2025/26 Budget Process Update

Report of the Finance and Resources Portfolio Holder

Recommended:

1. **That the savings options, income generation proposals and budget pressures, shown in Annexes 1 and 2 of the report, be noted.**
2. **That the Medium-Term Financial Forecast, shown in Annex 3 of the report, be noted.**

SUMMARY:

- This report provides an update on the budget setting process for the 2025/26 financial year and medium-term forecasts for 2026/27 and 2027/28.
- The report takes into account known changes since the Medium-Term Financial Strategy was approved in October and the provisional Local Government Finance Settlement that was announced on 18 December 2024.

1 Introduction

1.1 The Council is required to set a balanced budget for each financial year.

1.2 This report provides an update on the budget-setting process for 2025/26. It takes into account the funding to be received from government in the Local Government Finance Settlement and other changes that will affect the budget gap.

1.3 Assuming no changes to the figures presented in this report, the Council is in a position to set a balanced budget for 2025/26. There is greater uncertainty around the medium-term with budget deficits forecast in 2026/27 and 2027/28.

2 2025/26 Budget Forecast

2.1 This report is an update on the budget setting process. It does not make recommendations to approve any specific budgets or the rate of Council Tax to be set for the year.

2.2 The most significant changes to the budget forecast since the Medium-Term Financial Strategy (MTFS) was approved, including the impact of the provisional Local Government Finance Settlement (LGFS), are explained in the following paragraphs.

2.3 The forecast continues to be built on a Council Tax increase assumption of £5 for a band D property, as set out in the MTFS.

Budget Forecast 2025/26

2.4 Work is progressing well with the preparation of the detailed service estimates for the coming year. All initial work has been completed and final reconciliations are taking place.

2.5 When the MTFS was reported in October, the forecast budget gap for the 2025/26 was £174,000. The work undertaken on the detailed estimates for the coming year, together with the figures included in the provisional LGFS have enabled that gap to be closed. A reconciliation of the movement in this gap is shown in the following table.

	Movement in budget gap £'000
Budget gap per MTFS	**174**
Net increase in government funding following provisional LGFS statement (para 2.6)	(1,144)
Employer National Insurance Contributions (para 2.7)	270
Confirmation of Council Tax base for 2025/26 (para 2.8)	(24)
Additional savings / income proposals (Annex 1)	(425)
Additional budget pressures (See Annex 2)	878
Extended Producer Responsibility forecast income (para 2.10)	(714)
Known budget changes (para 2.11)	(170)
Business rates pooling forecast income (para 2.12)	1,900
Additional income forecast from cash investments (para 2.13)	(800)
Transfer to Asset Management Reserve (para 2.14)	500
Other changes affecting the budget gap (para 2.15)	16
Transfer to Regeneration Reserve ref: rates pooling	(1,900)
Provisional surplus – transfer to Regeneration Reserve	1,439
Budget Gap remaining	**0**

2.6 Local Government Finance Settlement

2.6.1 The Local Government Finance Settlement has again been based on the principle of each council's Core Spending Power (CSP). That is broadly the amount of income that can be generated from Council Tax, business rates baseline and certain non-ringfenced grants.

2.6.2 The Local Government Finance Statement that was released before the provisional LGFS detail was released included a principle that no council would see a reduction in CSP, provided maximum increases to Council Tax charges are approved.

2.6.3 The provisional 2025/26 CSP figures are shown below and compared with the figures and the forecasts that were included in the MTFS.

	2024/25 CSP £'000	2025/26 Per MTFS	2025/26 CSP £'000	Difference To MTFS £'000
Settlement Funding Analysis *	2,586	2,638	2,928	290
Compensation for under-indexing business rates	491	491	512	21
Council Tax *	9,246	9,549	9,242	(307)
New Homes Bonus	230	0	12	12
Lower Tier Services Grant / Funding Guarantee Grant	2,662	1,331	0	(1,331)
Funding Floor Grant	0	0	2,459	2,459
Total Core Spending Power	**15,215**	**14,009**	**15,153**	**1,144**

* Certain grants that were previously included in the Council Tax element of CSP have now been rolled up in the Settlement Funding Analysis. This movement is largely cost neutral.

2.6.4 This shows that the reduction that was forecast in the provisional settlement has not materialised. Therefore, the overall budget position for 2025/26 is far better than previously reported.

2.6.5 The LGFS has consolidated some of the grants awarded by the former government and replaced them with a single 'Funding Floor Grant'.

2.6.6 The settlement is for 2025/26 only and no indications have been given as to the level of funding that will be available from 2026/27.

2.6.7 It does appear, however, that the government is committed to reforming the local government sector and how it is financed. This includes expectations that a consultation on the funding of business rates will be released in spring 2025 as well as wider, deprivation-focused allocations in the main grant settlement.

Multi-year settlements are promised to be included from next year which will help considerably with medium term financial planning.

2.7 Employer National Insurance Contributions

2.7.1 In October as part of her Budget speech, the Chancellor announced increases to Employer's National Insurance contribution rates.

2.7.2 The changes are in respect of the following:
- An increase in the primary contribution rate from 13.8% to 15.0%
- Reducing the earnings' threshold at which contributions start to be paid from £9,100 to £5,000.

2.7.3 The estimated cost of these changes is £540,000.

2.7.4 The government has announced a £515M fund to support the impact of these changes in the public sector. The LGA estimates that the cost to the sector will be £637M and the funding methodology appears to be being based on total expenditure by Council, rather than actual National Insurance payments.

2.7.5 The budget forecast has been updated to bring in the full effect of the increase in NI contributions in all years. A contribution of £270,000 (50%) to offset the first year cost has been included for 2025/26 only.

2.7.6 The government did not include any detail of the distribution of £515M in the provisional LGFS. The Council's allocation will not be confirmed until the final settlement figures are released.

2.8 Council Tax base

2.8.1 The MTFS allowed for an increase of 250 band D equivalent properties for Council Tax purposes in 2025/26 (and increase from 52,059 to 52,309).

2.8.2 The taxbase for 2025/26 was set on 13 December at 52,407 properties – an increase of 348 over 2024/25. The impact of this change is an additional income of £24,000.

2.9 Budget savings and pressures

2.9.1 In preparing the detailed estimates for 2025/26, a number of unavoidable budget pressures and income sources have been identified. These are summarised in more detail in Annexes 1 and 2.

2.9.2 Additional budget pressures of £878,000 have been identified. The largest of these relate to increasing net costs from administering Housing Benefit and the mismatch between costs of temporary accommodation and the amount that can be claimed in subsidy. Together these add up to a forecast pressure of £394,000. There is expected to be further transition of working-age Housing Benefit caseload to Universal Credit during the year which may affect the total of the pressure. However, it is too early to forecast, and evidence from the transition to date is that it has not reduced the net cost to the Council as much as expected.

2.9.3 A total of £425,000 in additional income and savings options have been identified. These mostly relate to income expected to be generated in Environmental Services, Community and Leisure and Planning and Building.

2.10 Extended producer responsibility

2.10.1 From 2025, some organisations and businesses will have to pay a fee for the packaging they supply to or import into the UK market. This is called extended producer responsibility (EPR) for packaging.

2.10.2 The amount of funding raised centrally by government will be distributed to waste collection and waste disposal authorities.

2.10.3 Whilst it has been known that this was to be introduced, there was no indication as to the total amount expected to be distributed or the split between WCA and WDA.

2.10.4 On 29 November, the Council was notified that its allocation for 2025/26 is £714,000. The government has guaranteed that this will be the minimum amount the Council will receive. It is a sum considerably greater than any expectations and does not have any direct commitments or obligations tied to it.

2.10.5 However, the purpose of raising the funding is to encourage manufacturers to reduce the amount of plastic and non-recyclable materials in their packaging, with a wider emphasis on encouraging greater recycling in communities. In preparing for the introduction of food waste collections and wider waste reform, Council approved the creation of two recycling officer posts for a two-year period. It is recommended that some of this funding be used to make those posts permanent to further increase our capacity to encourage greater recycling.

2.10.6 Whilst EPR will be a continuing source of income, there is no certainty that the level of income received for 2025/26 will be sustained. The medium-term forecast has been updated to reflect an annual income of £500,000 per annum. This assumption will be updated as more becomes known about future years' allocations.

2.11 Known budget changes

2.11.1 The MTFS had already built in two potential budget pressures that had been expected to be necessary from 2026/27.

2.11.2 The first relates to running costs of a new sports facility on the East Anton development of £80,000. This site is due to be constructed as an obligation of the planning consent, but it is not expected that the running costs will be required in the coming year.

2.11.3 The second relates to estimates £120,000 in charges that HCC had intended to introduce in respect of contamination of waste collected by the borough council that was processed by the county council. These charges will not be introduced in the coming year.

2.11.4 It is possible that both of these charges will be required in later years and therefore they are treated as a one-off saving in 2025/26 of £200,000 and remain in the forecast for later years.

2.11.5 Council has recently approved the purchase of in-cab technology for the larger vehicles in its fleet. This comes with an annual cost of approximately £30,000 and that charge has now been included in ongoing estimates.

2.12 Business rates pooling

2.12.1 Geographically linked councils can create a local business rates pool through which growth in business rates can be retained. This has previously been attempted in Hampshire but consensus as to who were the most appropriate partners and a share between the districts / county could not be reached.

2.12.2 Across the country, there are 24 business rates pools in 2024/25 covering 183 local authorities.

2.12.3 Pools are created for one year only and there is no long-term commitment, though many have successfully renewed for multiple years. As circumstances change, it may be better for new councils to be added or others removed.

Impact for TVBC

2.12.4 The Council pays a levy on the growth in its business rates above the inflation-adjusted 2013 baseline. Based on recent years' experience, it is estimated that our levy will be approximately £3.8M 2025/26. This money is 'lost' back to central government.

2.12.5 By pooling with HCC and other selected districts (selection is based on rates' growth and mathematics), there is the potential to retain that levy payment within Hampshire.

2.12.6 A consultant was engaged to model options and lead us in preparing for a pool. They are a market leader in this area and are only paid in the event that the pool is profitable at the end of the year.

2.12.7 It was a requirement for Councils to commit to a new pool by the end of October and that was undertaken by the Head of Finance and Revenues under delegated authority. The pool is, TVBC, Winchester, Havant, East Hants, Gosport and HCC. This is the mathematically strongest pool and the one most likely to lead to better returns whilst also carrying the least risk. Havant Borough Council is the nominated lead authority.

2.12.8 The outcome of the pool is that the levy (estimated at £3.8M) would be retained locally, with the TVBC element split equally between ourselves and the county council. The same methodology applies to each of the district participants. Essentially, if all things are equal, this is additional one-off funding to the Council of approximately £1.9M.

2.12.9 There is a small risk to joining a pool, but for this to materialise would require an unprecedented reduction in business rates income across pool partners –

this would arise in the event of pool partner requiring a safety net payment which would have to be borne by partners instead of the government. None of the partners have ever been in a safety net position and all have sustained growth over the past ten years.

2.12.10 The risk is very low for a very likely sizeable gain. It is a one-year only commitment and may be renewed next year, depending on circumstances. Joining a pool is very unlikely to have any impact on a future re-basing of business rates or wider local government finance reform.

2.12.11 The final estimate for pooling income will not be known until later in January when final returns are prepared for central government. The actual income will not be known until after the end of the financial year as it is dependent on actual business rates performance in the year.

2.12.12 Any net gain from business rates pooling is for one year only and cannot be guaranteed into the medium term. It is, therefore, not recommended that any gains are built into the base budget. Instead, it is recommended that any income be transferred to the Regeneration Reserve.

2.13 Investment income

2.13.1 The MTFS set out a principle that the long-term base budget will be built on an average portfolio size of £85M, generating income at 3% per annum (i.e. £2.55M). This level was approved as a measure to mitigate the risk of changes to interest rates and to prevent over-reliance on this important income stream.

2.13.2 This continues to be the recommended position in the medium term. However, there is more flexibility to review forecast levels for 2025/26 and 2026/27 in light of current rates; anticipated rate changes; and certainty of rates for investments that have been placed and will continue into those years.

2.13.3 The MTFS allowed a £3M based budget for 2025/26, with an expectation that that this was likely to increase as detailed estimates were prepared. An updated forecast has been completed, taking into account the Bank of England's decision to freeze the interest rate at 4.75% on 19 December.

2.13.4 That forecast estimates that income of £3.8M will be generated in 2025/26 and £3M in 2026/27. It does not make any assumptions beyond 2026/27 and therefore the position in 2027/28 is based on the long-term strategy forecast at £2.5M. This forecast will be revised again before the final budget is set.

2.14 Asset Management Budget

2.14.1 On 20 November 2024, Cabinet received a report setting out the asset management requirements for maintaining the Council's property, vehicle and IT asset infrastructure, valued at approximately £126M.

2.14.2 The base contribution included in the MTFS for the Asset Management (AMP) is £2M. The AMP report showed that this amount is insufficient to meet our ongoing requirements, with inflationary pressure and an increasing asset base adding to the expected cost each year.

2.14.3 The AMP budget has required additional contributions from budget variances to retain a balance sufficient to meet demand. Clearly, this is not a sustainable way to fund essential maintenance requirements.

2.14.4 The updated budget forecast includes an increase in the contribution of £500,000 per annum.

2.15 <u>Other changes to the budget gap</u>

2.15.1 Many of the costs associated with the ongoing maintenance of parks and open spaces are funded from commuted sums received from developers. To reflect the increasing number of locations being maintained, the amount drawn from the developer contributions reserve is expected to increase by £33,000 in 2025/26.

2.15.2 The MTFS allocated £850,000 for growth in budgets related to inflationary pressures. The total forecast inflationary pressure for the coming year is £899,000 and therefore this adds £49,000 to the budget gap.

<u>Next steps in the budget process</u>

2.16 The accountancy team are finalising the detailed service estimates for the year and will have completed that work by the end of January. This will allow any final variances to be identified and reported in February.

2.17 Similarly, final forecasts for business rates income are being prepared. Final figures in that regard will inform the amount to be transferred to the Collection Fund Equalisation Reserve in mitigation for future losses in business rates, together with the forecast gain from the business rates pooling.

2.18 The Council is still waiting for the detailed report of the Corporate Peer Challenge that was undertaken in November. The preliminary findings indicated several areas for potential development, particularly with regard to building capacity in leadership and preparedness for change. It is likely that funding will need to be set aside to facilitate delivery of these outcomes. The final budget report for 2025/26 will include an estimate to include in next year's budget.

3 Medium Term Forecast

3.1 The MTFS set out an estimated gap for 2026/27 of £2.23M, increasing to £3.89M in 2027/28. The provisional LGFS was significantly better than forecast and this has enabled the forecast income from central government grants to be reviewed.

3.2 The Core Spending Power table in section 2.6 shows that income from central government grants was forecast to reduce by 50% in 2025/26. The MTFS then reduced that amount to £nil in 2026/27.

3.3 The forecast for 2025/26 has been adjusted to take account of the grants included in the provision LGFS. With no indication as to what funding will be available from 2026/27 it remains a matter of judgement as to the amount of funding to include.

3.4 Drops of 50% per annum are potentially possible and could be included as a reasonable worst case position. However, a more likely position is one where the grants tapers at a more gradual level. The medium-term forecast now includes an assumption that the Funding Floor Grant will reduce by approximately 10% per annum to £2.25M and £2M in 2026/27 and 2027/28 respectively.

3.5 The updated medium-term forecast takes into account the above changes to forecast central government funding and the continuing impacts of all other items in section 2 of the report that will have an impact beyond 2025/26.

3.6 After all adjustments have been made, the forecast budget gap in 2026/27 is £982,000. This increases to £3.19M in 2027/28.

3.7 No changes have been made to the forecast in respect of business rates reset, which is forecast to take effect from 2026/27. The government expects to commence a consultation on business rates funding in the spring of 2025, so it is looking increasingly likely that some form of re-set could be implemented as early as 2026/27.

4 Corporate Objectives and Priorities

4.1 The MTFS is a core part of the Council’s overall strategic framework. That strategy was approved in October 2024 and set out the way in which the budget setting for 2025/26 would be approached.

4.2 The MTFS provides a focus on how resources are to be targeted to ensure that sufficient capacity is available for delivery of Corporate Plan priorities and Corporate Action Plan projects.

5 Consultations / Communications

5.1 The Council consulted the Test Valley business community through the Hampshire Chamber of Commerce (to which branches in Andover, Romsey and Stockbridge belong or are affiliated), Federation of Small Business which has strong links with Test Valley, Stockbridge Business Association as well as the members of the Manufactured in Andover group and to the Test Valley Business Distribution List.

5.2 The consultation was ongoing at the time this report was published. A summary of responses will be included with the final budget report in February.

6 Options and Options Appraisal

6.1 This report provides an update on the budget setting process and the recommendation is that the latest budgetary position be noted.

6.2 There are many ways that specific budgets or variances could be managed; for example, in determining the amount to transfer to reserves and which reserves to accumulate.

6.3 Specific recommendations in those regards will be included in the final budget report in February 2025 along with a more detailed options appraisal.

7 Risk Management

7.1 This report is for information purposes, so the Council's Risk management process does not need to be applied.

8 Resource Implications

8.1 This report discusses in detail the resource implications affecting the setting of a balanced budget for the 2025/26 financial year.

8.2 There are no other resource implications associated with this report.

9 Legal Implications

9.1 This report is for information purposes only. There are no legal implications arising.

10 Equality Issues

10.1 No equalities issues have been identified in the preparation of this report.

11 Conclusion

11.1 Following recent confirmation of amounts to be awarded in the provisional Local Government Finance Settlement and the introduction of Extended Producer Responsibility income, the Council is in a position to set a balanced budget for 2025/26.

11.2 Final budget papers, including summaries of all service estimates for the year, will be presented to Cabinet on February 26, to be recommended to Council for approval on the following day.

Background Papers (Local Government Act 1972 Section 100D) None			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	N/A
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