

Thursday 29 August 2024

Report of the Leader of the Council

Budget and Medium Term Financial Planning Process 2025/26

Purpose

To seek agreement to the Proposed Budget and Medium Term Financial Planning Process for General Fund and the Housing Revenue Account for 2025/26.

Recommendations

- 1) The proposed process for the General Fund and Housing Revenue Account Budget and Medium Term Financial Planning Process for 2025/26 be adopted.
- 2) Delegated authority is given to the Executive Director Finance in conjunction with the Leader to approve any amendments to the draft survey as attached at Appendix E before finalisation.

Executive Summary

General Fund

In February Council approved a General Fund revenue budget balanced over 3 years to 2026/27 and a HRA budget balanced over 5 years to 2028/29. The one year local government finance settlement announced by the Secretary of State for Levelling Up, Housing and Communities formed the basis for the MTFs, which assumed an annual increase in council tax of 2.95% and annual housing rent increases capped at CPI + 1%.

The following table details the position over 5 years for the General Fund.

	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000
Net Cost of Services	8,183	11,605	12,795	13,144	13,605
Financing:					
RSG	(322)	(328)	(335)	(342)	(349)
Collection Fund (Surplus) / Deficit Council Tax	(27)	(27)	(27)	(27)	(27)
Collection Fund (Surplus) / Deficit Business Rates	1,152	-	-	-	-
Business Rates Tariff	11,173	12,361	13,139	13,401	13,669
Business Rates net income	(14,265)	(15,407)	(15,715)	(16,030)	(16,350)
Council Tax	(4,759)	(4,941)	(5,130)	(5,326)	(5,528)
Gross Financing	(7,048)	(8,343)	(8,069)	(8,323)	(8,585)

(Surplus) / Deficit	1,135	3,262	4,726	4,822	5,020
Balances Remaining (-) / Overdrawn	(9,185)	(5,923)	(1,197)	3,625	8,645

It can be seen that the General Fund budget is in a deficit position requiring the use of reserves and balances to plug the gap. By 2027/28, there are insufficient balances remaining and by 2028/29 there is a £9m shortfall. As reported to Cabinet on 27th June, the development of the **Financial Stability Plan** is required in order to avoid significant financial cuts in future years.

There remains a significant amount of uncertainty around Local Government funding in the medium term. Following the General Election, the tight spending commitments of the new Labour government indicate that there will be little additional funding for local government. A revaluation of properties for Council Tax purposes has effectively been ruled out, and there remains ongoing uncertainty around the fair funding review and business rates reset which makes it difficult to plan in the longer term. The limited timescales for longer term planning before the local government funding settlement is published means that a multi-year settlement is unlikely this year.

Corporate Management Team (CMT) and Cabinet review the most up-to-date budget forecasts on a quarterly basis, and discuss the delivery of planned savings to support our Medium Term Financial Strategy (MTFS). As members will be aware, savings are usually considered annually as part of the budget process. This update is the first step in reviewing the MTFS forecast during July as part of the Qtr 1 financial healthcheck report for Corporate Scrutiny and Cabinet - in light of the latest information available - including any further indications from government and those from the LGF Settlement for 24/25 and any indications for 25/26. This will then inform the scale of the cost reductions needed as part of the budget process – **managers will again be asked to identify further areas for potential savings for consideration by Members as part of the budget process.**

As set out in the Financial Stability Plan report to Cabinet, the following actions are planned in order to reduce the requirement for the use of General Fund Balances in a measured way between 2025/26 and 2027/28 to enable the budget to be brought back into balance without the use of reserves by this point.

Budget Manager Review

Timing - July to September 24

Target Savings £500k in 2025/26

As part of the budget process, Budget Managers will be requested to identify 5% to 10% savings within their budget for consideration by the Executive Leadership Team (ELT). This will include looking at areas of persistent underspends and opportunities for making additional income .

A review of HRA recharges will also commence in 2024/25.

Zero Based Budgeting – 2 budget areas per year.

Timing - July to September 24

Target 10% of budget

Identification of 2 budget areas per year to be identified by ELT as the most likely areas for potential savings.

Spend to Save

Timing - 2026/27 – 2027/28.

Target savings £500k

Opportunities for spend to save projects will be identified through the budget process. The Transformation Reserve contains in the region of £1m that could be utilised to fund spend to save projects. It is likely that this will be predominantly ICT based.

Opportunities for Service Transformation 2026/27 / 2027/28

Target £1m in each of 2026/27 and 2027/28.

With a new administration in place, the forthcoming peer review and new Corporate Plan, the Council has an opportunity for major organisational change.

This will include:

- Review of services statutory/non statutory whilst maintaining focus on our customers
- Making non statutory services as self-sufficient as possible
- Identifying opportunities for service transformation through peer challenge
- Identifying opportunities for more commercialisation
- Exploration of alternative delivery models
- Making better use of digitalisation to streamline services and free up resources to invest in front facing office customer service.

Housing Revenue Account

With regard to the Housing Revenue Account, a 5 year MTF5 was approved by Council including significant investment in meeting future housing needs to sustain the HRA in the longer term.

The following table details the position over 5 years for the HRA.

	Budget 2023/24 £	Budget 2024/25 £	Budget 2025/26 £	Budget 2026/27 £	Budget 2027/28 £	Budget 2028/29 £
HRA Summary	(4,620,760)	(6,218,000)	(6,201,910)	(6,566,060)	(6,916,950)	(7,305,750)
ED Communities	28,060	28,960	31,300	33,850	36,490	39,150
AD People	268,240	297,270	301,120	304,720	308,420	312,240
AD Environment, Culture & Wellbeing	391,100	419,370	430,050	441,000	450,790	460,080
AD Assets	283,660	223,510	216,270	249,200	280,230	310,310
AD Neighbourhoods	4,473,180	4,195,090	4,072,150	4,145,780	4,225,480	4,303,240
Housing Repairs	0	0	0	0	0	0
GRAND TOTAL	823,480	(1,053,800)	(1,151,020)	(1,391,510)	(1,615,540)	(1,880,730)
Balances B/Fwd	(2,762,484)	(2,531,484)	(3,585,284)	(4,736,304)	(6,127,814)	(7,743,354)
Balances C/Fwd	(2,531,484)	(3,585,284)	(4,736,304)	(6,127,814)	(7,743,354)	(9,624,084)

Housing Revenue Account balances are expected to be £6.1m at the end of 2026/27. Whilst these balances would appear to be significant, they are required to build up reserves in order to meet the costs of the capital programme included in the 30 year HRA business plan. Over the longer term the HRA business plan also falls into deficit, as balances are no longer sufficient to finance the capital programme or pay off debt. Following approval by Cabinet, a HRA Business Planning & Viability Project to

incorporate multiple cost saving/income generating options is to be established as part of the Social Housing Regulatory Programme.

As part of the budget process, Policy Changes are required in order to amend base budget provision. Where increased costs are unavoidable then managers **are required to identify compensatory savings. Unfunded growth proposals cannot be considered without the identification of a compensatory saving.** Where savings are identified they must be accompanied by a robust implementation plan, and business case templates will have to be submitted to Cabinet and CMT for all Policy Change submissions (Revenue and Capital).

The attached Project Plan at Appendix A lists the stages, deadlines and the responsible officers for the production of the budget and medium term financial plan. Appendix B contains an outline of the process whilst Appendix C shows the flow of key stages over the process period.

Draft 2024 annual residents survey – The Tamworth Conversation

To help elected members set the council budget and priorities every year we consult residents, businesses and the voluntary sector on spending and savings options in line with the council priorities. We also conduct a survey to hear what people think about Tamworth as a place to live.

In the past these were separate consultations, however, to avoid duplication and make an efficient use of resources, they are now combined into one ‘Tamworth Conversation’ in late summer/early autumn. The results feed into the budget setting process and where timing allows, the State of Tamworth Debate (constitutionally due in March).

To date, the survey has been wholly delivered in house, with residents ‘self-selecting’ to take part. However, this approach has a significant drawback, as the survey is **not** a statistically representative survey of views; therefore, it cannot be claimed that the views are true generally for all residents. This has also meant we’ve been unable to benchmark our performance against the Local Government Association benchmarking data due to different methodologies.

For this year’s survey, a full procurement process is currently underway to commission a company to deliver a statistically representative survey in line with the Local Government Association’s recommended methodology. This will give certainty in the results as the approach means that the answers obtained from it accurately reflect the results achieved by interviewing the entire population.

This will be a telephone survey and will make sure all voices and demographics are represented in line with the borough’s demographic profile.

The full question set and script for telephone interviewers will be agreed with the advice of the successful tenderer. A likely survey using the approach in previous years is attached at Appendix E. However, as the contractor will not be appointed until late August, delegated authority for the Executive Director Finance in conjunction with the Leader of the Council is requested to make any updates/amendments required to the draft survey before finalisation.

Proposed timetable

Action	Date
Develop tender documents and procure	July and August 2024
Appoint contractor	Late August 2024
Finalise question set	September 2024
Conduct survey	Late September 2024
Survey results inform budget and council plan decisions	January 2025

Timetable

Significant milestones in the process, detailed at **Appendix A**, are planned as:

- a) Budget Consultation Members Seminar – by 30th September;
- b) Emerging Policy Changes / Capital Programme bids Members Seminar (by 31st October);
- c) Consultation process - results to Cabinet by 30th November;
- d) Base budget and technical adjustments to Cabinet 30th November;
- e) Cabinet to consider Council Taxbase calculation on 12th December and Business Rates Forecast on 23rd January;
- f) Cabinet proposals to a Leaders Budget Workshop 20th November;
- g) Provisional RSG settlement assessment to Corporate Management Team and EMT in December;
- h) Joint Scrutiny Committee (Budget) to be held on 28th January 2025;
- i) Final Budget and Medium Term Plan reports to Cabinet 20th February 2025;
- j) Budgets set at Council 25th February 2025.

It should be noted that the complexity of some of the issues and the reliance on the Government for Business Rates Retention and RSG data to report will mean that some reports have to be treated as urgent items and/or are considered at a later meeting.

Members are asked to endorse the process to be followed.

Options Considered

None

Resource Implications

There are no financial or resource implications directly arising from this report.

Legal/Risk Implications Background

It is considered that a Medium Risk to the achievement of the planned timetable exists due to the potential for a delay in the:

- Provision of information from managers; and
- Publication of the Local Government Finance Settlement information for each individual authority by the Ministry of Housing, Communities & Local Government (MHCLG).

There also remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation - arising from the Fair Funding Review, review of the Business Rates Retention (BRR) scheme, reset of the Business Rates baseline and the ongoing uncertainty over the funding for the New Homes Bonus scheme.

While we are aware of these forthcoming change, little to no information is available on the potential impact for individual Councils' finances.

We will therefore need to consider the approach to forecasting and planning for these uncertainties balancing the risk to the MTFS against the need for savings and potential service reductions.

The Key Risks are:

- Future Government financial support and Revenue Support Grant levels for future years - the budget setting process has faced significant constraints in Government funding in recent year, following years of austerity. There is now uncertainty around the approach of the new Labour government, for example, when the 'Fair Funding Review' and reset of Business Rates growth will occur; and whether there will be a new approach to the council tax referendum principles. **These are likely to have a significant effect on the Council's funding levels from 2026/27.**
- Energy efficiency and the move to net zero is likely to be a significant feature across all of our property portfolio including Council Housing. The commitment to achieve zero carbon within our own operations will present difficulties when considering our historic buildings like the Assembly Rooms, Castle and Town Hall. It is likely that investment in the property portfolio will be needed which has not yet been quantified and will need to be considered in future, in line with the Corporate Capital Strategy objectives.
- There are likely to be increased costs with regard to building safety and energy efficiency for Council Housing. An increase in the cost of repairs has previously been included in the MTFS due to market cost pressures, with a risk of contractors seeking further uplifts. The impact on planned work is that less work will be done, this will extend the renewal period for key components which will increase demand on responsive repairs. The volume of responsive repairs is unlikely to change.
- Income from the commercial/industrial portfolio has held up in most cases, but underlying market issues and the increase in online shopping mean that there is an immediate risk in relation to the income achievable from the Council's commercial property portfolio including the Ankerside Shopping Centre, which could result in a significant loss of income.
- For both 2022/23 and 2023/24, a pay increase of £1,925 was agreed. An offer of £1,290 has been made by employer's for 2024/25 which has been rejected

by some unions. A 4.0% increase has been assumed for 2024/25 with annual increases of 2.0% p.a. from 2025/26.

- Challenge to continue to achieve high collection rates for council tax, business rates and housing rents – in light of the welfare benefit reforms and the impact of the current cost pressures on economic conditions.

Equalities Implications

None

Environment and Sustainability Implications (including climate change)

None

Background Information

- a) The Government's **Fair Funding Review (FFR)** of the distribution methodology includes:
 - a. changes to the needs assessment (which will determine each Council's share of the national funding for Local Government – it is likely that this will reflect the impact of Social Care demands and that funding will be redistributed to Unitary and County Councils to the detriment of District Councils);
 - b. treatment of relative resources (to determine how much each Council can fund locally through income from fees and charges and council tax);
 - c. any transitional arrangements to protect Councils from significant reductions in funding – and the impact from their unwinding.
- b) **Spending Review** – where the total spending allocation for Government Departments will be set – including national control totals for Local Government spending. It sets UK Government departments' resource budgets.
- c) The ongoing **review of the Business Rates Retention (BRR) scheme** –work on the design of the new system including the impact of 'rolling in' grants such as Housing Benefit administration and New Homes Bonus.
- d) The planned **reset of the Business Rates baseline** for each Council could mean redistribution of the growth, or a proportion of such, achieved since 2013.
- e) **New Homes Bonus scheme** - review planned on operation of the scheme including local growth in housing numbers and share of the national pool (including the 'deadweight' for which Councils no longer receive grant).

Report Author

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List of Background Papers

Appendices

Appendix A

Project Plan for the Budget and Medium Term Financial Planning Process for the year
2025/26

Appendix B

Outline of the Budget and Medium Term Financial Planning Process

Appendix C

Flowchart of the Budget & Medium Term Financial Planning Process

Appendix D

Methodology for the Annual Survey

Appendix E

Draft 2024 Annual Survey

Appendix F

Community Impact Assessment