GENERAL FUND BUDGET 2025-26

Meeting:	**Executive**
Date Of Meeting:	**13 February 2025**
Report Author(s):	**Brendan Bradley**
Lead Officer:	**Stephen Fitzgerald | Stephen.Fitzgerald@woking.gov.uk**
Portfolio Holder:	**Cllr Dale Roberts | Cllrdale.roberts@woking.gov.uk**
Date Published:	**5 February 2025**

Will the decision be open for call in?	☐ Yes ☒ No
Does the report contain confidential or exempt information?	☐ Yes ☒ No

1.0 Purpose of Report

1.1 This report seeks approval of provisional budget proposals for 2025/26, in preparation for the final budget and Council Tax report in early March, once the outcome of the Council's Exceptional Financial Support request to MHCLG is known.

1.2 **Executive Summary**

1.3 The report is a key part of the Council's Financial and Budget Management. It contains recommendations on key aspects of the Council budget for 2025/26 and for the three-year period leading to 2027/28. Key elements of the proposals in the budget package include:

I. An overall revenue budget for 2025/26 of £162.8m including the servicing of overhanging debt of £2.1bn.

II. A business-as-usual revenue budget for mainstream Council services of £23.6m.

III. A proposed Council tax for the Woking element of the tax of £298.11 (Band D), an increase of 2.99% on the previous year.

IV. An application to central Government for Exceptional Financial Support of £171.1m for 2025/26.

V. A total growth package of £2.4m for 2025/26.

VI. A total savings package of £2.5m for 2025/26.

VII. A General Fund revenue reserve maintained at £5m.

2.0 Recommendations

2.1 The Executive is requested to:

RECOMMEND TO COUNCIL THAT

i. **the £2.5m of savings in 2025/26, rising to £4.7m by 2027/28 as set-out in Appendix 1 to the report be agreed, subject to any comments received from Resource and Finance Scrutiny Committee;**

ii. **the £2.4m of growth pressures in 2025/26, rising to £3.2m by 2027/28 as set-out in Appendix 2 to the report be agreed, subject to any comments received from Resource and Finance Scrutiny Committee;**

iii. **the Equality Impact Assessment on the savings proposals that are summarised in Appendix 6 to the report, with detailed reports on each resident facing saving proposal, be noted as part of the decision-making process;**

iv. **the position of the Business Rates and Council Tax Collection Fund, including the brought forward surplus/deficit position and the Council Tax and Business Rates bases for 2025/26 as set out in Section 14 of the report be noted and agreed;**

v. **the Management of Change and Flexible Use of Capital Receipts budgets proposed at Appendices 3 and 4 to the report be supported; and**

vi. **it be noted that Full Council on 3 March 2025 will receive a final report from the Strategic Director of Finance to seek final, formal approval of the Council's budget, the Exceptional Financial Support and Council Tax for 2025/26.**

<u>Reason for Decision</u>

2.2 The contents of the report is to ensure open and transparent governance in the financial affairs of the Council in balancing the 2025/26 Budget, and the Medium Term Financial Strategy.

3.0 Introduction

3.1 This report provides Members with a draft 2025/26 General Fund budget and savings over the MTFS period for provisional approval, prior to the anticipated receipt of confirmation from MHCLG that Exceptional Financial Support (EFS) will continue to be provided by Government to Woking Borough Council into 2025/26. Once MHCLG confirms EFS approval (expected late February), a further meeting of Full Council on 3 March 2025 will be required to finalise decisions on setting the budget and Council Tax.

3.2 The approach to setting 2025/26's budget was agreed by Executive in July 2024 and has been, insofar as possible, to deal with the Council's business as usual (BAU) budget separately from the Council's legacy debt and borrowing costs.

3.3 The development of the approved budget since 2024/25 has been based on a number of underlying principles and critically a commitment to become a smaller council (closer to the average of authorities with similar demographics) whose focus should be on providing statutory services, with discretionary services to be fully funded. This is underpinned by a set of Guiding Principles to establish good practice in budget setting, as reported to July's Executive.

3.4 The approach to budget setting had to be taken in the context of the Council's historic focus on commercial activity, which has meant there has been under investment in modernising and transforming the Council and in maintaining its housing stock. Realistically, it will take the life of a three-year MTFS, to reach the point where the Council is operating at maximum efficiency and effectiveness.

3.5 This report focuses mainly on the former BAU budget part of the process. This is because the BAU budget is considered to be a realistic target financial envelope to assist the Council to demonstrate that it can live within its means over the life of the MTFS.

3.6 However, in setting a final, legal, balanced budget, both elements (i.e. BAU budget and the legacy debt, borrowing and intervention costs, and commercial income) must be incorporated together, which will be reported to Full Council on 3 March 2025. That report will also include updated forecasts for the remaining four years of the current Medium Term Financial Strategy agreed in 2024/25.

3.7 This report does include a summary of the likely support package from Government on the Council's debt position for information, prior to confirmation being received from MHCLG.

3.8 The key purpose of the report recommendations is to seek approval of provisional budget proposals for 2025/26, subject to any feedback from Resource and Finance Scrutiny Committee, as this should facilitate prompt approval of the final budget and Council Tax in early March, once the outcome of the Exceptional Financial Support request to MHCLG is known. The Council cannot approve its final budget prior to receiving this confirmation from MHCLG.

4.0 Background – Government Intervention

4.1 On 25 May 2023, the Department for Levelling Up, Housing and Communities (since renamed to MHCLG) published the outcome of its non-statutory external assurance review into Woking Borough Council's (WBC) finances, investments and related governance. The Secretary of State considered the Council was failing to comply with its best value duty under the Local Government Act 1999. In particular, it highlighted the scale of financial and commercial risk due to the Council's legacy of disproportionate levels of debt at over £2 billion. The Government's intervention remains in place for up to five years.

5.0 The Council's Debt Position

5.1 On 7 June 2023, the then Section 151 Officer issued the Council with a Section 114 Notice. The notice was required because the Council's expenditure was likely to exceed the financial resources available, and therefore it could no longer balance its budget for the remainder of the financial year and subsequent years. The Council faces this extremely serious financial shortfall because of its historic investment strategy that has resulted in unaffordable borrowing, inadequate steps to repay that borrowing, and high values of irrecoverable loans.

5.2 Clearly, the size and scale of the historic debt at c.£2 billion prevents a legal budget being set for 2025/26 without the continuation of support from Government. Detailed discussions on a solution to this for 2025/26 have been ongoing via the Commissioners and s151 Officer. However, to continue to access any support, like last year the Council needs to show that it is 'living within its means' and taking steps to meet a significant part of the deficit from its own resources. This includes both making savings on its service budgets and progressing the agreed Asset Rationalisation and Debt Reduction Plans, in a way that delivers the best returns for the public purse, allowing key services to be maintained and reducing the cost of debt servicing.

5.3 Work with Commissioners and Members has focussed on separating, as far as possible, how the historic debt is dealt with from the challenge of setting a "business as usual" (BAU) budget for the Council's services to its residents. This approach continues with this report, which sets out the recommended service savings of £4.7m for 2025/26 to 2027/28 to Council on 27 February 2025. The report to Council on 3 March 2025 will finalise the treatment of the debt in 2025/26 and the level of Council Tax.

6.0 Exceptional Financial Support (EFS)

6.1 Given the significance of the costs of the debt, the Improvement and Recovery Plan work has developed a detailed cashflow forecast and full reconciliation of the capital financing budget in accordance with proper accounting practice. As part of last year's budget setting process the following issues were addressed:

i. The approach to Minimum Revenue Provision (MRP) i.e. the proper provision for the repayment of debt not previously followed by the Council.

ii. The treatment of principal and interest repayments not recoverable from the companies following the suspension of the Revolving Credit Facility.

iii. An updated forecast for interest costs on borrowing, taking into account the additional borrowing agreed, the requirements to support the Capital Strategy and required refinancing during the year.

6.2 These issues also form part of the ongoing discissions with Government, because correctly accounting for the Council's debt will require a budget of around £163m to cover the interest and debt repayment (MRP) next year. A legal budget could not be set with this level of costs, hence the request to Government for Exceptional Financial Support.

6.3 This support involves two mechanisms. The first is to provide a Capitalisation Directive (CD) that allows some revenue costs in the budget to be capitalised and spread over several years, until funds from the Debt Reduction Plan become available to partially mitigate them and a permanent solution can be found. This approach is the standard one at all Councils in intervention with financial difficulties. The second element provides permission to continue to defer Minimum Revenue Provision costs that would otherwise be chargeable under statute, but that cannot be included in a CD as per MHCLG's rules. Instead, they must be deferred in accordance with MHCLG's latest statutory MRP guidance.

6.4 As reported to Executive in January, the Council has had to submit its EFS request to MHCLG by Government's January deadline. The final EFS includes a request for a Capitalisation Directive to cover the projected 2025/26 budget gap, transformation costs and other risks totalling £74.6 million. It also requests permission to continue to defer MRP costs of £96.5 million in 2025/26, resulting in a total support request of £171.1 million.

6.5 While this is lower than previous EFS requests for 2023/24 (£570.2m) and 2024/25 (£192.9m), this is because 2023/24 had to include additional provision for accrued interest, impairment of loans made for revenue purposes, and backdated MRP for multiple years leading up to 2023/24, and 2024/25 included additional sums to replenish the Council's depleted revenue reserves.

6.6 As at 31 March 2024, the deferred, backlog MRP included in previous Exceptional Financial Support packages totalled £335.1 million. In 2024/25, a further £71.4m MRP is expected to be deferred within the current EFS package. Combined with the £96.5m due to be deferred in 2025/26, cumulative deferred MRP is projected to reach c.£503 million by the end of 2025/26.

6.7 As a Capitalisation Directive involves further borrowing, the CD itself attracts additional interest and MRP costs in future years, therefore it can only be a temporary, not permanent, solution.

6.8 As such, Commissioners and Officers continue to work with Government in pursuit of a longer-term solution. However, the change in Government last year, and the new Government's Spending Review timescales mean that it has not been possible to deliver this in time for 2025/26 budget setting.

6.9 The above figures will continue to be reviewed in the run up to 3 March Council. The 3 March report will include further analysis of the one-off and ongoing debt costs.

7.0 Debt Reduction Plan

7.1 On 20 November 2024, the Secretary of State considered and responded to the Woking Commissioners' third report relating to the Council's Improvement and Recovery Plan.

7.2 A key part of the Improvement and Recovery Plan is the asset rationalisation and debt reduction work. The work is in the context of the strategic aim 'to release the Council from unaffordable commitments whilst protecting the public purse and optimising the value of from existing assets.' This is the longer-term work that the interim EFS support from Government to set a legal budget (capitalisation and MRP) will continue to facilitate.

7.3 The Council's overall commercial strategy is being led by the Strategic Director - Corporate Resources and the Strategic Director for Finance. They are supported by expert advisors who have provided advice to councils with similar financial and commercial challenges.

7.4 This objective is based on having:

i. A full understanding of the activities of all Council owned companies and joint ventures, and a plan for the Council to exit these arrangements.

ii. A full understanding of all Council owned property interests, whether freehold ownership, leasehold or leased.

iii. A clear plan for the rationalisation of property that matches the future needs of the Council.

iv. A review of procurement and contract management arrangements of suppliers, goods and services to ensure best value is maintained throughout the life of contracted out services which includes services provided by Council owned companies.

7.5 The Council continues to progress the Asset Rationalisation and Debt Reduction plans, balancing the need to reduce the levels of debt with achieving value for money from the assets sold. Within the asset disposals strategy, all assets are under review irrespective of which portfolio they sit within although it is accepted that there are considerations such as the continuing provision of services, social needs and contribution to revenue that will need to be considered for both Council services and the companies.

7.6 Quarterly performance management reports incorporate both progress on asset disposals and a profile of capital receipts that this will be targeted to deliver.

8.0 Council Vision

8.1 In November 2024, Executive agreed the refreshed Woking for All Strategy 2025 – 2028. The Council's Vision and Mission statements included aims to become a financially sustainable Council that lives within its means, as follows:

Our vision

"A financially and environmentally sustainable council delivering services that residents value in every part of the borough."

Mission statement

A trusted and transparent council that:

- Lives within its means.
- Focuses its energy on services that make a difference to people in the borough.
- Works in partnership with all communities to deliver positive outcomes.
- Continually engages with residents to design more efficient and effective services.
- Invests in talent to deliver for Woking's future.

Improvement and Recovery Plan

The Woking for All Strategy is the Council's corporate plan and is underpinned by and reflects the Improvement and Recovery Plan developed in response to Government intervention. The Strategy also takes account of the Council's statutory and legal responsibilities.

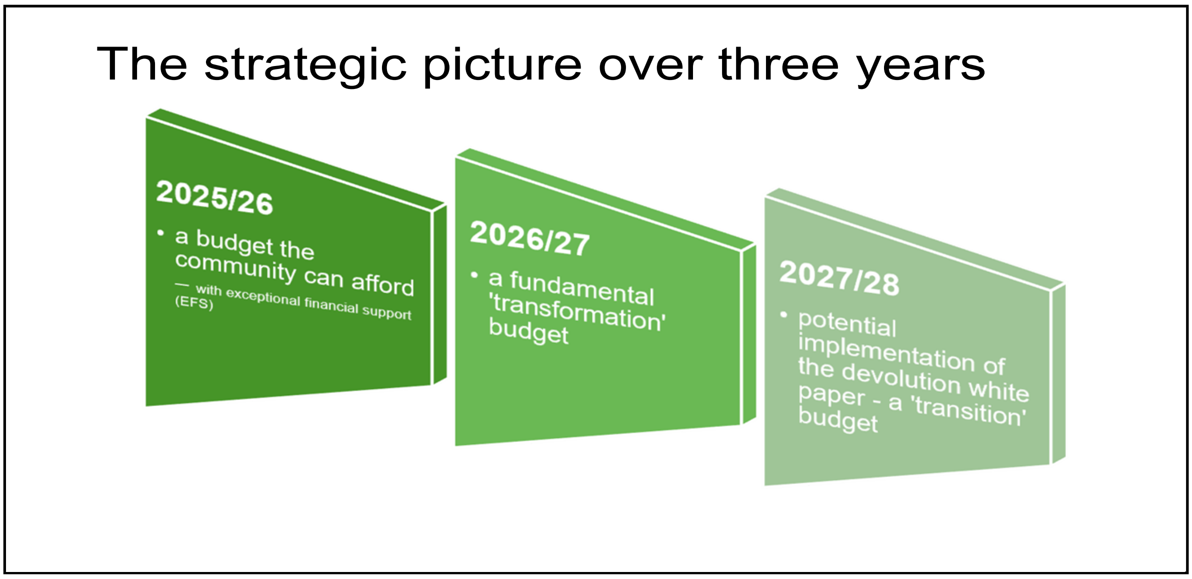
8.2 The Council is working to deliver its Vision and Mission within the strategy, and the budget setting process is a key element to support WBC in becoming a financially and environmentally sustainable Council.

8.3 **Strategic Position**

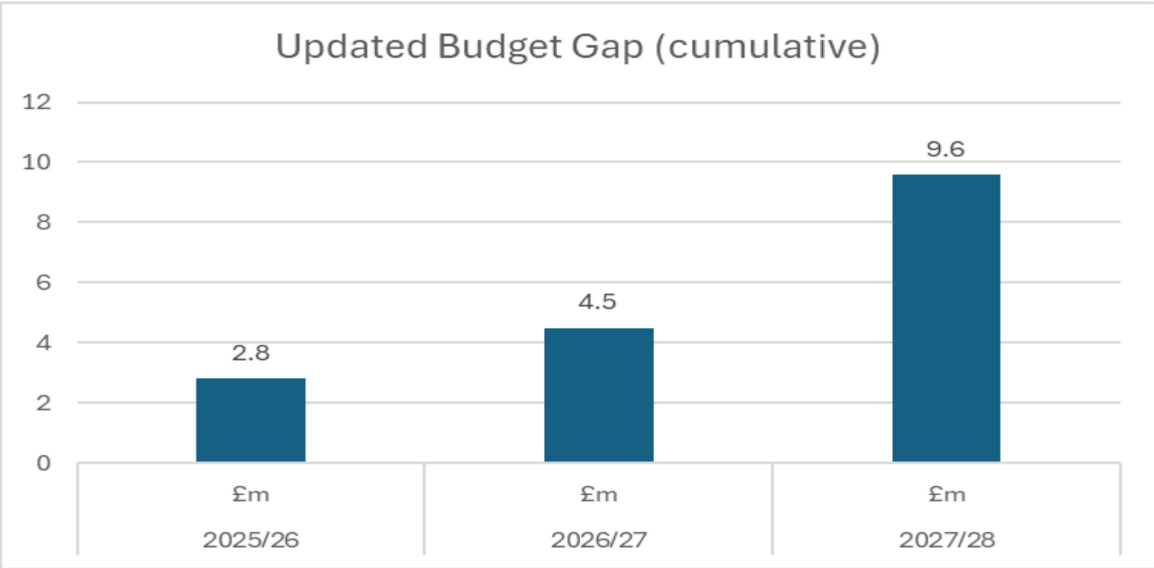
8.4 The Council also identified four key strategic / cross-cutting themes to assist with meeting the level of efficiencies required to close the underlying gap. These four cross-cutting / strategic workstreams, along with the Guiding Principles, have been used to inform the budget process and savings options:

- Property – a review of current functions, resource requirements, and property portfolio;
- Hidden Subsidy - a critical review of overheads to ensure full cost recovery where possible and sharing of financial burdens with partners;
- Procurement Analysis – to identify drivers of spend and scope to amalgamate/package spend with key suppliers; and
- Transformation – to consider scope for cost savings through productivity improvements from use of technology and a review of processes.

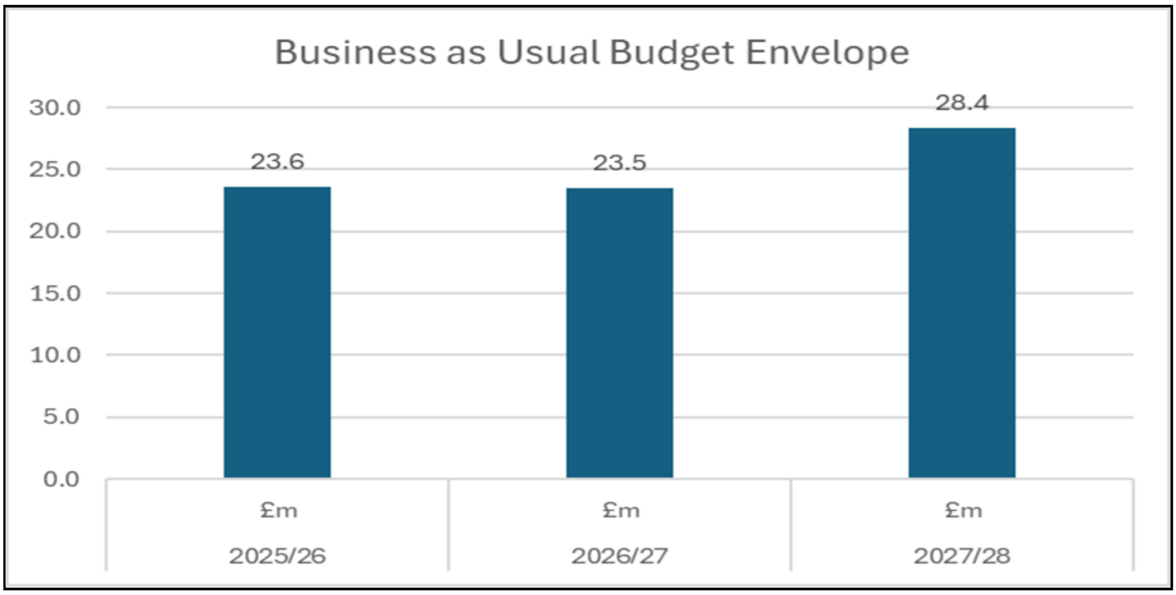
8.5 These workstreams are well underway and there will be a period of fundamental transformation in the period following this budget. In terms of the three-year picture the proposed approach is illustrated by the following chart:



8.6 Related to that the "Business as Usual" budget gap over the three-year period is shown in the chart below. The gap in 2025/26 of £2.8m will be met through exceptional financial support.



8.7 In this scenario before the medium-term budget gap is bridged the business-as-usual budget envelope would give the profile shown below:



With the BAU budget gap projected to rise to £9.6m by 2027/28, this emphasises the need for the Council to progress its strategy to close the gap, as set out in sections 8 and 9.

9.0 General Fund 2025/26 Budget – Approach and Updated Position

9.1 In July 2024, Executive approved 2025/26's budget setting framework and subsequently received progress update reports in October, December and January.

9.2 Setting aside the Council's legacy debt and associated costs, these reports identified that the Council's projected underlying BAU budget gap on day-to-day services for 2025/26 was estimated at £4.9m for 2025/26 but forecast to rise further to £9.7m by 2027/28, mainly due to the ending of the £3m per annum lease premium income for Victoria Gate by then.

9.3 To address the budget gap, the strategic approach to the current Medium Term Financial Strategy has incorporated a commitment to become a smaller council (closer to the average of authorities with similar demographics) whose focus should be on providing statutory services, with discretionary services to be fully funded. This is underpinned by a set of Guiding Principles, as reported to July's Executive, to establish good practice in budget setting.

9.4 Executive also approved a three-stage budget setting approach, as summarised in the following table:

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

9.5 Across Phases 1 and 2 of the budget setting process, at its December and January meetings Executive members supported savings proposals totalling £4.9m per annum by 2027/28, partially offset by growth pressures totalling £3.2m per annum.

9.6 Further work, including engagement with Members on the savings proposals, has been progressed to refine the estimates, including on the Council's external funding position following the Local Government Finance Settlement, as well as "corporate" items such as the provision made for inflation or wider commercial issues, and the management of change work. This leads to an updated summary revenue budget position. The deficit on the business-as-usual revenue account for 2025/26, after savings and pressures is £2.8 million, which, in the Council's exceptional circumstances, is expected to be covered by the Capitalisation Directive within the Exceptional Financial Support package to be agreed with MHCLG.

9.7 What this means is that WBC is still spending above its resources, despite the significant level of savings identified previously for 2024/25 and prospectively for 2025/26 and beyond. This in part reflects the historic lack of focus on transforming the Council, as referenced in the Public Interest Report produced by Grant Thornton.

9.8 The summary revenue position for the Council is shown below. It shows the total budget which includes the debt adjustments and transformation costs. The table also shows the business-as-usual costs for the Council, excluding these debt and transformation adjustments, which is for planning purposes only.

General Fund Budget 2025-26

General Fund Summary	2024/25	2025/26		
	Total Current Budget*	Total Budget	Debt & Transformation Adjustments	BAU Budget
	£'000	£'000	£'000	£'000
Communities	7,376	6,855	0	6,855
Place	5,932	4,844	0	4,844
Corporate Resources	1,937	1,196	7,351	8,547
Finance	479	368	0	368
Reversal of depreciation charges	-3,947	-3,947	0	-3,947
Total Service Directorates	**11,777**	**9,316**	**7,351**	**16,667**
Corporate Items				
Management of Change costs	0	2,370	-2,370	0
Risk Contingency / Transfers to Reserves	32,000	500	0	500
Impact of lease surrender	-3,000	-3,000	0	-3,000
Pay Provision	82	772	0	772
Price Inflation Provision	0	759	0	759
Council Tax Hardship Scheme	100	100	0	100
Reduction in M&A recharge to HRA	428	1,415	0	1,415
Other Contingencies & Provisions	118	767	0	767
PFI Unitary Charge Equalisation	175	175	0	175
Total Corporate Items	**29,903**	**3,858**	**-2,370**	**1,488**
Net Cost of Services	**41,680**	**13,174**	**4,981**	**18,155**
Financing Costs				
Minimum Revenue Provision	105,402	104,168	-101,744	2,424
Interest Payable	64,063	67,489	-63,889	3,600
Interest Receivable	-1,413	-1,198	813	-600
Net Financing Costs	**168,052**	**170,459**	**-164,820**	**5,424**
Amount to be met from External Funding	**209,732**	**183,633**	**-159,839**	**23,580**
External Funding				
Business Rates	-4,284	-4,520	0	-4,520
Business Rates Surrey Pool	-330	-635	0	-635
Business Rates PY (Surplus)/Deficit	-699	-894	0	-894
Council Tax PY (Surplus)/Deficit	-126	6	0	6
Revenue Support Grant	-99	-138	0	-138
New Homes Bonus Grant	-25	-213	0	-213
Services Grant	-15	0	0	0
Compensation for Underindexing the NDR Multiplier	0	-447	0	-447
Minimum Funding Guarantee / Funding Floor Grant	-1,617	-978	0	-978
Domestic Abuse Safe Accommodation	0	-40	0	-40
Employer NI Funding Grant	0	-160	0	-160
Council Tax Income	-12,230	-12,783	0	-12,783
Total External Funding	**-19,425**	**-20,802**	**0**	**-20,802**
Deficit Funded by Exceptional Financial Support	**190,307**	**162,831**	**-159,839**	**2,778**

*Budget Total as reported to Executive July 2024.

9.9 The above table shows the net spend in each Directorate and net revenue expenditure. Net expenditure for Councils is usually defined as spending financed by Grants, Business Rates and Council Tax, which total £20.8m in 2025/26. However, due to the legacy debt and transformation costs, there is a total deficit of £162.8m, although this reduces to £2.8m looking solely at the BAU budget for 2025/26, which serves as a useful planning tool for the Council.

9.10 The BAU budget is a subset of the total budget, as the BAU budget assumes:

i. The Council incurs Minimum Revenue Provision (over 33 years) and interest (at 4.5%) costs on an assumed sustainable debt level of £80m, rather than on the actual debt pile of c.£2bn. This is for planning purposes and is distinct from the actual level of MRP that the Council is required to make in its Total Budget.

ii. Income from the commercial property estate owned directly by the Council totalling £7.35m is excluded from the BAU budget.

iii. Non-recurring [beyond the intervention period] Management of Change costs totalling £2.37m are excluded from the BAU budget.

9.11 The £2.37m Management of Change budget will provide capacity to enable the Council to manage the following key workstreams:

i. Delivery of the Improvement & Recovery Plan and Government intervention programme.

ii. Progression of the Financial Recovery and Commercial workstreams, including the Asset Rationalisation and Debt Reduction Plans, and identification of further savings to assist with balancing the business-as-usual budget; and

iii. Local Government Reorganisation following the Devolution White Paper in December 2024.

9.12 A breakdown of the Management of Change budget is shown at Appendix 3. The Management of Change budget is separate to costs that are eligible to be funded through Flexible Use of Capital Receipts.

9.13 In January, the BAU budget gap reported to Executive had totalled £3.4m. This gap has modestly reduced to the £2.8m gap in this report, the four main reasons for the movement being:

i. further analysis of the council tax and business rates position as part of the statutory government NNDR1 return due on 31 January, partially offset by;

ii. re-phasing of a £60k Democratic Services saving (reference S-039) from 2025/26 to 2026/27 to enable the time needed to plan & implement service changes, and removal of a £7k Home swapper saving (S-056) no longer considered achievable;

iii. analysis of income achievable through fees and charges. Following consultation with Members, the £241k additional income target for out-of-town car parks (S-053) has been removed from the budget. Furthermore, the additional income targets for Careline (S-032) and Community meals (S-031) have been moderated to smooth fee increases over the life of the MTFS, as set-out in the Fees and Charges report; and

iv. analysis of the sum set-aside for a 2.5% pay award and pay progression, resulting in a £190k forecast increase. The 2025/26 budget includes £500k for a 2.5% pay award plus £190k for pay progression.

9.14 The assumptions underpinning the BAU budget gap estimate will continue to be reviewed and refined as part of budget planning for 2026/27.

9.15 The updated service savings reported in December and January are summarised in the attached Appendix 1. Further work has been undertaken and the total of savings recommended for approval is £2.5 million for 2025/26, rising to £4.7 million by 2027/28.

9.16 The draft budget estimates also include the following assumptions:

i. an allowance for pay (2.5%) and price (2%) inflation.

ii. directorate income budgets increase by an inflationary 2%, in addition to the savings proposals at Appendix 1;

iii. Council Tax increases by 2.99%, and business rates and grant income reflect the final settlement.

iv. budget pressures as reported to Executive in December and January, and summarised at Appendix 2;

v. New and maturing loans due to be re-financed in year totalling c.£415m will be at rates of 5.5% to 5.8%.

9.17 The Council and VSWL continue to review management and ownership arrangements for the Victoria Square car parks, as part of the wider work on Victoria Square assets and debt, which itself falls within the Council's Asset Rationalisation and Debt Reduction Plans. In particular, the Council is working to reach an equitable and fair position in light of the fact VSWL own the car park assets, but the Council bears many but not all of the costs and retains all of the income. While this may result in a new cost pressure for the Council, this cost is being picked up as part of the wider debt standstill and asset management arrangements for Victoria Square and does not now have to be included in the 2025/26 budget. Work continues to be undertaken on the management agreement under which the Council will operate the car park, with the aim of containing this cost within existing budgets along with any changes to car park tariffs in year.

9.18 The Council continues to review its relationships and transactions with other group companies. This includes ThamesWey Energy Limited and whether the Council should continue to plan to incur service charges. While these charges have been removed from the HRA budget as they are not HRA costs, to ensure a prudent approach the charges remain in the Council's budget until the reviews have been completed. When complete these reviews will be reported to Members as appropriate and may have implications for the Council's future financial planning.

9.19 In addition, the Council's contractual obligations towards the Lightbox continue to be reviewed. Once a firm position has been established, this will be reported to Members. The draft budget does not incorporate any new resources in respect of the Lightbox and a saving initially proposed in December has been removed from the budget, as reported to Executive in January.

9.20 The Council continues to pursue its Asset Rationalisation and Debt Reduction Plans, which project an asset disposal pipeline of c.£50m in 2025/26. The impact of any asset disposals will be assessed on a business case basis prior to completion and approval by Members. Where there is an impact on the Council's revenue budget, it is anticipated that the Asset Management reserve would be utilised to manage the impact in the short term, while future financial plans and budgets are adjusted accordingly.

9.21 Budgets including recharges continue to be reviewed and any final movements will be incorporated into the Final Budget report to Full Council in March.

10.0 Final Government Grant Settlement, Council Tax and Business Rate Income

10.1 On 3 February 2025, Government published the final settlement for 2025/26, confirming each Council's Core Spending Power for next year.

10.2 Core Spending Power ("CSP") is Government's measure of the resources available to Woking Council to fund General Fund service delivery. It sets out the money that has been made available through the local government finance settlement.

10.3 The CSP does not reflect the total actual resources the Council receives as the CSP includes Government's estimates [i.e. notional amounts] for Council Tax, and business rates. The Government's estimate for Council Tax is based on its assumptions of 0.4% growth in housing numbers, plus a 2.99% increase in the charge.

10.4 In effect, the CSP is a mechanism for Government to compare local authorities funding from one year to the next.

10.5 The table below sets out Woking Borough Council's 2025/26 final settlement in comparison to both the provisional settlement and 2024/25's final settlement:

Final Settlement for WBC	2024/25	2025/26		2024/25 to 2025/26 Variance	
	Final Settlement	Provisional Settlement	Final Settlement		
	£000	£000	£000	£000	%
Settlement Funding Assessment (SFA)					
Business Rates Baseline	2,327	2,357	2,357	30	1.3%
Revenue Support Grant (RSG)	99	138	138	39	39.8%
Subtotal SFA	**2,426**	**2,495**	**2,495**	**69**	**2.9%**
Other Grants					
Compensation for Underindexing the Business Rates Multiplier	430	447	447	17	4.0%
New Homes Bonus Grant	25	213	213	188	736.1%
Services Grant (ended)	15	0	0	-15	-100.0%
Existing service grants rolled into RSG	0	-38	-38	-38	New
Domestic Abuse Safe Accommodation	40	40	40	1	1.3%
Minimum Funding Guarantee (ended)	1,617	0	0	-1,617	-100.0%
Funding Floor Grant	0	978	978	978	New Grant
Employer NI Funding	0	TBC	160	160	New Grant
Subtotal Other Grants	**2,127**	**1,641**	**1,801**	**-327**	**-15.4%**
Subtotal Core Spending Power excluding Council Tax	**4,554**	**4,136**	**4,296**	**-258**	**-9.2%**
Council Tax	12,230	12,648	12,648	418	3.4%
Total Core Spending Power including Council Tax	**16,784**	**16,784**	**16,944**	**160**	**1.0%**

10.6 The provisional settlement had shown a cash freeze for WBC in 2025/26, but the final settlement now includes the additional allocation of £160,000 to fund National Insurance costs, meaning CSP increases by 1.0% compared to 2024/25.

10.7 While welcome, a 1% increase still represents a real-terms cut taking inflation into account (2.5% CPI in December 2025) and it is below the average 6.8% increase seen nationally across the sector.

10.8 Furthermore, the £160,000 National Insurance Grant is significantly less than the additional costs of £279,000 that WBC is expected to incur as a result of the changes to NI thresholds and rates due to take effect in April 2025.

10.9 Allocated outside of the settlement, Government has confirmed that local authorities will benefit from a new income stream from 2025/26 through the introduction of its Extended Producer Responsibility scheme (aka Polluter Pays). The scheme requires producers of packaging to pay a new charge as a contribution towards the cost of waste collection and disposal. Based on current projections, the Council can anticipate a net favourable impact for WBC from the scheme of £747,000 in 2025/26, moderating to £533,000 per annum from 2026/27. This income is reported within Place Directorate (Waste Services).

10.10 Also allocated outside of the settlement, the Council is expecting to see an increase in Government Homelessness Prevention Grant funding, rising from £674,910 to £930,034 in 2025/26. This additional grant funding will support delivery of two of the savings proposals (Let’s Rent and working with ThamesWey), alongside containing and managing any in-year homelessness demand pressures. In addition, the Council will continue to receive Rough Sleeping Prevention and Recovery Grant and Rough Sleeping Accommodation Programme funding in 2025/26 to support the team and associated activity in this area.

10.11 Budget figures for Council tax and business rates have been updated in line with a review of collection performance to determine the Collection Fund surplus and setting the Council tax base in time for Council tax setting at Full Council on 3 March.

11.0 Exceptional Financial Support Request

11.1 The c.£2bn debt pile and borrowing costs referenced in Section 6 above are wholly unaffordable for a district council of Woking's size. As such, at December's Executive meeting, Members also noted that it would be necessary to request a continuation into 2025/26 of Exceptional Financial Support from MHCLG.

11.2 The initial Exceptional Financial Support (EFS) request has been submitted to MHCLG by the Government January deadline, totalling £171.1m. It includes a request for support to cover the projected total budget deficit of £162.8m for 2025/26. A reconciliation between the EFS request and the General Fund budget deficit is shown in the following table:

Reconciliation GF Budget Deficit to EFS Request	2025/26 £m
GF Budget Deficit February 2025	**162.8**
HRA Legacy Issues	3.8
Contingency for remaining risks	1.0
Management of Change Capacity	2.4
Interest on Capitalisation Directive	0.4
Reduction in budget deficit since January	0.7
Total EFS Request	**171.1**

11.3 As explained in section 6, the EFS is made up of two key elements, a request for a Capitalisation Directive to cover the projected 2025/26 budget gap, management of change costs and other risks totalling £74.6 million. It also requests permission to continue to defer MRP costs of £96.5 million in 2025/26, resulting in a total support request of £171.1 million, as shown in the following table:

EFS Request Breakdown	2025/26 £m
GF Revenue Budget Gap at January 2025	67.0
HRA Legacy Issues	3.8
Contingency for remaining risks	1.0
Management of Change Capacity	2.4
Interest on Capitalisation Directive	0.4
Subtotal Capitalisation Directive	**74.6**
MRP Deferral	96.5
Total EFS Request	**171.1**

11.4 Without the continuation of EFS in the short term, the Council would effectively be insolvent. As such, discussions will continue to be held with MHCLG ahead of its decision whether to support the EFS request. This decision is expected around late February, in time to be reported back to Full Council at its meeting on 3 March 2025.

11.5 The EFS is necessary to enable WBC to meet its legal obligation of setting a balanced budget, and to provide more time for the Council to progress the agreed Asset Rationalisation and Debt Reduction plans.

11.6 It is expected that any Government approval of the EFS request will be conditional, as a minimum, on the Council continuing to do everything it can locally to reduce its legacy debt (involving both the Asset Rationalisation and Debt Reduction plans), whilst protecting the best interests of the public purse, and continuing work to address the 'BAU' budget deficit into 2025/26 and over the medium term.

12.0 Housing Revenue Account (HRA)

12.1 The Council owns and manages almost 3,300 homes (inclusive of rented and shared ownership properties) across the Borough, through the ringfenced Housing Revenue Account (HRA), with the majority being let at social rents.

12.2 The proposed 2025/26 Housing Revenue Account Budget is reported as a separate agenda item to the Executive, however, there are important links with the General Fund budget to consider.

12.3 In September 2024, Executive agreed a £2.1m transfer between the General Fund and HRA to address legacy recharges that had been incorrectly made to the HRA in prior years.

12.4 Since September, as part of the overall work by the Council to review the allocation of overhead costs to reflect its current scale and activities, the allocation between the HRA and GF has changed. This work has identified some changes to how overhead costs are apportioned, resulting in a reduction of c.£1.4m recharges from the General Fund to the HRA from 2025/26. £400k had already been provided for in the Council's budget for this, leaving a net pressure of £1m which has been built into the 2025/26 budget requirement.

12.5 Commissioners have also raised concerns about some other historic transactions in the HRA, including relating to the transfer of over 400 properties to ThamesWey Developments Limited, for the Sheerwater redevelopment.

12.6 To provide assurance and a basis for the Council to move forward, the Statutory Officers have commissioned a forensic, external review of the HRA including past transactions, and will consider taking legal advice on the lawfulness of some of the early transactions, in particular the underwrite and subsequent payment of £3.8m development costs of an abortive regeneration scheme. This review will also consider whether any retrospective adjustments are required arising from the overheads allocation work, or whether it is reasonable to implement the policy change prospectively.

12.7 In the 2024/25 Exceptional Financial Support request in March 2024, a provision of £5m was included to ensure resources were available to correct historic and potentially unlawful transactions. There is c.£2.4m remaining in this provision.

12.8 The 2025/26 EFS request includes a further provision of £3.8m to mitigate the risks outlined above, in addition to the £2.4m that remains in the existing provision. It is recommended that these balances be retained as a contingency until the forensic review and associated legal advice are completed and reported back to Members accordingly.

13.0 Current Year (2024/25) Budget Monitoring and Impact on Budget Setting

13.1 Additional challenges arise from the forecast overspends across services of £1.6m in the current year 2024/25, as reported in the Quarter 3 monitoring report (separate agenda item at this Executive meeting). Although the service overspends can be covered in the current year by the Council's favourable treasury management performance, work must continue into 2025/26 to mitigate service spending to contain it within the agreed budget envelope.

14.0 Reserves and Section 25 Statement

14.1 In making decisions in relation to the revenue budget and Council tax, the Council has various legal and fiduciary duties. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the Council tax requirement and the setting of the overall budget and Council tax. The amount of the Council tax requirement must be sufficient to meet the Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.

14.2 In exercising its fiduciary duty, the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike a fair balance between the interests of Council taxpayers and ratepayers, current and future, on the one hand and the community's interests in adequate and efficient services on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. Officers have addressed the duty to strike a fair balance between the different elements of the community and the interests of Council tax and business rate payers in developing the proposals which are set out in the Directorate reports.

14.3 Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer ('CFO') of the authority must report to the Council on:

i. the robustness of the estimates made for the purposes of the calculations; and

ii. the adequacy of the proposed financial reserves.

14.4 The Council has a statutory duty to have regard to the CFO's report when making decisions about the calculations.

14.5 As part of the Budget and Council Tax Setting report to 3 March 2025 Council, a full Section 25 Statement will be provided by the s151 Officer and agreed with Commissioners. As required by statute, this will set out in full the risks to the budget position, following the format of CIPFA's guidance and drafted in a way that is relevant to the circumstances the Council are in. It remains of vital importance that the Council plays its part in the delivery of the required budget savings set out in this report, whilst the anticipated Government support addresses the significant issues arising from the historic debt and commercial activities.

14.6 A key part of the section 25 judgment will therefore be the reliance to be placed on the support offered by Government in setting a legal budget i.e. the Capitalisation Directive and the approach taken to Minimum Revenue Provision (MRP). The measures being used by Government to support the Council's budget are explained earlier in this report. The scale and complexity of them requires significant additional work by the s151 officer and Finance Commissioner with Government leading up to the final budget setting Council on 3 March. The report to that meeting will include a detailed analysis and advice on finalising the budget and Council tax proposals.

14.7 In previous years the Council has sometimes used significant contributions from Reserves to support service delivery. Recent work has clarified that reserves were used up in 2022/23, prior to the s114 notice. However, the Capitalisation Directive request submitted to Government for 2024/25 included the re-instatement of the following key reserve balances:

i. a General Fund Balance of £5m

ii. Asset Management and Maintenance Reserve of £20m

14.8 These reserves provide a basis for managing financial risks during the year and thereby improving financial stability. Further detail on the reserves position will be included in the 3 March report once the 2025/26 Capitalisation Directive has been confirmed with Government.

15.0 Business Rates and Council Tax Collection Fund

15.1 The Collection Fund is an account all authorities collecting Council Tax and Business Rates ("billing authorities") are required to maintain separately as it contains funds collected for both the billing authority itself and "precepting" authorities i.e. in Woking that is Surrey County Council and Surrey Police (which actually make up nearly 90% of the council tax raised).

15.2 Each year the Council is required to declare the surplus or deficit on the Collection Fund and also the Council Tax base, and retained Business Rates, which represents the total tax raising power of the area. These calculations are technical ones but are key to setting the level of precepts so they are required to be shared with precepting authorities in January.

Business Rates

15.3 The Business Rates funding regime is becoming increasingly complicated and is made up of a number of different elements, including Business Rates Income, Business Rates Top-up or tariffs, levy, and Section 31 grants including an element for under indexation from Government. All income in relation to business rates yield is accounted for within the business rates collection fund account, with tariff and Section 31 grant being outside the collection fund. In order to have a complete picture of the business rates position, the income from the collection fund and the grants have to be viewed together.

15.4 The calculation of income to be received through business rates retention is critical in determining the amount of resources that the Council will have available to fund General Fund services. The Council has undertaken an assessment of the amount of business rates that it expects to collect during 2025/26, based on this and after allowing for the allocation of resources to Government and to the County Council, and the tariff and levy, it is estimated that £4.52m of the £56.93m of business rates generated within the borough, will be retained by the Council. The technical calculation for the Council's estimated 2025/26 retained business rates is shown in the following table.

2025/26 Retained Business Rates Forecast	£m
Total Business Rates collectible	56.928
Woking Share of Business rates collectible	22.771
Tariff	-19.808
Section 31 Grants	2.827
Levy	-1.270
2025/26 Retained Business Rates	**4.520**

Business Rates Baseline

15.5 The baseline sets the level of business rates yield that Government expects billing authorities to collect in its area. It is used to determine the amount of rates that are retained locally, with Councils also typically able to retain 50% of rates collected above the baseline. If rates fall below the baseline, Councils are also exposed to 50% of any losses. However, potential losses are capped at 7.5% of the baseline, as Government sets a 'safety net' threshold at 92.5% of the baseline, meaning Government fully underwrites 92.5% of the baseline income.

15.6 WBC currently benefits from significant growth in its local business rates taxbase since Government introduced baselines in 2013/14. This growth is reflected in the forecast retained business rates income for 2025/26.

15.7 Beyond 2025/26, within the Local Government Finance Settlement, Government committed to re-setting business rates baselines from 2026/27, which is expected to result in Councils no longer being able to retain locally the accumulated growth in its taxbase that has been achieved in previous years.

15.8 While it is expected that transitional arrangements may apply over a three year period from 2026/27, if implemented as expected this change could result in an estimated £1.3m reduction in retained business rates for WBC from 2026/27, rising to a c.£2.8m reduction by 2028/29. This will be reflected in updated forecasts to be presented to Council in March as part of the final budget report.

Collection Fund Surplus/Deficit - Business Rates

15.9 Billing authorities are required under section 32 of The Local Government Finance Act 1992 to estimate any surplus or deficit on their collection fund for the year. The estimated surplus or deficit is shared between the billing authority and its major precepting authorities.

15.10 The Council's 40% share of the estimated Business Rates brought forward surplus of £2.235m, is £894k.

Business Rates Pool

15.11 Woking Borough Council is a member of the Surrey and Sutton Business Rates Pool for 2025/26, along with Tandridge, Runnymede, Spelthorne, Surrey County, Surrey Heath, and Sutton. There has been a business rates pool in Surrey since 2013/14.

15.12 The benefit of pooling is that authorities in the pool can be better off collectively through a reduction in the amount of levy [being growth in business rates above a certain threshold]. The arrangements for the Surrey and Sutton Business Rates Pool are that this retained levy is allocated 50% (split based on levy) to the districts and 50% (split based top-up) to the County Council and Sutton.

15.13 The 2025/26 estimated pool gain attributable to Woking is £635,000.

Business Rates Levy Account Surplus

15.14 Alongside the final settlement on 3 February 2025, Government confirmed an allocation of £17,902 for WBC from its distribution of the national business rates surplus levy account. This is one-off funding that relates to 2024/25, so does not impact the 2025/26 budget.

Business Rates Discretionary Relief Policy

15.15 The Council has statutory powers for the granting of mandatory and discretionary rate relief under the Local Government Finance Act 1988 and the Local Government and Rating Act 1997. The Localism Act 2011 also permits the granting of discretionary relief to any premises where the Council believes that the granting of such relief would be of benefit to the local community. The provisions are designed to give the Council flexibility in granting relief where it would be of benefit generally to the area and be reasonable given the financial effect to Council Taxpayers.

15.16 On 4 March 2024, the Council agreed a clear and consistent policy to be used for determining discretionary reliefs for all current and future applications for relief. The existing policy remains in place for the 2025/26 year.

Council Tax

15.17 The Council is required to set the Council Tax Base for the forthcoming financial year, in accordance with the Local Government Finance Act 1992, as amended.

15.18 Members are asked to note that the Strategic Director of Finance (S151) has calculated under delegated powers the Council Tax base for 2025/26 as 42,879.8 Band D equivalents. This is a technical calculation that reflects the number of dwellings in a billing area falling within each valuation band represented as Band D equivalents. This is adjusted for discounts and exemptions, such as single occupancy, unoccupied houses, various disregards and student exemptions. A further reduction is made to reflect Council Tax Support claimants.

15.19 For 2024/25, the Council Tax Base had been 42,255.4, meaning the Tax Base for 2025/26 has subsequently grown by 624.4 Band D equivalents or 1.5%.

15.20 The forecast Council Tax collection rate is 98% for 2025/26 (unchanged from 2024/25).

15.21 The Council's estimated share of the Council Tax brought forward deficit is £6k.

15.22 The Council Tax referendum limit will remain at 3%, unchanged from 2024/25 for local authorities without social care responsibilities. For WBC, a 3% increase will generate c.£366k income which had already been built into the base budget position. For upper tier authorities there is a further 2% precept for social care. Council tax increases above that level are normally subject to public consultation process but are also usually part of the Government's position via an intervention. In other Councils subject to intervention, tax increases above the cap have been implemented as part of dealing with budget gaps. Last year, WBC increased the Council Tax by 10%, with Thurrock and Slough Councils also increasing their tax by 10% in previous years, and Croydon by 15%.

15.23 The level of Council Tax (the % annual increase/change) for 2025/26 will be considered and agreed at Council on 3 March, once the outcome of the request to MHCLG for Exceptional Financial Support will be known.

16.0 Flexible Use of Capital Receipts

16.1 As part of the Budget, the Council can submit plans for Flexible Use of Capital Receipts (FCR) to enable it to fund eligible transformation costs that result in long term savings and efficiencies for the Council.

16.2 The proposed plans for FCR for 2025/26 to 2026/27 total £2.5m and are detailed at Appendix 4.

16.3 These proposed investments are separate to the revenue budget as they would meet the statutory criteria for funding through the Flexible Use of Capital Receipts and include one-off investments totalling £700k and £100k to deliver expected annual savings totalling £1.05m and £0.69m from the Transformation and Procurement workstreams respectively (saving references S-048 and S-049).

16.4 Additional costs also include the continuation of the programme management office and project management, organisational development, and implementation of savings.

16.5 Members are asked to agree the proposed Flexible Use of Capital Receipts set-out at Appendix 4, for submission to MHCLG.

17.0 Capital Programme and Treasury Management Strategy

17.1 A separate report has been prepared for Executive on the Capital Programme, which will continue to be a curtailed programme given the debt position.

17.2 For next year and in future, the Council's Capital Programme will be developed in line with the principles set out in the July 2023 report and reported as part of the budget process. The following Capital Planning Principles were adopted by Council in July 2023 to form the Capital Programme which will be presented to Council in February.

i. Items of programming that relate to essential health and safety works and deliver compliance to the regulations within in the Council's property estate.

ii. Essential investment in Information & Communications Technology to ensure that the Council has fit for purpose and secure tools and infrastructure to support operations generally where there is a suitable business case to support such investment.

iii. Items where - following support from Government and from Commissioners - specific resources are provided to the Council by Government to complete or partially complete certain specified schemes that were already in delivery by the various companies owned by the Council when the Section 114 Notice was issued.

iv. Any schemes that can be shown to be wholly funded from external resources without implying additional cost burdens for the Council.

v. Where proposals are estimated to return a measurable revenue saving; for example, leasing of the Council's commercial property portfolio which may require modest upfront capital investment and which then return a beneficial income stream to the revenue budget.

vi. The programme will include schemes which can be sustainably funded via the Housing Revenue Account

17.3 Proposals that do not fall within these 'Capital Principles' will not be included within the Draft Capital Programme.

17.4 The Treasury Management Strategy will set out the Council's borrowing requirements and strategy, the annual investment strategy, the Treasury and Prudential Indicators and the Council's revised Minimum Revenue Provision (MRP) Policy. The report will follow the CIPFA requirements and be closely aligned to the discussions with Government on the nature of the support package likely to be available.

18.0 Public and Staff Consultation

18.1 Due to the limited scope of service changes, the Council has undertaken a 'light touch' consultation process focusing on its proposed financial strategy, which has incorporated the statutory requirement for consultation with the business community. This included a dedicated webpage on the Council's website, which was sent to over 500 businesses, promoted on the Woking Chamber of Commerce site as well as emailing Chamber members. It was also shared with Woking Asian Business Forum with a request to share with its members.

18.2 The consultation ran from 9 December 2024 until 17 January 2025. During this period, the Council received one response, which was a request for business rates relief. This will be managed in accordance with the Council's agreed business rates policy.

19.0 Decision Type

19.1 The decisions in this report are considered to be key, as they will inform the final budget proposals presented to Full Council on 3 March 2025.

20.0 Implications

Legal

20.1 The Council is obliged to set the Council Tax and a balanced budget for the forthcoming financial year in accordance with the provisions set out in the body of the report. In addition to the statutory provisions the Council must also comply with general public law requirements and, in particular, it must take into account all relevant matters, ignore irrelevant matters and act reasonably and for the public good when setting the Council Tax and budget.

20.2 The Council should be satisfied that the proposals put forward are a reasonably prudent use of resources in both the short and long term and that the interests of Council Taxpayers and ratepayers on the one hand and the users of Council services on the other are both considered. The recommendations contained in the report have been prepared in line with these requirements.

20.3 Section 25 of the Local Government Act 2003 requires the Strategic Director of Finance to report on the robustness of the estimates made for the purposes of budget calculations and the adequacy of the proposed financial reserves. This will be dealt with when the full council sets the council tax.

20.4 The Council must take these matters into account when making decisions about the budget calculations. A public authority must, in the exercise of its functions, comply with the requirements of the Equality Act 2010 and in particular section 149, the Public Sector Equality Duty (“PSED”).

Finance

20.5 A robust MTFS is a key document in the Council’s financial planning cycle. This document sets out the strategic approach that the Council needs to take to deliver the Improvement and Recovery Plan (IRP) and respond to the Section 114 Notice, whilst continuing to meet its statutory duties. The MTFS is designed to acknowledge and structure approaches that mitigate financial risk. The budget proposals as a whole represent significant milestone on the road to financial recovery.

Risks and Mitigation

20.6 A budget risk assessment will be included as part of the Section 25 Statement presented to Full Council on 3 March 2025.

Consultation, Equality Impact Assessments

20.7 Where required, consultation has been undertaken out as set-out in Section 18.

20.8 In considering the budget, the Council must also consider its ongoing duties under the Equality Act 2010 to have due regard to the need to eliminate discrimination and advance equality of opportunity between all irrespective of whether they fall into a protected category such as race, sex, religion, etc. Having due regard to these duties does not mean that the Council has an absolute obligation to eliminate discrimination but that it must carefully consider how its decisions will contribute towards meeting the duties in the light of all other relevant circumstances such as economic and practical considerations.

20.9 Appendix 6 details the approach taken for assessing the equalities implications of the budget, alongside a number of detailed Equalities Impact Assessments for specific service proposals.

20.10 The information within the detailed EqIA report for each resident facing saving proposal is intended to ensure that Members can pay due regard to the equality implications of the proposed budget for 2025/26.

Environment and Climate Change

20.11 No direct implications arising from the contents of this report.

21.0 Supporting Documents

Appendices

21.1 Appendix 1 – Savings Proposals

21.2 Appendix 2 – Growth Pressures

21.3 Appendix 3 – Management of Change Costs

21.4 Appendix 4 – Flexible Use of Capital Receipts

21.5 Appendix 5 – Draft Summary Service Budgets

21.6 Appendix 6 – Equality Impact assessments

Background Documents

21.7 Update on Draft Medium Term Financial Strategy (MTFS) and General Fund Budget 2025-26 – Executive, 5 December 2024

21.8 General Fund Budget Update – Executive, 16 January 2025

Report Ends