

Central Bedfordshire Council

10 September 2024

Executive

2025/26 Budget Strategy and Medium Term Financial Plan (including the Capital Programme and Housing Revenue Account)

Report of:

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This report relates to a decision that is Key

Purpose of this report

1. This report starts the formal process for the 2025/2026 – 2028/2029 Medium Term Financial Plan (MTFP) by setting a framework with updated planning assumptions ultimately leading to the setting of a budget and Council Tax rate for 2025/26 in February 2025. The report also proposes the approach to public consultation.

RECOMMENDATION(S)

The Executive is asked to:

1. endorse the proposed framework for updating the Medium Term Financial Plan (MTFP) 2025/26 – 2028/29 and the preparation of a Budget for 2025/26; and
2. approve the approach to consultation this year.

Overview and Scrutiny Comments/Recommendations

1. The Corporate Resources Overview and Scrutiny Committee (OSC) will consider the Budget Framework report at their 3rd September 2024 meeting.

Executive Summary

2. The formal MTFP process starts with the submission of a Budget Framework report to the August 2024 Executive meeting. This paper sets out the high-level approach that the Council intends to take for the next iteration of the MTFP, in the context of its Strategic Plan and covers General Fund revenue and capital and the Housing Revenue Account (HRA).

Budget Background

3. At its meeting of the full Council in April 2024, Central Bedfordshire Council endorsed its new Strategic Plan.
4. This document identified the Core Aims of the Council which are:
 - Get the right homes in the right places and ensure housing growth and infrastructure are carefully considered.
 - Be ambitious in our plans towards improving and maintaining the roads and travel network.
 - Ensure that environmental, sustainability and climate resilience impact will be at the heart of all Council decision-making.
 - Create opportunities for all children and young people to reach their full potential.
 - Enable people to live active, healthy, and independent lives.
 - Enable the right care, at the right time, in the right place for those in need of support.
 - Provide the environment for economic prosperity in which existing businesses can grow and new ones will move to the area.
5. Detailed service plans, which will spell out in more detail how all of the teams across the Council can contribute to the Strategic Plan, are under development and will directly influence the refresh of the MTFP so that the Council is aligning its investments with the objectives the Council has committed to.
6. 2023/24 was another very challenging year for the Council due to the continued Russian invasion of the Ukraine and the economic turmoil that this created, along with initially high levels of inflation (though those reduced during the year) and interest rates remaining high. Demand for services, in particular Children's Services also resulted in significant cost pressures.
7. From a capital perspective, recent significant cost increases in construction materials also need to be considered in the Capital Programme. To help to mitigate this, the Council approved (at its meeting in February 2024) an annual capital contingency budget for that purpose.
8. Council Tax was increased by 5% (3% general and 2% for Adult Social Care) which was the maximum available.

9. The current assumption is for a 3% increase in 2025/26 to 2027/28. **The strategy for council tax rises will be a key part of the refresh of the MTFP.** No assumption has yet been made for 2028/29, as that year was not included in the previous plan.
10. The current Plan also currently assumes that the Council Tax base will increase by 2.05% per annum, reflecting continued growth in housing.
11. The Council has ambitious growth forecasts for National Non-Domestic Rates (NNDR) already built into the MTFP. The planned income for NNDR, (also referred to as Retained Business Rates) is already challenging and current economic uncertainties could have a significant impact for this key income stream, both in the short and medium term. This will need to be considered carefully at a time of considerable economic uncertainty, which may impact on the growth plans of businesses.

Continuation of last year's Key Process Changes for 2025/26

12. The process for 2025/26 will follow the same timetable as last year, and so an initial (pre Financial Settlement) draft budget will be presented to the 3rd December 2024 Executive and the Overview and Scrutiny Committees (OSC) will have the opportunity to hold December 2024 meetings as part of an enhanced consultation and scrutiny approach for 2025/26.
13. Budget consultation at the four OSC's will also take place at their January 2025 meetings.
14. Public consultation will also take place between December 2024 to January 2025.
15. This timetable provides significant scope for transparency and enables the opportunity for a full and informed debate at the two OSC cycles.
16. As per last year, the appendices K(i) and K(ii), providing all budget lines at budget manager level, will be made available for the December 2024 Executive and both December 2024 and January 2025 OSCs.
17. Also, building on the learning from last year, the pressures and efficiencies published in December 2024 will be more detailed in order to provide for better scrutiny.
18. Executive should note that the draft budgets will be both before the Local Government Provisional Financial Settlement is announced and also any changes agreed during the enhanced consultation approach can only be reflected in the final submission to February 2025 Executive. Therefore, it is quite possible that there will be significant changes between the draft and final budget proposals, whereas in previous years these have been minimal.

Budget Strategy

19. As in previous years, it is intended that a detailed exercise will be carried out to identify any new pressures and efficiencies on an individual Directorate basis and the focus will be on delivering the existing plan incorporating new/emerging issues.
20. There will be a specific focus on a number of key areas this year which will be the subject of detailed budget reviews. These include:

Revenue

- i. Fostering and care placements for Children – understanding the dynamics of the fostering market (external private providers compete with local authorities). Understanding the volumetrics and cost profile and what this Council can do to increase the supply and retention of in-house foster carers.
- ii. Special Educational Needs & Disability (SEND) – Understanding our demand, the revenue cost drivers and what this Council can do to optimise provision for children with SEND.
- iii. Educational Transport – To understand the cost drivers and options to minimise costs.
- iv. Adult Social Care demand and costs.
- v. Waste – all aspects.
- vi. Cross Cutting Efficiencies – To review progress during 2024/25 and plans for delivery in future years resulting from the Support Function Review, The Way We Work and Category Management workstreams and the Customer Services Review.
- vii. Care is Central – to understand both the costs and income streams for the Council and the operational, social and economic benefits.

Capital

- viii. SEND and Alternative Resource Provision. To identify the capital schemes, costs and benefits.
- ix. Three Tier to Two Tier (formerly Schools for the Future) – Understand the capital and revenue implications as well as options for the timing of changes to bring about the transition from a 3-tier education system to a 2-tier system across the whole of Central Bedfordshire in order to improve educational attainment and outcomes.
- x. Capital Project external funding, specifically s106 developer contributions and Basic Need Grant.

MTFP as per 2024/25 Budget Report (February 2024)

21. The Council agreed an MTFP in February 2024 which took account of the economic conditions at that time.

22. The key figures from this current MTFP are shown in the table below:

Medium Term Financial Plan	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Funding				
Retained Business Rates	59.8	76.0	81.3	82.6
Council Tax	199.7	209.9	218.5	229.7
Renewable Energy NNDR	5.8	2.7	2.7	2.8
Total Funding	265.4	288.6	302.5	315.2
Revenue Budget				
Opening Base Net Revenue Budget	252.1	265.4	288.6	302.5
Inflation	12.4	7.7	6.3	6.5
Pressures	25.2	9.7	13.4	8.2
Revenue Budget before efficiencies and reserves	289.7	282.8	308.3	317.1
Efficiency Savings identified	(24.9)	(8.2)	(10.1)	(9.7)
Reversal of Previous Reserves built into the budget	15.6	14.0	0.3	0.0
(Use of Reserves)/ Transfers to Reserves	(15.1)	0.0	3.9	7.8
Closure of prior year gap	0.0	(0.01)	0.0	0.0
Total Revenue Budget after efficiencies and reserves	265.4	288.6	302.5	315.2
Budget Gap / (Surplus)	0.0	0.0	0.0	0.0

23. This Plan provided for the Council to achieve and maintain a sustainable level of General Fund reserves over the life of the MTFP. The level of General Fund Reserves at 31 March 2024 was £26.3M (subject to finalisation of the external audit). All the above projections, and in particular Retained Business Rates, were based on assumptions that were current at that time and will need to be refreshed as part of this MTFP.
24. A minimum prudent level of General Fund reserves, based on assumptions contained in the agreed MTFP is a range between £20.5M and £39.5M. This takes into account the Council's planned expenditure levels, the changes to the way in which services are provided, continuing economic uncertainty, policy changes following a General Election and still currently high interest rates. This affects the Council's risk profile and investment plans. CIPFA have a recommended methodology to assist in determining the factors relevant to the minimum and maximum level of general fund reserves that an authority should hold and CBC will continue to use that approach.

Budget Assumptions

25. The current MTFP as agreed at Council in February 2024 includes a number of assumptions that will need to be reviewed and revised as appropriate for the new MTFP. The key factors are detailed in the paragraphs below. The Plan will also be extended a year to include projections for 2028/29.
26. Reserves exist, in many cases, to be used in mitigation of unforeseen events. Previous very high inflation and Covid19 clearly fell into that category. It was not unexpected therefore that the Council had to use reserves in the short term to mitigate

significant unexpected cost pressures over the past two years whilst bearing in mind the need to maintain reserves at a prudent level in the medium term.

27. Reserves were also called upon to mitigate the budget overspend in 2023/24.
28. The MTFP Inflation assumptions below are based on the Bank of England's target. Current forecast anticipate that this should be achieved in 2025/26.

2025/26 and future years

Employees:	
Pay	2.0%*
Increments	0.0%
NI	0.0%
Prices	2.0%
Contracts	2.0%
Income	2.0%

29. *This applies to pay award generally. In addition, there is provision for the impact of the National Living Wage. These inflation factors will be subject to review, including taking account of new economic data and supplier contract terms.

Capital Programme

30. The financing cost of the current Capital Programme puts a pressure on the General Fund revenue budget. By the end of the current MTFP period (2027/28), the budgeted cost of capital financing will be £29.812M per annum, which equates to 9.5% of the Council's total net revenue budget for that year (£315.2M). It should also be noted that a number of revenue efficiencies and income streams are based on capital investments. During this budget process, consideration will be given to the sustainability of the current planned levels of capital spend and every effort will be made to keep the Capital Programme affordable given the demand and funding pressures that the Council faces elsewhere.
31. The Sustainability agenda and response to the climate change challenge is also likely to require significant capital investment but with long term benefits rather than short term returns.

Housing Revenue Account (HRA)

32. In October 2018, the Prime Minister announced the abolition of the HRA Debt Cap, which had previously limited HRA borrowing to the Self-Financing settlement figure of £164.995M. The Council's stock of approximately 5,630 Council homes is valued at circa £618M (based on Existing Use Value as Social Housing). Against the current borrowing of £270M, this equates to a current debt ratio of 44%, which for a landlord business is relatively low.
33. The dilemmas facing the Council in setting its HRA Budget are more difficult than at any time during the last 30 years. In July 2015, the Government mandated four years

of 1% rent cuts between 2016 and 2020. The Government also mandated a rent cap for 2023/24 (despite the confirmation by Government in 2020 that for the 5 years from April 2020 rents would rise by the Consumer Prices Index (CPI) + 1%). The cumulative effect of these limitations to rents has been a loss of £23.5M to the HRA Business Plan (2016 to 2023), and an ongoing annual loss of £5.6M in perpetuity.

34. The substantial loss of rental income at a time of significant inflationary pressures, as well as new obligations related to building safety (post Grenfell) and decarbonisation, represents a significant threat to the long-term viability of the Council's Housing Revenue Account Business Plan. The Council's housing stock, whilst generally in good condition, was constructed in the post war period and its continued renewal is therefore dependent upon a sustained level of investment, which correlates closely to Government rent policy.
35. Since the removal of the Debt Cap the HRA has undertaken additional borrowing and utilised in year surpluses to deliver 2 substantial Independent Living schemes, with a third currently under construction. In total, these will provide 339 apartments for older people. A further 480 properties have been added to the stock of Council houses since 2016, and another 169 are forecast for completion in 2024/25. Due to the Right to Buy (RtB) the Council has sold 342 properties since its inception in 2009, which equates to an annual loss of net rent of circa £1M. Together with the income lost through rent cuts and caps, increasing loan interest costs, and inflation on management, maintenance and capital works, this has impacted on the capacity within the HRA Business Plan to take on significant additional borrowing to develop much needed additional affordable housing.
36. A programme of renewal, regeneration, and decarbonisation, of the existing stock is required in line with the Housing Asset Management Strategy (HAMS). In addition, recent additional statutory obligations, such as the Social Housing Regulation Bill and Building Safety Act, must be adhered to, and will have financial consequences. Given this context, there will be a detailed review of revenue and capital budgets for the new MTFP, together with a prioritisation exercise to determine the appropriate investment balance between new build development and improvements to existing homes. As part of this new approach, there is likely to be increased emphasis on partnership working with developers to deliver schemes, as well as formalised arrangements for partnership delivery with other Housing providers, the aim being to reduce cost in the HRA capital programme.
37. The current MTFP includes rental and service charge income of c£38M to c£44M for each of the four years to 2027/28, reflecting inflationary increases to rents and additional properties that are already onsite or at planning/procurement. This income is fully offset by revenue and capital spending, debt interest costs and transfers to Reserves. As at April 2024, brought forward balances in Reserves stand at £9.197M. The Council will, in setting its HRA Budget, take account of several considerations: cost pressures, cost of living pressures, the debt strategy, investment options and the level of council rents which have now dropped to circa 40% of those in the private rented sector (PRS). The gap between PRS and social rents from an affordability perspective is disconcerting, given that the supply of social housing is insufficient to meet local housing need.

Budget Process – Revenue & Capital

38. The budget process will deliver alignment of the revenue and capital budgets, with a detailed review of the Capital Programme leading to a realistic budget over the planning timeframe.
39. Budgets will be built up during August 2024 to early September 2024. This will include a full assessment of the key areas of focus which will then be the subject of formal review at the Overview and Scrutiny meetings in December 2024 and January 2025. Following this process there will be further adjustments as required, leading to the preparation of a Final Budget Report with a balanced budget. The timetable allows for comments and recommendations from Scrutiny to be incorporated into the final Budget proposals.
40. Directorates will refresh their strategies for the next 4 years as part of the MTFP.
41. If existing pressures increase or efficiencies can no longer be delivered, compensatory efficiencies will need to be found. Directorates will commence with the aim of meeting their existing budgets.
42. In summary, the recommended process is:
 - Review existing pressures and efficiencies and mitigate where necessary.
 - Review key areas of focus and any new opportunities.
 - Directorate budget reviews to focus on the key areas identified in paragraph 20 (late September 2024/early October 2024).
 - Consolidation in October 2024.

Budget Process – Fees & Charges

43. For the 2025/26 budget process, Council approval to many Fees & Charges price increases will be sought in November 2024.
44. Most Fees & Charges prices will change on the 1 January 2025.
45. Some Fees & Charges (mainly Social Care, Health and Housing) and also Schools Trading will be considered at the February 2025 Executive and Council for those services subject to an increase from April 2025.

Consultation and Communication

46. The Council has statutory responsibilities to consult local residents and stakeholders on its budget proposals and the associated Council tax implications. The proposed approach for doing so this year is as follows:
47. The Council will enable the community to scrutinise and provide feedback on its updated MTFP and budget proposals for 2025/26. This will be launched alongside the December 2024 Executive meeting and as with last year's process will enable 5 weeks of consultation.
48. It will collect and collate this feedback which is provided primarily through an online survey which is promoted widely to residents and other stakeholders across Central Bedfordshire

49. A summary of feedback will be presented to the Executive in early 2025 to support the process of formulating recommendations to Council.
50. Consultation on any individual proposals that result from the MTFP will follow the appropriate route as required and subsequent to the approval of the overall budget by full Council in February 2025.

Reason/s for decision

51. To put in place a framework to meet the financial challenges faced by Central Bedfordshire Council over the medium term.

Council priorities

52. A sound understanding of the financial climate, a robust plan for the medium term and proper awareness and mitigation of risks are key to enabling the Council to further its objectives for the community.

Financial:

53. As set out in the report. The planning process will identify the financial risks and opportunities.

Legal:

54. The Council is required to set a balanced budget and to undertake consultation on its proposals. Consideration must be given to any impact of proposals on the current policy framework and also any common law expectation or legislative requirement to consult those affected on individual proposals.

Risk Management:

55. The Council reviews risks on a regular basis and tracks both Strategic and Operational risks along with appropriate mitigation. This is reported regularly to the Audit Committee through the Corporate Risk Register.
56. In addition, the Annual Governance Statement identifies significant governance issues and is reported to the Audit Committee. Where appropriate, these have been identified in the Council's Corporate Risk Register, together with mitigating actions to reduce the potential impact of the risk.
57. Prudent estimates of known factors will be built into the MTFP, along with reasonable estimates where no firm data exists.

Staffing (including Trades Unions):

58. None arising directly from this report.

Equalities/Human Rights:

59. Central Bedfordshire Council has a statutory duty to promote equality of opportunity, eliminate unlawful discrimination, harassment and victimisation and foster good relations in respect of nine protected characteristics; age disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
60. To ensure that any decision does not unfairly discriminate, public authorities must be rigorous in reporting to Members the outcome of an equality impact assessment and their legal duties.
61. Public authorities must ensure that decisions are made in a way which minimises unfairness and without a disproportionately negative effect on people from different groups, The Council screens all budget proposals for relevance to equality and undertakes equality impact assessments where necessary.

Sustainability

62. The Council has adopted the UN Sustainable Development Goals as the operational definition of sustainability which underpins everything it does. This is far broader than focusing on climate change and biodiversity (although these are critical areas) and includes consideration of other aspects including the important role that the Council plays through being an effective and publicly accountable organisation plays. Scrutiny of budget monitoring by councillors plays an important role in ensuring this as it underpins delivery of everything else the Council does.
63. The Council's sustainability ambitions are delivered by all areas of the Council taking consideration of the impacts of the services they provide and projects they deliver. Where possible and practicable amending these to ensure that, within the constraints the Council faces such as budget, the most sustainable option is pursued. Each Directorate is responsible for reviewing how this is done with any implications discussed with the Head of Sustainability.

Overview and Scrutiny:

64. This report will be considered by the Corporate Resources Overview and Scrutiny Committee at their 3 September 2024 meeting. Scrutiny of this report will enable the Scrutiny Committee to determine if there are areas that they would like more detailed reviews on during the development of the MTFP. The four Scrutiny Committees will also have the opportunity to consider the Draft MTFP as two further meetings later in the process in December 2024 and January 2025. The details of this are still being agreed. This will enable a full and informed debate at Scrutiny.

Timetable

65. The key milestones for setting the 2025/26 budget are:

Review of Pressures & Efficiencies	August – September 2024
Budget Framework Report to Executive	6 August 2024
Budget Framework Report to the Corporate Resources Overview & Scrutiny Committee	3 September 2024
Directorate Budget Reviews	16 September 2024 – 3 October 2024

Initial Draft MTFP to Executive (to launch consultation)	3 December 2024
Financial Settlement (estimated date)	Mid December 2024
Initial Draft MTFP to Overview & Scrutiny Committees (1)	December 2024 dates TBC
Budget consultation	December 2024 / January 2025
Draft MTFP to Overview & Scrutiny Committees (2)	January 2024
Final MTFP to Executive	4 February 2025
Final MTFP to Council	27 February 2025

Background Papers: None

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