
Budgeting approach – 2025 onwards

Committee considering report:	Executive
Date of Committee:	25 July 2024
Portfolio Member:	Councillor Iain Cottingham
Report Author:	Melanie Ellis / Shannon Coleman Slaughter (Interim Service Director – Finance, Property & Procurement)
Forward Plan Ref:	EX4561

1 Purpose of the Report

- 1.1 The purpose of the report is to set out to the Executive the process for the delivery of the 2025-26 budget papers. The 2024-25 Revenue Budget including the highest level of savings that the Council has ever been required to make. The combination of very high inflationary rises, significant increases in demand for services and national core spending power for local government remaining below 2010-11, all led to this very high level of saving need. The capital budget was constructed with the revenue budget clearly in mind, and it is crucial that two budgeting processes complement one another to enable the delivery of the Council Strategy 2023-27.

2 Recommendation

- 2.1 For the Executive to note the report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	None identified directly – the approach overall has financial implications thought these will be detailed when the budget papers are finalised
Human Resource:	None identified directly
Legal:	None identified directly
Risk Management:	None identified directly

Property:	None identified directly			
Policy:	None identified directly			
	Positive	Neutral	Negative	Commentary
Equalities Impact:		X		No proposed decisions
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?				
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?				
Environmental Impact:		X		None identified
Health Impact:		X		None identified
ICT Impact:		X		None identified
Digital Services Impact:		X		None identified
Council Strategy Priorities:	X			This should provide greater alignment between the Council strategy priorities and the financial resources when the budget papers are available for approval by members.

Core Business:	X			The ABB approach should provide more efficient levels of service delivery.
Data Impact:		X		
Consultation and Engagement:	Portfolio Holder for Finance, Senior Leadership Team, Budget Board			

4 Executive Summary

- 4.1 The Council has faced an exceptionally challenging financial position over the past 12 months. The revenue budget for 2024-25 includes the highest level of savings in the Council's history and the general fund balance as at the end of the 2023-24 financial year is below the minimum level of reserves as set out by the section 151 (chief finance officer) officer. The 2024-25 does include a contribution of almost £2m to increase the general fund balance but, in the absence of any additional Government funding in the current year, the Council continues to need to improve its financial resilience through ensuring a balanced in year budget position and further increases to its reserves.
- 4.2 To assist with this financial challenge, the Council needs to set out its approach to budgeting for the 2025-26 revenue and capital budgets. There are a variety of approaches and they all require a relentless focus on:
- Delivering value for money
 - The robustness of new business cases for capital and revenue investment
 - Identifying where transformational activity can reduce unit costs
- 4.3 This paper sets out the approaches the Council is taking for the year ahead. In summary, for the revenue budget, an activity based budgeting approach rooted in reducing unit costs and seeking best practice approaches to the Council's service delivery. In respect of the capital programme, a zero based budgeting approach to all new schemes not currently in the delivery phase and seeking to identify where there are further complementary approaches to capital investment to support the revenue budget through cost reduction, cost avoidance and revenue to the Council.

5 Supporting Information

Introduction

- 5.2 The Council produces a revenue budget each year and the MTFs adds a further three years indicative budgets. It is best practice, and good financial management, to have a plan for years 2, 3 and 4 budgets. By providing indicative savings schemes, the administration then have a clearer idea of the challenges in delivering those savings in future years rather than just budgeting from one year to the next.

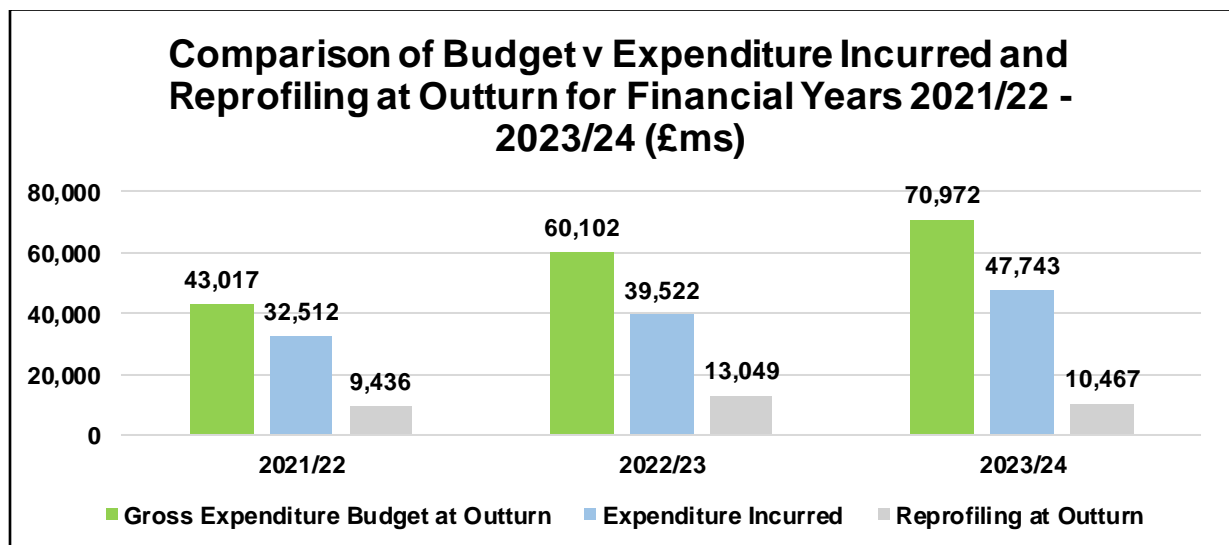
5.3 The Council's ability to financial plan effectively is hampered by external and internal factors. Externally, these include:

- (a) There being no Spending Review by Government beyond 2024-25 nor any indicative finance for Local Government beyond 2024-25.
- (b) The threat, or opportunity, through a national 'Fair Funding' for the rebalancing of Local Government expenditure within the sector.
- (c) Uncertainty over the end of the accounting treatment of the High Needs Block deficit; this is estimated to be almost £10m and is, until the end of the next financial year, not included within the general fund balance. If it was to be included, the s151 Officer would immediately issue a s114 notice as reserve levels are not sufficient to cover this.
- (d) Lack of certainty over pay awards and, recently, a very volatile inflationary position.

5.4 Internally, the Council's financial position is hugely influenced by the social care financial model, and the past two year's increases to this (totalling £23m) have placed significant pressure on the Council's budget to the point that the Council's year end estimate is to be at least £3m below the minimum level of general fund reserve.

5.5 To address the financial challenges, the Council needs to commence an earlier budget setting process and one that has greater focus on future financial years. The process for setting the 2025-26 budget and MTFs will commence in March 2024.

5.6 The Council also has a Capital Strategy over a ten year period. The purpose of this is to provide a more realistic basis for the delivery of capital schemes over the longer term, and to ensure that adequate resources are provided to schemes. The delivery of the capital programme has been an issue for a number of years. A summary of historic spend is below:



5.7 It is important that the Council spends its capital programme for a variety of reasons, for example:

- (a) It is the financial expression of the Council Strategy and administration's priorities
- (b) The schemes are the benefit of the district as a whole and can have significant positive impacts for our residents and businesses
- (c) Many of these schemes deliver cost savings/cost avoidance/additional income that helps to support the revenue budget
- (d) The finance team make assumptions of borrowing and investment on budgeted proposals
- (e) That the revenue financing implications for the next year's budget are included

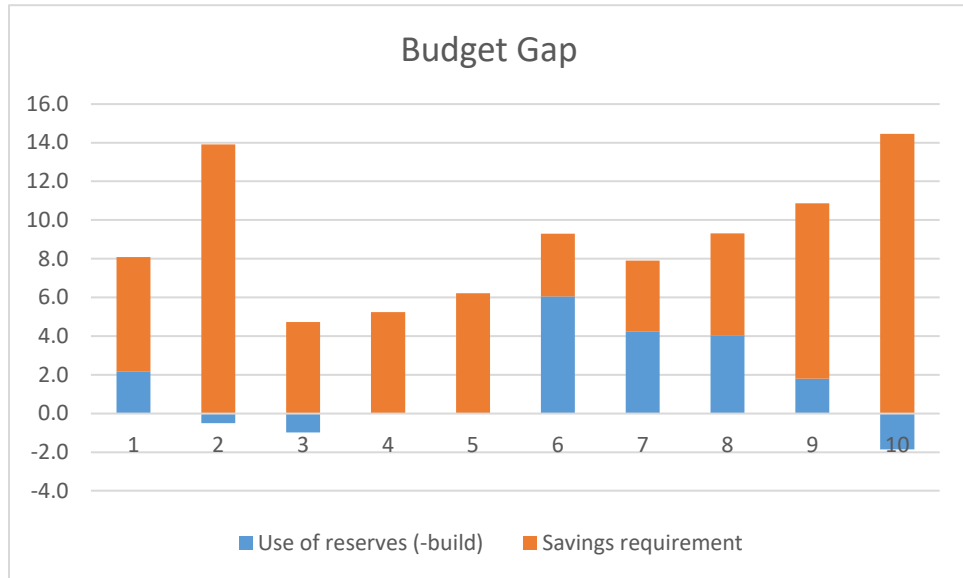
Proposals

5.8 To address the historical 'slippage' of the capital programme, it is proposed that for all schemes for inclusion in the 2025-26 and beyond capital programme, there must be a new business case completed for the Capital Strategy Board. This does not include those schemes where a business case has already been provided in the existing capital strategy e.g. Solar Farm. It will include schemes where there have been historical budgets at similar levels e.g. Disabled Facilities Grant, Highways improvement programme, Education capital enhancement etc.

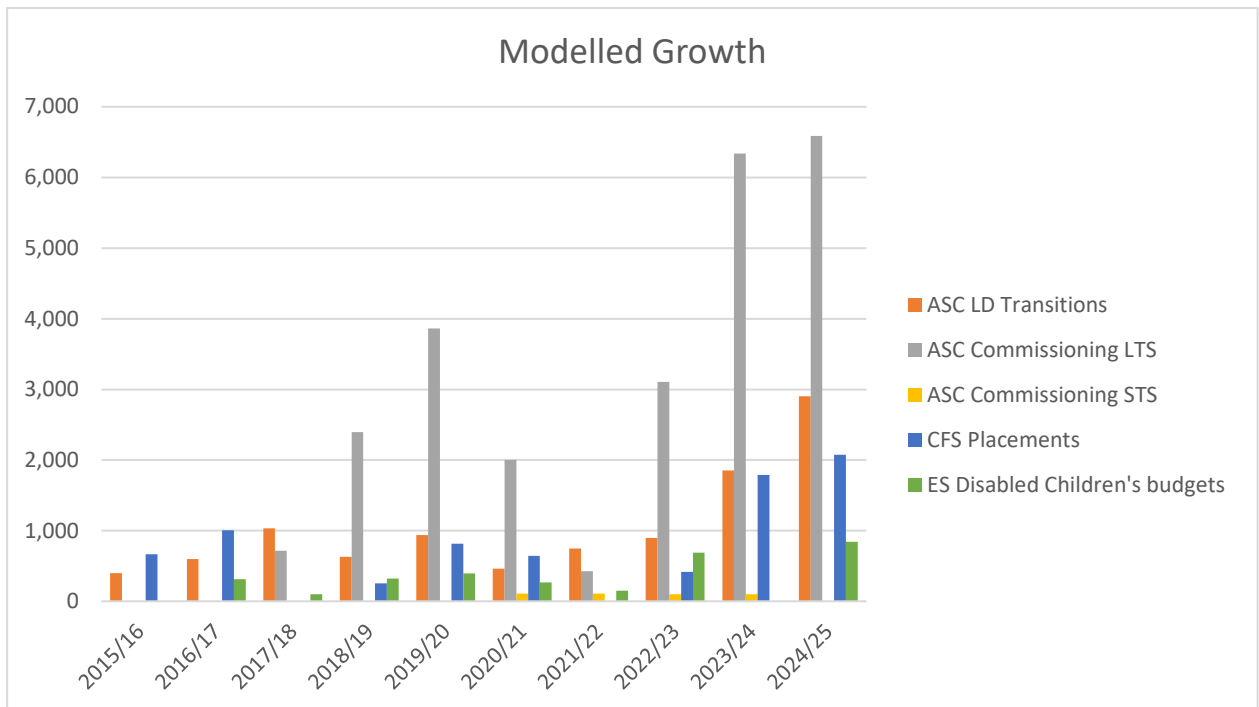
5.9 This zero based budget (ZBB) exercise will rebase the capital programme and enable a more realistic strategy to be approved. It will also ensure that it is reflective of the administration's ambitions as reflected in the latest Council Strategy (2023-27).

5.10 In respect of the revenue budget, both modelled growth in social care and investments across all directorates have seen significant increases over the last ten years. This has driven an ever-increasing savings requirement and used significant amounts of reserves to balance the budget within the funds available.

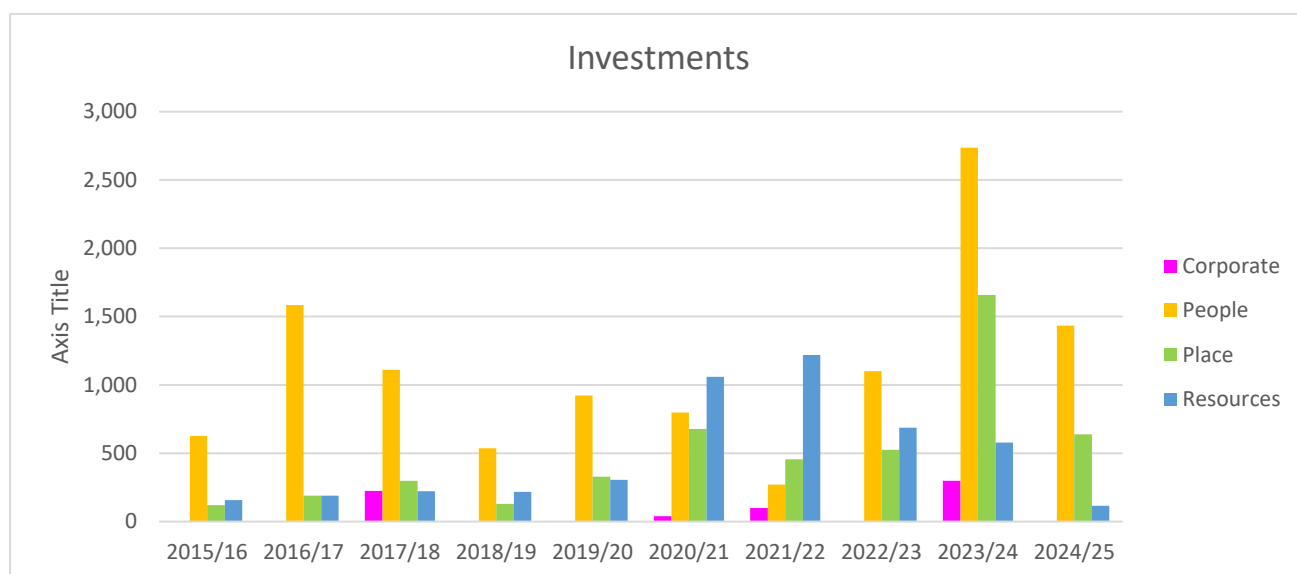
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Modelled growth	1.1	1.9	1.9	3.6	6.0	3.5	1.4	5.2	10.1	12.4
Investment	0.9	2.0	1.9	0.9	1.6	2.6	2.0	2.3	5.3	2.2
Use of reserves (-build)	2.2	-0.5	-1.0	0.0	0.0	6.1	4.3	4.0	1.8	-1.9
Overall Budget Requirement	130.9	134.6	126.9	130.7	137.3	139.8	147.0	155.8	175.2	187.6
Funds available £m	122.9	121.2	123.2	125.4	131.1	130.6	139.1	146.5	164.3	175.0
Savings as a % of funds available	4.8%	11.5%	3.8%	4.2%	4.7%	2.5%	2.6%	3.6%	5.5%	8.3%
Savings requirement £m	5.9	13.9	4.7	5.2	6.2	3.2	3.7	5.3	9.1	14.5



5.11 Modelled growth by type:



5.12 Ongoing investment by Directorate:



5.13 The latest MTFFS is included below. This has been updated following the MTFFS to Full Council in February 2024 to reflect more of the information from the Local Government Finance Settlement as well as updated figures throughout. It includes the latest assumptions available to the Council including the capital financing requirement at a heightened level compared to pre 2023 where there has been a significant increase in the rate at which the Council can borrow funds.

2024/25		Medium Term Financial Plan (MTFP)	2025/26	2026/27	2027/28	2028/29	
£m	Line ref		£m	£m	£m	£m	
2.99%		Council Tax income	2.99%	2.99%	2.99%	2.99%	
2.00%		Adult Social Care Precept	2.00%	2.00%	2.00%	2.00%	
124.2	1	Council Tax (incl. ASC)	131.2	138.6	146.3	154.6	0.6% taxbase
29.9	2	Retained Business Rates	30.3	31.2	32.2	33.2	3% growth/inflation
8.5	3a	Adult Social Care BCF and iBCF ringfenced funding	8.7	8.8	9.0	9.1	2% BCF
8.9	3b	Social Care Grant	8.9	8.9	8.9	8.9	
2.6	3c	ASC Market Sustainability & Improvement Fund	2.6	2.6	2.6	2.6	
0.7	3d	ASC discharge fund	0.2	0.2	0.2	0.2	
0.7	4a	New Homes Bonus	0.7	0.7	0.7	0.7	
0.1	4b	Services Grant	0.1	0.1	0.1	0.1	
0.6	4c	Other non-ringfenced grants	0.4	0.4	0.4	0.4	
1.7	4d	Funding floor guarantee grant	0.0	0.0	0.0	0.0	
-3.0	5	Collection Fund deficit (-)/ surplus	0.0	0.0	0.0	0.0	
175.0	6	Funds Available	183.1	191.6	200.5	209.9	
157.9	7	Base budget after adjustments	165.6	173.1	180.6	190.0	
4.6	8a	Pay inflation	4.0	2.8	2.9	2.9	2%
1.0	8b	Contract inflation and non pay inflation	1.3	1.3	1.4	1.4	2%
12.4	8c	Modelled growth	5.0	5.5	6.1	6.7	10%
2.2	9a	Investment	1.6	2.2	2.3	2.4	
1.6	9b	Capital financing	2.0	1.4	1.8	2.0	
-14.5	10a	Savings, transformation and income proposals agreed	-2.0	-1.0	-1.0	-1.0	
0.0	10b	Savings, transformation and income gap	-4.4	-4.7	-4.0	-4.2	
165.3	11	Annual Budget Requirement	173.1	180.6	190.0	200.2	
-0.7	12	One off investment/-savings	-0.1	0.5	0.5	0.5	
164.6	13	Net Budget Requirement for Management Accounting	172.9	181.1	190.5	200.7	
8.5	14	Adult Social Care BCF and iBCF ringfenced funding	8.7	8.8	9.0	9.1	
173.1	15	Budget Requirement	181.6	189.9	199.5	209.9	
0.0	16a	Use of Collection Fund Reserves	0.0	0.0	0.0	0.0	
1.9	16b	Increase in reserves	1.5	1.6	1.0	0.0	
175.0	17	Budget Requirement after use of reserves	183.1	191.6	200.5	209.9	
		<i>£10k roundings may apply</i>					

5.14 The summary savings requirement is included below.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Funds available £m	122.9	121.2	123.2	125.4	131.1	130.6	139.1	146.5	164.3	175.0	183.1	191.6	200.5	209.9
Savings as a % of funds available	4.8%	11.5%	3.8%	4.2%	4.7%	2.5%	2.6%	3.6%	5.5%	8.3%	3.5%	3.0%	2.5%	2.5%
Savings requirement £m	5.9	13.9	4.7	5.2	6.2	3.2	3.7	5.3	9.1	14.5	6.4	5.7	5.0	5.2

5.15 This in turn determines how much investment and growth is affordable, whilst still building reserves back up.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Modelled growth	1.1	1.9	1.9	3.6	6.0	3.5	1.4	5.2	10.1	12.4	5.0	5.5	6.1	6.7
Investment	0.9	2.0	1.9	0.9	1.6	2.6	2.0	2.3	5.3	2.2	1.6	2.2	2.3	2.4
Use of reserves (-build)	2.2	-0.5	-1.0	0.0	0.0	6.1	4.3	4.0	1.8	-1.9	-1.5	-1.6	-1.0	0.0
Overall Budget Requirement	130.9	134.6	126.9	130.7	137.3	139.8	147.0	155.8	175.2	187.6	188.0	195.7	204.5	215.1

5.16 There are a variety of ways of allocating savings targets, for example using comparative savings made previously, the size of different budgets (salami slicing), using member priorities, or Value for Money information. Discussions with the portfolio holder for finance are to introduce an 'Activity Based-Budgeting' approach as articulated below with savings target allocations based around this.

5.17 The ABB approach is one that is guided by the efficiency of the respective areas of the Councils by using comparative cost and volume data. It would also set out the investment levels for directorates as well to ensure that these remain within the MTFS estimates.

5.18 Outturns since 2018/19 will be measured against volume data, such as headcount or number of customers to arrive at a cost per activity to see how this has changed over time. This will be done for distinct areas within services. Comparative cost and volume data from other authorities will be used where available, such as from LG Futures or LG Inform. This data will be used to allocate the savings targets.

5.19 For investments, the maximum level is set within the MTFS. This will be allocated between directorates this year. Proposals should come to Budget Board from each directorate and be within the allocated level. Therefore, each directorate will need to review all their investments and decide which ones to bring to Budget Board.

6 Timetable

6.1 The detailed draft timetable is included in the below. This is very likely to change as the timescales for any spending review by the Government are unknown at the time of writing and so will have implications on the budget setting process for the year ahead.

Timetable for Budget Build 2025/26

When	Who	What
28.3.24	BB	Budget build approach, MTFS
21.5.24	SLT/CB	MTFS update and budget build approach
6.6.24	BB	Budget build approach, MTFS
29.6.24	Finance	Send out budget build guidance, investment and savings templates
12.6.24 to 5.9.24	Directors/Heads/FMs	Investment and savings planning
20.6.24	OB	Budget build approach, MTFS
25.6.24	CMT	Budget build approach, savings requirements and investment discussion Capital programme
2.7.24	CB	BB papers for 18.7.24 agenda
4.7.24	Exec	Budget build approach, MTFS
17.7.24	Finance	Start salary build and non-pay base budget build
18.7.24	BB	Updated MTFS, initial savings and investment overview by Directorate, social care models, new capital business case form
19.7.24	CSG	Launch of new capital business case requests
30.7.24	CMT	Post Budget Board feedback
16.8.24	CSG	
27.8.24	CMT	Review of investment, savings and income proposals
4.9.24	Directors/Heads	Templates completed and with FMs
10.9.24	SLT/CB	BB papers for 17.9.24
16.9.24	BB all day	Revenue budget proposals and review, including ABB outcomes. Review of capital business cases.
20.9.24	CSG	Review of any capitalisation savings proposals
24.9.24	CMT	
8.10.24	CB	BB papers for 24.10.24
14.10.24	Finance	Salary build ready for FM review
14.10.24	Finance	Finish non-pay base budget build
18.10.24	CSG	
24.10.24	BB	Draft MTFS and budget papers, revenue and capital. Further savings/investments
29.10.24	CMT	Post Budget Board feedback
31.10.24	Directors/Heads/FMs	Salary build sign off
15.11.24	CSG	
19.11.24	CB	MTFS, Revenue budget, Capital Strategy, Borrowing limits and investment strategy, BB papers for 5.12.24
26.11.24	CMT	
28.11.24	OB	Revenue budget, MTFS, Capital Strategy, Investment and borrowing strategy
5.12.24	BB	Further budget review
13.12.24	Finance	Local Government Finance Settlement estimated date
16.12.24	Finance	Non-pay budget build virements input
16.12.24	FMs	Fees and charges papers to be finalised using October CPI
Tbc	Finance	Salary budget build virements input
19.12.24	OB	Revenue budget, MTFS, Capital Strategy, Investment and borrowing strategy
20.12.24	CSG	
31.12.24	CMT	
28.1.25	CB	MTFS, Revenue budget, Capital Strategy, Borrowing limits and investment strategy
30.1.25	OB	Revenue budget, MTFS, Capital Strategy, Investment and borrowing strategy
Jan 25 tbc	BB	
11.2.25	OSMC	Budget scrutiny
13.2.25	Exec	Final budget proposals for approval, Q3 revenue
17.2.25	Finance	All budget virements complete
27.2.25	Council	Final budget proposals for approval

7 Other options considered

- 7.1 See the above. The Council could adopt different approaches, for example just a one year cycle, though this has been disregarded in order to provide greater levels of financial assurance over the medium term.

8 Conclusion

- 8.1 There are a variety of ways to implement budget setting proposals. An activity based approach for revenue and a zero basing exercise for capital have been identified as supporting the greater alignment of the Council's finances to deliver the Council Strategy over the coming financial years.

9 Appendices

None

Background Papers:

Full Council budget papers 2024-25

Subject to Call-In:

Yes: No:

- | | |
|---|-------------------------------------|
| The item is due to be referred to Council for final approval | <input type="checkbox"/> |
| Delays in implementation could have serious financial implications for the Council | <input type="checkbox"/> |
| Delays in implementation could compromise the Council's position | <input type="checkbox"/> |
| Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months | <input type="checkbox"/> |
| Item is Urgent Key Decision | <input type="checkbox"/> |
| Report is to note only | <input checked="" type="checkbox"/> |

Wards affected: All

Officer details:

Name: Melanie Ellis
Job Title: Service Director (FPP)
Tel No: 01635 519619
E-mail: melanie.ellis@westberks.gov.uk
