

UPDATE ON GENERAL FUND AND HOUSING REVENUE ACCOUNT BUDGETS 2025-26

Executive Summary

This report appraises Members of the work being undertaken to prepare the 2025/26 Budget and Medium-Term Financial Strategy [MTFS], which will be ultimately presented to Council at the end of February or beginning of March.

The Council has a legal obligation to set a balanced budget for 2025/26 by no later than 11th March 2025 and to ensure that a longer-term view is also taken into consideration. As part of that final report, Members will have had to take into consideration any specific impacts any adopted proposals may have on protected groups (as identified by the completion of Equalities Impact Assessments on relevant proposals).

In addition, the Strategic Director of Finance (s151 Officer) is required to specifically report to Council on the robustness of the proposed budget and proposals, as well as the adequacy of forecast reserves taking into account the likely risks that might be experienced over the medium-term.

The Executive has already received and noted an earlier report on the Budget and Medium-Term Financial Strategy. That paper set out an initially indicated £5m “underlying” budget gap for 2025/26 (rising over future years to £10m by 2027/28).

The “underlying” budget gap excluded a separate “debt-overhang” gap relating to the level of borrowing the Council has previously taken and for which income generated from investment in commercial properties or companies is unable to service those debt financing costs. The Council is likely to require further exceptional financial support from government in 2025/26 to meet these pressures.

The February/March 2025 Budget reports will be structured in such a way that the “underlying” budget position will be separately identified from the “debt-overhang” issues. Work through the commercial workstreams is progressing to minimise those latter issues but will ultimately require a solution to be agreed with government if it is going to be permanently resolved.

This paper reminds the Executive of the initial work to classify the current year General Fund revenue budgets as either “one-off” (i.e. unique to the 2024/25 budget and not a continuing net pressure in 2025/26); “debt-overhang” (largely the capital financing costs associated with the estimated debt unable to be resolved through the commercial workstreams and review of group company holdings); and the remaining “underlying” budgets.

This report then sets out the work being or planned to be undertaken to identify budget proposals that will allow a balanced budget to be presented to Council in February/March 2025.

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Recommendations

The Executive is requested to:

RESOLVE That

- (i) the current assessment and categorisation of the approved 2024/25 budget into the three categories of “one-off”, “debt overhang” and “underlying” elements, be noted;
- (ii) the process put in place to compile the 2025/26 Budget and Medium-Term Financial Strategy [MTFS] be noted and endorsed;
- (iii) the planned timetable and schedule of activities to deliver a final Budget and MTFS report at the end of February / beginning of March 2025 be noted and endorsed; and
- (iv) the proposed approach to consultation on the proposed budget be noted and endorsed.

Reasons for Decision

Reason: The Council is legally required to set a budget (considering the longer-term outlook through an MTFS, which is, in the opinion of the s151 Officer, robust and allows for adequate future levels of reserves to manage potential risk levels. The report appraises Members of the work undertaken and planned to provide Council with budget options that meet those requirements.

The development and delivery of a sustainable and balanced budget is integral to the over-arching Woking For All Strategy, which is the Council’s corporate plan. The overall approach to setting the 2025/26 budget remains in accordance with the guiding principles adopted by the Council in July 2023, and in particular included the need to be a smaller and more efficient Council, looking to fund non-statutory services only where they were self-funded.

The Executive has the authority to determine the recommendation(s) set out above.

Background Papers:	None.
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1.0 Introduction

- 1.1 The Council is required under regulations to set an annual budget (and Council Tax) for each forthcoming year which must be approved by no later than 11th March in the immediate year preceding. As part of this requirement, the Council must set both General Fund and Housing Revenue Account [HRA] budgets as well as a capital budget.
- 1.2 Accompanying those budget setting reports, and complementary to them, updated Capital and Treasury Management (including Minimum Revenue Provision [MRP] policy) Strategies are required to also be considered for approval.
- 1.3 In setting the annual budgets, Members are required to have due regard to any impact specific proposals may have on protected groups – where necessary this will involve the preparation of an Equalities Impact Assessment [EQIA] for decision-maker consideration.
- 1.4 Regulations set out in the Local Government Finance Act (1992) require the Strategic Director of Finance (Section 151 Officer) to report to Council at the time of budget setting on
 - a) The robustness of the estimates made in determining the Budget and Council Tax; and
 - b) The adequacy of the proposed levels of reserves, taking into account an assessment of potential risks.
- 1.5 The Chartered Institute of Public Finance and Accountancy [CIPFA] publish a guide to best practice for councils in managing their financial affairs and setting sustainable budgets. This Financial Management Code sets out the need to consider budgets and the adequacy of reserves over a medium-term financial planning horizon.
- 1.6 The statutory requirement to set a budget and Council Tax for 2025/26, without which the Council would be unable to make Council Tax demands; the need for the s151 Officer to formally consider the robustness of budget proposals and the adequacy of reserves over the medium term; and a requirement to conform to the Financial Management Code all require the Council to consider and approve a budget and Medium-Term Financial Strategy [MTFS] before 11th of March 2025.
- 1.7 An initial assessment of the potential “underlying” budgetary gap for 2025/26 through to 2027/28 has been assessed to be around £5m and rises with the impact of inflation and other known reductions in funding to around £10m by the end of 2027/28. Members were appraised of this position in the report to Executive on 11th July 2024.
- 1.8 Planning for the process to prepare the 2025/26 Budget and Medium-Term Financial Strategy has been completed and Officers have begun the work to identify budget proposals in order to set a balanced and sustainable budget and Council Tax for 2025/26.
- 1.9 This report reminds Members of the previously reported estimated budget gap and sets out an outline and timetable of the work which will be undertaken in order to present Council with a recommended balanced budget for 2025/26 and a longer term MTFS.
- 1.10 It further sets out the work undertaken and future planned activities in order to achieve a balanced budget by Council meetings towards the end of February and/or early March 2025.

2.0 The Budget Envelope

- 2.1 The Executive received a report on 11th July 2024, that categorised the current year budget into elements to better understand the potential savings that would be required in order to balance its “underlying” General Fund budget in 2025/26. That analysis split the current budget into three elements: “one-off” (those net 2024/25 budgeted pressures that applied solely to

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2024/25 and will not be required in 2025/26 – largely the rebuilding of specific reserves); “debt overhang” (the capital financing costs net of some property income, for which the Council is requesting exceptional financial support [EFS] from government); and the “underlying” budget (the amount that the Council will need to address outside of EFS support).

2.2 A summary of that previous analysis is replicated in the table below:

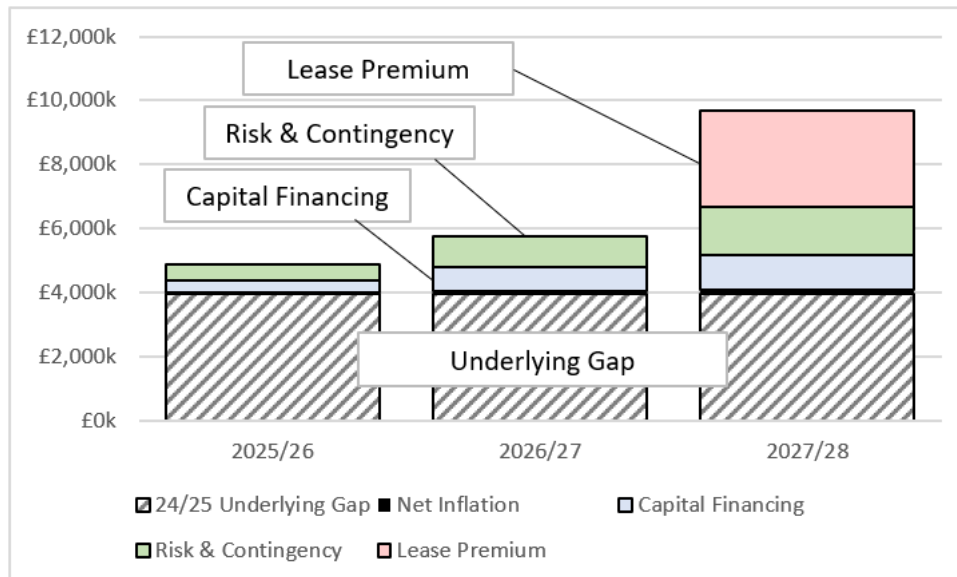
	Net (£,000's)	One-Off (£,000's)	Debt Overhang (£,000's)	Underlying (£,000's)
Communities Place	7,847	-	-	7,847
Corporate Resources	1,466	-	(7,351)	8,817
Finance	465	-	-	465
	15,724	-	(7,351)	23,075
Premium on Lease Surrender	(3,000)	-	-	(3,000)
Reversal of Depreciation Chg	(3,947)	-	-	(3,947)
Net Interest & MRP Charges	168,052	-	163,004	5,048
less MRP Charges Deferred	(93,900)	-	-	-
Other Corporate Budgets	903	-	-	903
Transfers to Reserves	32,000	(31,500)	-	500
	100,108	31,500	163,004	(496)
Net Budget Requirement	115,832	31,500	155,653	22,579
Unfenced Government Grants	(1,756)	-	-	(1,756)
Localised Business Rates	(5,313)	(699)	-	(4,614)
Council Tax	(12,356)	(126)	-	(12,230)
	(19,425)	(825)	-	(18,600)
Total Spend / Income & Gap	96,407	30,675	155,653	3,979

2.3 The £3,979k assessed underlying gap resonates with the outcome of the 2024/25 budget setting process whereby a net £8.4m (£12.5m savings and £4.1m growth) was identified against a £12m original savings target.

2.4 Future net inflationary pressures would by themselves increase the above “underlying” gap by around £900k in each of the future MTFS years and, together with the cessation of the £3m lease surrender premium income in 2027/28 (£12m being received in 2023/24 from a lease surrender and being released over a four-year period), result in that gap rise to £9,667k by 2027/28.

	2024/25 (£,000's)	2025/26 (£,000's)	2026/27 (£,000's)	2027/28 (£,000's)
24/25 Underlying Gap	3,937	3,937	3,937	3,937
Net Inflation	-	71	100	130
Capital Financing	-	366	733	1,100
Risk & Contingency Provision	-	500	1,000	1,500
Lease Premium	-	-	-	3,000
	3,937	4,874	5,770	9,667

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2.5 Although currently unchanged, that identified gap will be subject to adjustment as more information emerges – particularly with regard to pay and inflation assumptions, as well as emerging opportunities and pressures encountered as we progress through the remainder of the current financial year.

2.6 Core assumptions used in the model include:

- A 2% inflationary pressure across all service area controllable spend budgets, and a similar assumption around income streams;
- An underlying £100m General Fund debt level assuming MRP costs are spread over a future 33 year period and interest charges on that debt of 4.5%; and
- Average cash balances of £20m, with interest rates of 3%.

2.7 Service areas have been requested by the Corporate Leadership Team to identify budget options that would generate a 5% net saving across expenditure and income categories that would equate to the underlying savings requirement identified for 2025/26.

3.0 Work to Address the Budget Gap

3.1 A number of cross-cutting themes to identify efficiencies that may help reduce the identified gap over the medium term are also being pursued. Whilst all of these are progressing, they have yet to deliver proposals that have been sufficiently validated to be used to offset the immediate gap. Work on these themes however continues and potential savings arising will be reported later in the MTFS planning process.

3.2 The four cross-cutting themes being explored are:

- Property – review of current property portfolio, functions and resource requirements; the true cost of ownership (including capital financing); and each property’s contribution to service delivery priorities;
- Procurement – analysis of total spend with all suppliers to identify drivers of spend; and review of scope to amalgamate/package spend with key suppliers to reduce cost;

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- Transformation – scope for savings / productivity improvement from the further or better use of technology; increasing levels of self-service; and a review of processes to identify the scope for rationalisation, based on a “bin / shrink / improve” approach.
- Hidden Subsidy – a critical review of overheads to ensure full cost recovery for services where appropriate; liaising with delivery partners over the sharing of financial burdens and delivering joined-up services.

3.3 A process and workplan has been put in place to gather and consolidate budget proposals from across all General Fund service areas as well as corporately-held budgets. This process is based around the completion of single-sided budget submissions that allow suitable scrutiny and validation.

3.4 Whilst the need for the Council to approve the budget and Council Tax around the end of February represent the culmination of the budget process, a number of activities are necessary to reach that final outcome.

3.5 The overall budget setting process has been grouped into three phases as follows:

Phase 1	Phase 2	Phase 3
Collation of Budget Proposals	Collation of further Budget	Finalisation of budget / MTFS
Benchmarking Analysis	Proposals	Budget Scrutiny Sessions
Recharges (M&A) remodelled	Finance Settlement (mid-Dec)	Agreement with MHCLG re
Fees & Charges Review		Capitalisation Direction
Review of Cross-Cutting Themes		Mid-Phase and end Report on Budget to CLT
Capital Programme Refreshed		
Officer Budget Working	Budget Position to Executive	Final Budget Report; MTFS;
Group established	(used as consultation basis)	and Council Tax Reports

3.6 Some of the key milestones are shown below:

- Oct - Autumn Statement (further clarity around local government funding)
- Dec - Report to Executive on progress in closing the budget gap & debt standstill
This will form the basis for statutory consultation on the budget
- Dec - Report on the above to Council
- Dec - Local Government Finance Settlement (confirms core funding)
- Jan - Formal deadline for requesting exceptional financial support
- Feb - Budget report considered by Executive
- Feb - Council considers budget report (including company business cases)
- Mar - Additional Executive / Council for final Budget and Council Tax setting

3.7 The timetable will be further refined over the coming weeks to incorporate suitable meeting dates and agenda for relevant Scrutiny Committee and Finance Working Group overview and comment on the budget proposals.

3.8 Engagement with government via the Ministry of Housing, Communities and Local Government [MHCLG] has been ongoing since the initial issuing of the s114 Notice in June 2023. Regular communication continues over the progress being made in returning the Council's finances to a sustainable basis.

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- 3.9 That engagement includes updating MHCLG on Woking's financial position and outlook (as one of a number of local authorities in receipt of exceptional financial support) to be fed into Treasury's consideration and assumptions underlying the Chancellor's Autumn Budget Statement due to be published on 30th October.
- 3.10 The Council's financial transformation and recovery is recognised by all as being a process which will take several years, and as such the Council will require further such government support over the MTFS planning horizon.
- 3.11 Given the need for continued exceptional financial support, an in principle authorisation for a further Capitalisation Direction [CD] will be required for the final budget to be considered robust. Previous experience at this Council, and across all others in need of EFS, is that Treasury / MHCLG approval is likely to only be formally received at the end of February and after the scheduled February Executive and Council meeting dates.
- 3.12 To aid clarity, it is the current intention to approve the proposed budget change proposals relating to the "underlying" budget gap at the scheduled meetings and, as was the necessary case last year, to convene an additional Executive and Council meeting following the expected confirmation of continued EFS for the 3rd of March 2025.
- 3.13 Consultation with local business rate payers is required by legislation. Following extensive consultation with wider stakeholders as part of the 2024/25 budget setting process, further wider consultation around the 2025/26 budget will be limited to specific stakeholders who are identified as being particularly affected by potential proposals.

4.0 Housing Revenue Account

- 4.1 The level of reserves held by the Housing Revenue Account [HRA] has been improved by reviewing the historic recharges and fuel-cell charges made from the General Fund to the HRA; and the share of interest received and credited to the HRA. That said, work is coming to a conclusion to ensure that the HRA finances remain viable over the longer term. A refreshed thirty-year business plan is being compiled to support this.
- 4.2 It should be noted that, at its meeting on 12 September 2024, the Executive approved the rectification of legacy adjustments to the HRA. This was part of a process of dealing with historical issues related to the appropriate charging of expenditure between the General Fund and the HRA.
- 4.3 Budget proposals for the HRA will follow a similar process to that set out in the above for the General Fund.

5.0 Corporate Strategy

- 5.1 The deliver of the MTFS is critical to the overall corporate strategy of the Council and there will be a close link between strategic and financial planning.

6.0 Implications

Finance and Risk

- 6.1 As contained throughout the body of this report.

Equalities and Human Resources

- 6.2 The delivery of the financial strategy inevitably has an impact on the management of the Council's human resources which will be captured as budget proposals are developed.

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Legal

- 6.3 As part of the requirements as defined by the Local Government Act 1972, all local authorities are required to set a balanced budget. The work on delivery of the MTFS is key to meeting that legal requirement.

Environment and Climate Change

- 6.4 The financial position of the Council is critical to deliver all of its policies including the work on environment and climate change.

7.0 Engagement and Consultation

- 7.1 The Council will ensure that it has consultation arrangements in place to meet its statutory requirements. This particularly relates to the requirements to consult with the Woking business community.

REPORT ENDS