need to cut its losses within the next financial year where it is demonstrated previous development proposals will not materialise and/or sites are disposed of. • The Council moving forwards will need to retain more of its sinking funds for investment assets which will mean a reducing contribution of £1m pa in 2025/2026 up to £5m pa in 2030/31 from Investment Assets to support discretionary services. • The 2025/26 Budget planning process commenced in May 2024 and must be completed and approved by Council in February 2025.	• The Council has a statutory duty to balance their budget each year. • It is essential for the Committee to ensure the Council is taking a proactive and managed approach to understand the Budget shortalls and the impact this will have on service provision. • The Council needs to be able to make fully informed decisions about the changes needed to allow the Council to deliver a balanced budget for 2025/26 and across the Outline Budget years. • This is a draft position for the 2025/26 budget, along with indicative figures for financial years 2026-27 to 2028-29 showing the levels of growth and savings required and plans as they stand. • The provision of this indicative information is to provide the opportunity for councillors to give early consideration, as part of the 2025-25 Budget process, as to options for responding to the challenges set out.
This is what we want to do about it	**These are the next steps**
• Subject to the decision of the Commercial Assets Sub Committee, the Council needs to allocate £1m pa in 2026/2027 up to £5m pa in 2030/31 from the annual income from our Investment Assets and place this in the investment asset sinking	• The Committee needs to note the current budget shortfalls for the period 2025-26 to 2028 -2029. • Committee needs to note the budget assumptions set out in the report, and understand that any changes to

fund to ensure these assets continue to provide a sustainable income stream to deliver services. A holistic approach needs to be taken to address head on the financial challenges that the Council faces to ensure we remain financially sustainable. • The Council has developed a comprehensive Corporate Transformation Programme which sets out how the Council aim to deliver changes through a programme focusing on reducing costs and income generation, with a series of work strands to be delivered over the short-, medium- and longer-term (**Appendix 2**) • Key elements of this transformation programme include collaboration with other Councils, remodelling services including and discretionary/statutory service review and organisational adjustments, lowering overheads including reducing our footprint and reviewing grants, increasing income through the sale, lease or redevelopment of all assets, maintaining the investment income and looking at commercialisation of services • The Committee needs to agree to set up a Transformation Board ensuring Member oversight and political steer of the proposed Transformation Programme and if the shortfall cannot be reduced, consider which discretionary services are withdrawn.	these will impact on the budget gaps (positively or negatively). • Agree that subject to the decision of the Commercial Assets Sub-Committee, more income from investment assets (£1m pa in 2026/2027 up to £5m pa in 2030/31) is allocated to the investment sinking fund, resulting in less income to support annual service provision • Agree the Outline Corporate Transformation Programme covering years 2025 to 2031 which is fundamentally focused on closing the Outline Budget Gaps for the years 2025-26 to 2028-29 to ensure the ongoing financial viability of the Council. • Agree to set up a Members Transformation Board, with draft terms of reference to be brought back to the next meeting of the Committee. • Officers to work up individual work streams within the Outline Corporate Transformation Programme.

1.1 In comparison with many councils, Spelthorne has been relatively insulated over the last decade, from the need to make significant Budget savings and implement transformational changes, this period is now at an end. The report, highlights the impact of the following factors:

- Need to draw down less income over time from investment assets in order to build up Sinking Funds reserves to ensure sufficient balances to meet future risks

- Impact of addressing outcomes on housing sites and addressing redundant capital costs.
- Ongoing impact of cost of living and housing crisis
- Cost of resourcing Strategic Planning activity in relation to the Local Plan.

1.2 With respect to the first of the above, it is proposed that over a five-year period from 2026-27 the net contribution from investment assets is halved from £10m per annum to £5m. This will require some significant changes to the way the Council operates and the range of services it provides. The Council need to start proactively undertaking a Transformation Programme to address this challenge.

1.3 The provision of this indicative information is to provide the opportunity for councillors to give early consideration, as part of the 2025-25 Budget process, with decisions to be made in February 2025, as to options for responding to the challenges set out in the report. There will be work with Councillors in the intervening period to agree the remit of the suggested Transformation Board and the approach to finding the savings.

2. Context and background

2.1 This report is highlighting a significant proposed change of direction in the Council's Financial Strategy. Up to now, throughout the challenges of the COVID-19 period and the Cost-of-Living Crisis, the Council and its Assets Team has continued to maximise rental returns on Investment Assets and generating a net Revenue Budget surplus of approximately £10m per annum which has been subsidising the Council's ability to fund and deliver discretionary services.

2.2 Like all councils, Spelthorne is facing a challenging set of pressures and externalities. As an example of the pressures councils are under, it is worth noting the recent report the Local Government Association has published based on a survey of Chief Executives which suggests that one in four local authorities may need to consider making formal requests for exceptional financial support in the next two years, and that by 2026-27 Local Government as a sector is facing a £3.9 billion funding gap. The report highlights a "perfect storm" of pressures for local government including for upper tier authorities' children's and adult social care and temporary accommodation (TA) for lower tier and unitary authorities.

3. Immediate Challenges

3.1 <u>Cease capitalisation of housing schemes</u> The Council holds £16.0m of capitalised project expenditure relating to suspended capital projects in the accounts. It is expected that £8.7m relating to redundant costs for Thameside House and Ashford Victory Place, will crystallise in the coming months, and therefore be written off to Revenue (i.e. an accounting charge needs to be made to remove the accumulated capitalised costs from the Balance Sheet and to charge to the Revenue Budget). A summary of total accumulated capitalised costs is se out in **Appendix 4**.

3.2 To mitigate the impact on the General Fund and ensure the Council still has a balanced budget outcome, £8.71m of reserves have been identified which could be written down to absorb the cost (see Reserves Strategy Report on this agenda).This may also put pressure on the Revenue Budget.

3.3 Use of reserves and additional disposals offsetting cessation of capitalisation

The details are set out in the Reserves Strategy report which is also on this agenda. The Reserves strategy highlights:

- Drawing down £8.7m of reserves to offset impact of housing capital schemes brought to a cessation in 2025-26
- Impact of putting more funds into Sinking Funds reserves
- Impact of some targeted used of reserves to offset specific pressures such as homelessness and Strategic Planning resourcing
- A focus on maximising capital receipts from housing and regeneration sites

4. Other budget pressures

4.1 Housing

As a housing authority the Council has seen in the last few years a significant increase in requests for homelessness and housing assistance. This resulted in a £900k growth in 2024-25 budget for Temporary Accommodation (TA) of which £700k was offset in 2024-25 Budget by application of part of the balance in the Social Housing Initiatives earmarked reserve. Whilst the Council's acquisition of 80 TA units in 2024-25, with assistance of Local Authority Housing Fund, has eased these pressures and the need for more budget for TA has not increased further, the existing underlying £900k additional budget extra pressure is still present for 2025-26.

4.2 Local Plan

The Council is seeking to take forward its Local Plan process in the coming months and this has resulted in £1.1m growth bids for Planning related resources for the Environment and Sustainability Committee. Over the next three years, it is estimated that the early review of the Local Plan could add £2.75m to Revenue Budget expenditure for the Council.

4.3 Inflationary pressures

Over the last few years, the Council has experienced significant inflationary pressures on its expenditure linked to the cost-of-living crisis. Our budget, food, fuel, supplies and services have also seen significant inflationary pressures. The largest element of the Revenue Budget is expenditure on staffing.

In the 2024-25 Budget process, councillors agreed a two-year pay deal for staff consisting of a 2.8% increase in 2024-25 and a further 2.8% increase for 2025-26, to keep pace with inflationary pressures and retain staff, adding approximately £719k to the 2025-26.

4.4 **Climate change**

Addressing climate change mitigation measures can mitigate some costs especially around electricity and gas usage where reductions in usage and using local supply e.g. via solar can reduce costs. Shifting away from fossil fuel usage for the Council's fleet in the short term does add to Revenue Budget pressures but can reduce costs if payback on electric vehicles is properly assessed. It must also be noted that the fleet is the biggest contributor to the Council's carbon emissions.

4.5 **Eclipse Leisure Centre**

The Council is committed to Net Zero and the Passivhaus Leisure Centre is a demonstration of this. However, as was recognised at the time Council agreed to fund the scheme, whilst the Eclipse Centre generates significantly more income than the previous centre ,there will be a net additional revenue pressure arising from the Centre going operational. This pressure reduces over time as the income contribution rises. For details on the expected financial impact of the new Eclipse Leisure Centre, and its contribution to the Council's budget over the Outline Budget period, please see the separate report on this agenda on the Leisure Centre financing impact.

5. Medium to long term challenges

5.1 Reduction in investment income contribution to revenue

There are medium and long-term issues which the Council needs to start addressing immediately, so they can be proactively managed when setting the parameters for the 2025-26 Budget and the Outline Budget years. On the Investments Assets portfolio, the latest sinking funds fifty-years modelling (see the report going to Commercial Assets Sub-Committee on 16th December), is suggesting that the Council is, on a phased basis, going to need to increase the amount we put into the Investment Assets net of Sinking Funds each year, so that by 2030/31 a further £5m pa will be put in each year. This is to ensure that we have sufficient money in the earmarked sinking funds to meet future potential pressures on the funds. In order to address this to protect the longer-term stability of the Council, it is essential that we take pre-emptive steps now to ensure that we are able to make the tough decisions ahead.

5.2 As a direct consequence, there will be less income being put into the Revenue Budget each year, increasing by £1m each year over the next five years so that by 2030/31 there will be £5m less per year being received to deliver both statutory and discretionary services. This means difficult decisions will have to be made about prioritisation of services. **Appendix 1** sets out a summary of the split between Mandatory and Discretionary services.

6. Current budgetary position

6.1 Management Team, Group Heads, Budget Managers, Finance and Committees have undertaken a robust first stage review of detailed budgets, fees and charges and growth and savings bids for Revenue (and for Capital). This has informed initial modelling for both 2025-26 Budget and the subsequent 3 years in the Revenue Budget. This is resulting in the Budget gaps (the figures shown are cumulative) as set out below in **Table 1**:

Table 1: Estimated Budget Gaps for years 2025-26 to 2028-29

	2025-26 **£**	**2026-27** **£**	**2027-28** **£**	**2028-29** **£**
Reduction in investment income contribution to Revenue	**nil**	**1,000,000**	**2,000,000**	**3,000,000**
Impact of ceasing capitalisation of housing schemes*	**8,712,800**	**0**	**0**	**0**
Use of reserves and additional disposals offsetting cessation of capitalisation*	**-8,710,000**	**0**	**0**	**0**
Other Budget pressures arising from growth and savings items, see Appendix 3 Summary Outline Budget	**-1,309,200**	**2,517,200**	**3,416,300**	**5,562,300**
Estimated Budget Gap	**-1,306,400**	**3,517,200**	**5,416,300**	**8,562,300**
Estimated Surplus(-) /Gap as a	**-5%**	**13%**	**21%**	**33%**

Percentage of 2024-25 Net Committees' Budget				

*****The cessation of capitalisation relates to the planned sale of Thameside House and Ashford Victory Place

*Note the Other Budget pressures (**Appendix 3**) builds in an assumption that from 2025-26 there is no interest on any schemes being capitalised.

** Above is still subject to further change once the Provisional Local Government Funding Settlement detailed allocations are announced just before Christmas. The £1.3m surplus in 2025-26 to the extent it is not offset, will be transferred into reserves.

6.2 The Report sets out in section 4 the key assumptions feeding into the above Revenue Budget gaps. The latter part of the report will address what steps can be taken to close the gaps highlighted above.

6.3 The above gaps mean that concerted action needs to be taken, as discussed with councillors at the recent Budget Briefing on 25th November, to close those gaps. The actions will fall into short term measures to address closing 2025-26 Budget gap; medium term addressing 2026-27 and 2027-28; and longer term to address 2028-29. An Outline Corporate Transformation Programme for the period 2025-26 to 2030-31 is being proposed. (**Appendix 2).**

7. Immediate measures

7.1 There are several immediate measures being suggested which include:

- Vacancies freezing for 2024-25 and allowance of £500k per annum for years 2025-26 to 2028-29 of a vacancy turnover rate. In the past the Council had a similar vacancy savings allowance.
- Service Committees reviewing in the January cycle what additional savings can be made and where growth bids can be trimmed back.
- Additional income generation opportunities including maximisation of fees and charges.
- Short-term targeted use of reserves, for example offsetting in 2025-26 Temporary Accommodation pressures (see Reserves Strategy report for detail).
- Use of part of repurposed Green Belt Fighting Fund in 2026-27 to offset some of the Local Plan related pressures (see Reserves Strategy report for detail).

8. Medium Term Financial Strategy

8.1 Continuing to refresh the medium-term financial strategy (MTFS) will help bring together all known factors affecting the Council's financial position and its financial sustainability into one place. This should be as wide ranging as possible and include all the assets and liabilities on an organisation's balance sheet. This is particularly important, given that the Council now has to tackle the impact of realising the best commercial outcomes on its residential sites and ensure that it is sufficiently building up its sinking funds to withstand future pressures. It also allows the Finance team to balance the financial implications of objectives and policies against constraints in resources. This should in turn form the basis for Council's decision making.

8.2 A good MTFS should provide a clear and concise view of future sustainability and the decisions that need to be made to address any gaps in long-term financing. It forms the pivotal link to translate the organisation's ambitions and constraints into deliverable options for the future.

9. Corporate Transformation Programme

9.1 The Council has developed an Outline Corporate Transformation Programme which will, if agreed, act as a bedrock for all future key decision making for the Council. It sets out how the organisation will progress a comprehensive set of transformational workstreams to reduce costs and/or increase income to help ensure we close the budget gap over the short, medium and long term (Appendix 2). The Committee will note that the level of ambition is high.

9.2 One key element of the outline transformation programme is the need to reduce costs which will be delivered through:

- Collaboration with other Councils, with a particular focus on partnerships that could deliver financial savings.

- Remodelling services through:
  - an efficiency programme, including digital transformation and zero-based budgeting,
  - a review of discretionary/statutory services, and
  - adjusting team structures to deliver efficiencies and reduce reliance on consultants.

- Lowering overheads, including:
  - Reducing the Council's organisational footprint and costs,
  - Reviewing the level of discretionary grants.

9.3 The other key element of the transformation programme will focus on income generation:

- Continuing to make best use of our commercial and municipal assets
  - Considering the sale, lease or redevelopment of assets, where appropriate (including the Knowle Green Council Offices), and
  - Maintaining the investment income.
- Exploring options for Knowle Green Estates, including merger with registered providers or bringing back on the Council's Balance Sheet by setting up a Housing Revenue Account.
- Seeking to maximise cost recovery from fees and charges and looking at commercialisation of some services.

9.4 It will be important that the Council prioritises clearly where it wishes to maintain service levels above statutory requirements and where it is willing to explore alternative delivery approaches. This may require a need for the Council to revisit the priorities and associated actions set out in the current approved Corporate Plan.

9.5 The Council are already actively pursuing a number these strands – details are set out below.

9.6 **Partnering** – Over the last few years, SBC have been partnering with other councils to ensure that the emphasis is on service delivery, rather than additional administration or supervision, and to provide service resilience. These include:

(a) Counter Fraud – with Reigate & Banstead Council.

(b) Spelthorne Personal Alarm Network – with Mole Valley District Council.

9.7 Both Mole Valley District Council and this Council are currently progressing the joint venture to combine the Finance Teams of the two Councils, this is to improve resilience, aid recruitment and deliver efficiencies and savings, particularly around the use of Centros, the Council's Enterprise Resource Planning financial system. The partnership with Mole Valley highlights the intensity of resource required to make partnerships successful. With respect to going live, the target date for the single financial platform to be up and running for Mole Valley and Spelthorne has been pushed back a year to 1 April 2026. This is to ensure that it can be effectively implemented.

9.8 The Council will explore the potential for collaborative approaches with other Councils, with a key focus on reducing costs. In the context of the financial challenges all councils are facing and uncertainties around the future of local government in Surrey, it is particularly timely to look at these opportunities, including procurement.

9.9 Invest-to-save & cashable savings – Officers are exploring a number of options. However, given the financial challenges facing the Council, there preference is to generate cashable savings and from those savings launch the invest-to-save strategies, as this would protect the Council's operating cashflow. One example will be to pursue potential opportunities for income generation from electric vehicle ultra-rapid charging hubs in a number of Council-owned car parks, which once the initial capital costs are covered could deliver significant ongoing income to the Council. 9.10 Digital Transformation **-** The Council's digital transformation programme, which will be one element within the broader Transformation Programme, will deliver cashable savings each year as outlined in **Appendix 2**.

9.11 See **Appendix 6** which sets out the assumptions behind the Digital Transformation Programme, and **Appendix 7** which sets out the Digital Transformation Strategy.

9.12 One example of where such transformation can lead to savings is the move towards hybrid printing. This will reduce the average price of outbound communication and should be seen as a start in the process whereby over time more is done by e-mail or direct access to our customer portal which would reduce costs to 10p or less per communication. It is noted that not everyone will have access to emails, so traditional methods of communication will still be available, but savings of over four years savings £150k are achievable, which will facilitate the release of one Full Time Equivalent post in 2025-26.

9.12 **Knowle Green Offices –** As the hybrid era of working continues, officers are continuing to explore how the Council can maximise the opportunities and reduce the overall running costs for the current office. A piece of work will be commenced in 2025/26 to look at the future use and need for the Council to remain in some or all of Knowle Green and also whether there are alternative options that could achieve much greater savings if the Council were to relocate its office base to an alternative location within the Borough**.**

9.13 **Centros –** the project is ongoing and has achieved improvements in the budget setting process, enabling officers to produce the first draft of the **Mapping –** introducing 'maps' for our standard reports. Once established, this will reduce the time taken to collate the report by over 95% in respect of Officer time.

10. Options

10.1 The above report sets out a proposed way forward to ensuring the Council can deliver financial sustainability. There will be an opportunity to agree terms of reference for the Transformation Board and the associated work programme to be shaped by councillors when the Terms of Reference come back to the next Committee. Preferred Option to accept proposal to set up a Transformation Board with terms of reference to be agreed and a £0.5m transformation reserve set up on an invest to save basis.

10.2 **Option 2**: Do not accept the need for transformation and identify alternative strategy. Not recommended.

10.3 The proposal to reduce the net contribution by £5m over a five year period is informed by the Sinking Fund modelling which been recently completed. There may be options which could be explored with councillors to vary the timing and the pace of this approach which still achieves the vital medium term outcome of protecting the robustness of the level of balances in the Sinking Funds reserves.

11. Financial implications

11.1 Council Tax

On 28th November the Government issued a Local Government Financial Policy Statement (see supplementary **Appendix 9** summarising the main elements) in which it confirmed that the Council Tax referendum rules for 2025-26 would be unchanged for districts and borough councils with the limit being the higher of £5 on a Band D council tax rate or 3%. Upper tier authorities will have an additional 2% for Adult Socia Care precept and Police and Crime

Commissioners a £14 increase on Band D. Given the financial pressures the Council is facing it is strongly recommended that the Council protects its council tax base by setting the maximum council tax increase allowed under the regulations of the higher of a £5 increase on a Band D or 3%. In our case the 3% equates to a £6.67 increase in Band D for 2025-26. This would yield an additional aggregate council tax revenue of £271k in 2025-26. Given the challenges the Council is facing, the Chief Finance Officer's recommendation is that the Council seeks to protect its council taxbase by increasing council tax by the maximum amount allowed. The final decision to be made by councillors will be made at the budget setting Council meeting in February.

Local Government Provisional Funding Settlement

This is expected to be announced on 19th December, 4 working days before Christmas. Officers are expecting a "roll over" settlement i.e. do not expect any significant funding methodology changes. The Local Government Financial Policy Statement has confirmed that the Fair Funding Review and Business Rates will slip and will begin in 2026/27, in the outline Budget projections we have assumed a reduction of a third in the amount of business rates we retain from 2026-27 and the disappearance of New Homes Bonus at the same time. This is a factor in the last two years in the outline budget period which will be particularly challenging.

11.2 **Inflation**

The latest report from the Bank of England Monetary Policy Committee (7 November) is predicting that inflation will move up slightly from the most recent CPI figure of 1.7%. The impacts of a Trump presidency, if it results in higher trade tariffs globally, and the Chancellor's Budget, are being assessed for their inflationary impacts. The Council is modelling the following assumptions:

2% uplift per annum for third party contracts;

2.8% uplift 2025-26 for salaries as per the Pay Agreement and 2.5% per annum thereafter;

4% uplift on Fees & Charges (except statutory fees determined nationally) per annum.

11.3 **Business Rates**

The business multiplier has been frozen for another year. Business Rates Retention scheme is going to remain unchanged at 50% (this does not mean councils retain 50% of business rates but above a baseline they gain 50%) and that the associated baseline levels will not be reset for councils.

The Government has announced its intention to amend the system to provide a permanent 40% business rates relief discount to leisure, retail and hospitality businesses. This is a reduction compared to the current 75% relief but does provide longer term certainty. This lower rate of relief may add to the challenges of maintaining collection rate.

11.4 **New Homes Bonus Grant (NHB)**

The Local Government Financial Policy Statement confirmed that New Homes Bonus will continue for a further year in 2025-26 and the Provisional Local Government Financial Settlement will announce the allocation. At most the scheme is expected to be only extended one year. It has been assumed for budgeting purposes that there is no NHB beyond 2026/27 grant.

11.5 **Pay award**

Year two of the pay deal a 2.8% increase for all staff has already been agreed for 2025-26. For years 2026-27 to 2028-29 we are currently modelling as our central assumption a 2.5% increase per annum.

11.6 **Pensions**

Local Government pensions are subject to a triennial valuation every three years. The next one is due to reflect the position as of 31 March 2025 has and will impact on the employer pensions contributions for the period 2026-27 to 2028-29.

12. Additional Statutory Duties

12.1 The Council also needs to be mindful of the potential for additional statutory duties and requirements being imposed on councils during the Outline Budget period. One example is the Extended Producer Responsibility regime taking effect in 2025, which will create additional workload but for which councils will receive additional funding. Equally there is a risk that some additional responsibilities passed on to the Council will not come with sufficient matched funding.

13. Government Announcements

13.1 **Appendix 8** provides some additional commentary on the anticipated Local Government Financial Support. Appendix 9 is a summary of the elements within the Local Government Financial Policy Statement announced on 28th November.

13.2 On 28th November the Department for Environment Food and Rural Affairs (DEFRA) announced its grant allocations for 2025-26 for Extended Producer Responsibility arrangement. Our allocation which is a guaranteed minimum sum for 2025-26 is £907k. This has significantly improved the overall budget position for 2025-26. At this stage, as it is not clear yet how the data collection mechanism relating to the Council's performance will impact on net funding in future years, an income figure for future years has not been put in. There is therefore the potentially for the future year's gaps to improve once this becomes clearer.

14. Economy

14.1 In line with the Arlingclose forecast, the Bank Rate was cut to 4.75% in November. The Bank of England's Monetary Policy Committee (MPC) is expected to continue to reduce Bank Rate further over the next twelve months, but more slowly and by less. Arlingclose expect another rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

14.2 Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes. Arlingclose consider that uncertainty may also necessitate more frequent changes to their forecast than has been the case recently.

14.3 The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

14.4 See **Appendix 5** for the detailed Economic and Interest Forecast from Arlingclose.

15. Other considerations

15.1 The Outline Corporate Transformation Programme (CTP) 2025-26 to 2030-31 will be underpinned by appropriate Governance and Project Management support. As a work stream this will have the highest priority for the Council. It is suggested that a Councillors Transformation Board is set up (reporting to Corporate Policy and Resources Committee (CPRC), to oversee and drive this transformation programme. Quarterly reports will be provided to CPRC.

15.2 This is a fundamental and broad ranging transformation programme which will require a significant dedicated supporting resource. The Council will need to look at how resources or reserves can be freed up to support delivery of the Outline CTP

15.3 Councillors and officers will need to recognise that delivery of the CTP will require prioritisation over other workstreams, alongside the delivery of statutory services. If agreed, it will result in the need to review the actions set out in the current Corporate Plan to see if they need to be amended or not progressed. There will be no organisational capacity to deal with any work outside of these workstreams.

16. Financial implications

16.1 Councils have a statutory duty to set a balanced budget. The statutory Chief Finance Officer (S151) wishes to highlight to the Committee the key importance of ensuring that the Council takes appropriate and timely actions to enable the Council to remain financially sustainable. This includes reducing the Council's net Budget expenditure on a phased basis across the Outline

Budget period, halving the £10m income contribution from investment assets, and critically assessing the outstanding issue of housing/regeneration sites which have not delivered outcomes.

17. Procurement

17.1 Smarter procurement and collaboration with other authorities will have a role in delivering cashable savings over the Outline Budget period. The Council will look for opportunities to align contract end dates with other Surrey councils in order to explore opportunities for levering better rates. As set out in the report, focusing on opportunities to procure goods and services smarter should generate some opportunities to deliver financial savings.

18. Risk considerations

18.1 This is a report very much focused on risks, including the risks arising from challenging externalities, including the risk of Government funding reducing in the future, the risks of the housing crisis nationally continuing, the risks around future income levels and the level of expenditure required to sustain income streams. These key corporate risks are regularly reviewed in the Corporate Risk Register. The report above highlights risks around Investment Assets, and of not following the planned approach and the potential impact of leases not being renewed in future and the need to ensure that the Council maintains the Sinking Funds reserves at a sufficient level to be able to absorb such impacts.

19. Legal considerations

19.1 Councils have a statutory duty to set a balanced Budget. It is essential that the Council has deliverable plans in place to ensure the Council remains financially viable over the next few years.

19.2 Any financial plans must be based on sound assumptions and must not reduce reserves to unacceptably low levels. The Council is obliged to have regard to any report of the Chief Finance Officer under section 25 of the Local Government Act 2003 when making decisions on its budget requirement and level of financial reserves.

20. Equality and Diversity

20.1 Any savings proposals impacting on service users will require an Equality Impact Assessment to be undertaken.

21. Sustainability

21.1 There is the potential to align climate change objectives with budget sustainability reductions as reductions in energy consumption assist in easing pressures on the Revenue Budget. Energy saving measures or use of renewable technologies may require initial investment but depending on the measure paybacks are short and have the dual benefit of reducing costs and meeting our climate change targets set out in the climate change strategy and corporate plan.

22. Timetable for implementation

22.1 December 2024 - Committees review and finalise the Service Plans and associated budgets and agree the 2025-26 Fees & Charges proposals for their Cost Centres.

22.2 December 2024 - draft 2025-26 budget made available to Committees with an indication of the further savings required to be found for each Committee

22.3 January 2025 – all Committees review and consider their growth and savings bids and submit list of bids to the Corporate Policy & Resources Committee for final short listing to feed into the final Detailed Budget for 2024-25.

22.4 January 2025 – Corporate Policy & Resources Committee meet to finalise the Net Service Budgets for each Committee, along with the budgets for investment and regeneration properties, movement on reserves.

22.5 21 February 2025 – Council approves growth and savings bids as part of the 2025/26 annual budget debate.

22.6 Spring 2025- the aim will be work up a detailed programme of Transformation streams, and have the Transformation Board up and running. The aim will be to agree indicative targets for the various workstreams and prioritisation of transformation projects, taking into account potential deliverable savings relative to resource required.

23. Contact

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Background papers: *Budget Briefing Presentation 25 November 2024*

Appendices:
Appendix 1 – Draft Discretionary & Mandatory Revenue Budget Split
Appendix 2 - Draft Summary of the proposed MFTP Savings Programme MTFS 2025-26 to 2028-29
Appendix 3 – Summary of Outline Budget figures for 2025-26 to 2028-29
Appendix 4 – Costs relating to suspended projects
Appendix 5 - Arlingclose Economy & Interest rate forecast 2024-11-11
Appendix 6 – Digital Transformation assumptions
Appendix 7 – Digital Transformation Strategy
Appendix 8 – Additional Commentary on the anticipated Local Government Settlement for 2025-26
Appendix 9 – Summary of Local Government Financial Policy Statement produced by MHCLG on 28th November

Outline Budget 2025-26 Base Case **Appendix 3**

05 December 2024

	2024-25 original £	2024-25 Revised £	note	2025-26 £	2026-27 £	2027-28 £	2028-29 £
Gross Expenditure	62,573,900	63,118,100		63,991,500			
Less: Fees and Charges and Specific Grants (excl Hous	(14,789,800)	(15,303,000)		(15,381,900)			
Less: Housing Benefits Grant	(21,556,000)	(21,556,000)		(21,556,000)			
Net Service Expenditure:	**26,228,100**	**26,259,100**		**27,053,600**	**25,490,600**	**26,368,500**	**27,133,800**
Broken down by Committee							
Corporate Policy & Resources Committee	11,024,900	11,024,900		10,896,300	6,000	258,000	
Business Infrastructure Committee	2,531,800	2,531,800		2,463,500			
Community Wellbeing & Housing Committee	5,768,700	5,799,700		6,031,200			
Environment & Sustainability Committee	6,902,700	6,902,700		6,755,600	817,000	(90,000)	
	26,228,100	**26,259,100**	**1**	**26,146,600**	**26,313,600**	**26,536,500**	**26,368,500**
Third party inflation	0	0		0	418,700	429,100	439,800
Fees & charges inflation	0	0		0	(211,200)	(216,500)	(221,900)
Fees & charges additional inflation				0	0	0	
NI Increase to fund NHS	0	0		0	0	0	
Pensions	0	0	**2**	0	0	50,000	
Pay award	0	0	**3**	0	634,300	650,200	666,400
Vacancy Freeze	0	0		(500,000)	0	0	
Cashable Savings Identified	0	0	**4**	(156,000)			
Business Improvements	0	0	**4**	0			
Green Initiatives	0	0	**4**	0			
Uplift in Leisure Centre Income	0	0	**5**	0	(603,400)	(300,500)	(85,600)
Diesel Fuel to HVO Fuel	0	0	**4**	0	10,000	10,000	0
Local Plan Costs Yr 2	0	0	**4**	0	210,000		
New CCTV Contract 2627	0	0	**4**	0	100,000		
Increases in procurement savings	0	0	**4**	0	(25,000)	(25,000)	
One off Growth bids 25.26 (removal in 26.27)	0	0		0	(435,000)	0	
Lapsed Growth bids base budgets	0	0		0	(43,500)	0	
Service Expenditure	**0**	**0**		**(656,000)**	**54,900**	**597,300**	**798,700**
NET EXPENDITURE	**26,228,100**	**26,259,100**		**25,490,600**	**26,368,500**	**27,133,800**	**27,167,200**
Investment Property Income per lease incl regen	(50,946,700)	(50,946,700)	**5**	(49,064,800)	(53,464,800)	(51,591,900)	(51,110,500)
Landlord Costs	6,827,600	6,827,600	**5**	7,865,400	7,889,900	3,707,500	6,942,900
Debt Interest payable	24,933,100	24,933,100	**5**	25,424,600	25,136,900	24,830,000	24,508,900
Minimum Revenue Provision	12,918,600	12,918,600	**5**	13,242,100	14,144,900	14,496,400	14,856,800
Set Aside	650,000	650,000	**5**	670,000	690,000	710,000	730,000
Capitalised Interest	(1,217,700)	(1,217,700)	**6**	0	0	0	
Interest Cash Equiv.	(250,000)	(250,000)	**7**	(670,000)	(310,000)	(225,000)	(200,000)
LA & Other Loans Interest Rec	0	0	**7**	0	0	0	
Interest Rec - Pooled Funds	(1,224,000)	(1,224,000)	**7**	0	0	0	
Interest received on loans to KGE	(761,900)	(761,900)	**8**	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
Interest received on loans to SDS	(16,000)	(16,000)		(10,000)			
			8		(7,000)	(4,000)	0
Cashflow Loan Interest to KGE	0	0		(42,000)	(38,000)	(30,000)	(20,000)
NET EXPENDITURE AFTER INTEREST EARNINGS	**17,141,100**	**17,172,100**		**21,405,900**	**18,910,400**	**17,526,800**	**21,375,300**
Appropriation to/(from) Reserves:							
Revenue Contributions to Capital Outlay	0	0		0	0	0	0
Housing Initiatives	(703,800)	(703,800)		(703,800)	0	0	0
Funding From Earmarked Reserves	(71,700)	(71,700)	**1**	(110,000)	0	0	0
Building Control Reserve	(5,700)	(5,700)	**1**	0	0	0	0
Planning Performance Agreement	(96,700)	(96,700)	**1**	(96,700)	(53,200)	(53,200)	(53,200)
Green Initiative Fund	(46,300)	(46,300)	**1**	(49,900)	(49,900)	(49,900)	(49,900)
BRR Retention - EcDev	(84,700)	(84,700)	**1**	0	0	0	0
Green Belt Fighting Fund	(90,000)	(90,000)		0	(210,000)	0	0
PDG Reserve	0	0		(50,000)	0	0	0
Sinking Fund Contributions	833,900	833,900	**9**	1,002,500	830,000	1,456,900	850,600
Sinking Fund (Funding)	(2,850,000)	(2,850,000)	**9**	(6,750,000)	(1,600,000)	0	(3,200,000)
BUDGET REQUIREMENT	**14,026,100**	**14,026,100**		**14,648,000**	**17,827,300**	**18,880,600**	**18,922,800**
Allocation from National Non-Domestic Rate pool	(500,000)	(500,000)	**10**	(750,000)	(500,000)	(500,000)	(500,000)
Retained Business Rates	(1,929,000)	(1,929,000)	**10**	(1,929,000)	(1,200,000)	(1,000,000)	0
Other Grants (Section 31 Grants formally used)	(874,900)	(874,900)	**10**	0	0	0	0
Section 31 Grants	0	0	**10**	(2,228,000)	(2,228,000)	(2,228,000)	(2,228,000)
Lower Tier Services Grant re Core Spending Power	(12,300)	(12,300)	**10**	(13,000)	(13,000)	(13,000)	0
Core Spending Power Guarantee Grant	(1,884,000)	(1,884,000)	**10**	(1,722,000)	(1,720,000)	(1,630,000)	0
Revenue Support Grant	(96,800)	(96,800)	**10**	(100,000)	(101,000)	(103,000)	0
New Homes Bonus Grant	(101,500)	(101,500)	**10**	(10,000)	0	0	0
NET BUDGET REQUIREMENT	**8,627,600**	**8,627,600**		**7,896,000**	**12,065,300**	**13,406,600**	**16,194,800**
Collection Fund (Surplus)/Deficit	100,000	100,000		100,000	180,000	180,000	0
CHARGE TO COLLECTION FUND	**8,727,600**	**8,727,600**		**7,996,000**	**12,245,300**	**13,586,600**	**16,194,800**
Tax base (net)	**39,241**	**39,241**	**11**	**40,620**	**41,229**	**41,848**	**42,475**
Council Tax rate	222.41	222.41	**11**	229.08	235.95	243.03	250.32
Council Tax yield	**8,727,600**	**8,727,600**		**9,305,200**	**9,728,100**	**10,170,300**	**10,632,500**
DEFICIT/(SURPLUS)	**0**	**0**		**(1,309,200)**	**2,517,200**	**3,416,300**	**5,562,300**
				1,563,000			
				32%			
				(1,309,200)			

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