

Crawley Borough Council

Report to Overview & Scrutiny Commission 25 November 2024

Report to Cabinet 27 November 2025

Budget Strategy 2025/26 – 2027/28

Report of the Head of Corporate Finance, **FIN/673**

1. Purpose

- 1.1 The Council has a statutory responsibility to set a Budget and Council Tax in advance of the commencement of the new financial year. The 2025/26 General Fund and Housing Revenue Account Budgets and the updated capital programme will be approved by Full Council in February 2025.
- 1.2 The report sets out the Budget Strategy for the period 2025/26 to 2027/28. The Council's Medium Term Financial forecast has been prepared against a background of high levels of uncertainty over local government finance and demand pressures for services like Homelessness. This makes budget forecasting volatile and subject to change. The assumptions made throughout the report are based on the latest information available and best estimates. However, these estimates are likely to change in the coming weeks.
- 1.3 The report provides an update on the different elements of the budget, including budget pressures and how funding can be realigned to help address these pressures. The report is concerned with the Council's General Fund. The Housing Revenue Account has its own 30 Year Business Plan which will be considered by the Overview and Scrutiny Commission prior to Cabinet before approval by Full Council by the end of the financial year.
- 1.4 The forecast takes the changes announced in the Autumn Budget 2024, presented by the Chancellor on 30 October 2024, into consideration where possible. The Local Government Finance Policy Statement has been announced for November will provide further details but as in previous years, this is expected to be high level and the full implications for Local Government are unlikely to be known until the provisional Local Government Finance Settlement 2025/26 in mid December 2024.

2. Recommendations

- 2.1 To the Overview & Scrutiny Commission

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet

That the Cabinet is asked to recommend Full Council to:

- a) Agree the overall approach to the Budget Strategy 2025/26 to 2027/28 as set out in section 8 of report FIN/673.
- b) Approve the minimum recommended General Fund Balance remains at £3m.
- c) Note the following highlights of the Budget Strategy:
 - i. That the Budget is aligned to the Council's Corporate Priorities.
 - ii. The outline 3 year forecast as shown in table 2 paragraph 6.1 of report FIN/673, this is likely to be subject to significant change depending on the outcome of the Local Government Finance Settlement for 2025/26 and the Spending Review Phase two reforms for the period 2026/27 and beyond.
 - iii. The current budget deficit of £2.452m for 2025/26 (section 6.2 of report FIN/673) is based on a Council tax increase of 2.99% which is £6.94. Table 2 (section 6.6.10 of report FIN/673) highlights the budget gap modelling different assumptions.
 - iv. The forecast does not include any fundamental changes in service delivery as these would be too speculative in nature at this stage.
 - v. That there are significant uncertainties around Government funding prior to the settlement in December 2024 and that this uncertainty increases from 2026/27 due to Spending Review Phase 2 including the anticipated reset of the business rates.

3. Reasons for the Recommendations

- 3.1 To agree the Council's Budget Strategy for 2025/26 to 2027/28 including the assumptions made which will set the budget parameters for 2025/26.
- 3.3 The 2025/26 General Fund and Housing Revenue Account Budgets and the revised capital programme will be set by the Full Council in February 2025. The Treasury Management Strategy and Capital Strategy will be considered at the same meeting.
- 3.4 To note that until the provisional Local Government Finance Settlement is published in December 2024 these projections are highly likely to change.

4. Background

- 4.1 The Council's finances started to come under extreme pressure during 2023/24 requiring in year savings and reserve adjustments to be made. The Council set its Revenue Budget and Capital programme for 2024/25 in February 2024. The budget required the use of £1.065m of General Fund Reserve to balance the budget. The Budget Strategy 2024/25 to 2025/26 agreed that the scale of savings required and the uncertainty that the Council is facing over funding which required a different approach to reducing net expenditure.
- 4.2 The Council is legally required to set a balanced budget each year. This report provides an update on the different elements of the budget, including budget pressures and how

budgets can be realigned/reduced to help address these pressures. The report relates mainly to the financial position on the Council's General Fund. The report is not concerned with the HRA has its own 30 Year Business Plan which is being updated and will be considered by Cabinet on 5 February 2025 for approval by Full Council on 26 February 2025. The HRA budget for 2025/26 will be included in the full budget report to cabinet in February 2025.

- 4.3 The report is prepared in the national context of the Autumn Budget 2024 announced by the Chancellor on 30 October 2024. This has led to a change in a number of the assumptions used in the forecasting model. The budget will be updated for information as it becomes available but certainty over funding is unlikely until the provisional Local Government Settlement is published in December 2024.

Estimated Outturn 2024/25

- 4.4 The current year's financial position has an impact on balances and future years spending. Any ongoing changes have been reflected in the forecast where known. The second budget monitoring report (2024/25 Budget Monitoring Report – Quarter 2 (FIN/672) elsewhere on the agenda projects a net underspend of (410k). However, this is mainly due to additional investment income of (£2.167m). Service expenditure pressure is £1.757m over budget for a variety of reasons detailed in the report including: pay inflation; recoveries of housing benefit overpayments; development control income; and net expenditure on commercial assets. The estimate includes £145k additional cost pressure for the pay award, agreed in October 2024, at £1,290 per NJC scale and 2.5% for other pay scales.
- 4.5 Cost pressures in relation to Homelessness (Temporary Accommodation) continue. It should be noted that the net budget for temporary accommodation was increased by £3m to £5.250m for 2024/25 and that gross expenditure has continued to increase in the current year exceeding budget by £1m. The net budget has benefitted from better recoveries of Housing Benefit. The current net expenditure forecast is £5.5m which is £250k above budget but this can be offset by additional grant funding in 2024/25.
- 4.6 The net underspend of (£410k) in the current year combined with (£195k) of unrequired earmarked reserves results in a forecast General Fund Balance of £3.350m which is above the £3m minimum balance set by the Council.
- 4.7 The remainder of this report focuses on the Council's Medium Term Financial Strategy and the various elements that must be considered when preparing the Council's budget for 2025/26. This includes an update on the approach to reducing the budget gap in section 8. The forecast has been regularly updated for changing assumptions during the year.

5. Medium Term Financial Strategy - Key Assumptions

The Autumn Budget 2024

- 5.1 The Autumn Budget 2024 proposed 3.2% increase in Core Spending Power (CSP) for 2025/26 in real terms (5.25% cash terms assuming inflation at 2%). However, it is unlikely that the Council will receive the 3.2% increase (as in previous years) due to the limited increase in the Council Tax base.
- 5.2 £1.3bn was announced in new grant funding for core services in 2025/26, of which at least £600m was earmarked for social care. The additional £700m funding is to be distributed to places that 'need it most' using a new approach which is likely to give more weighting to

deprivation. A focused on high deprivation and low tax base could benefit the Council. However, the funding formula to allocate this funding is unknown. There may be more detail in the Policy Statement in November 2024. Full details may not be available until the provisional Local Government Finance settlement anticipated in mid-December 2024.

- 5.3 The Autumn Budget also announced an increase in Employers National Insurance Contributions by 1.2% (from 13.8% to 15%) and the threshold has been decreased from £9,096 to £5,000 from April 2025. The overall increase is anticipated to cost the council in the region of £620k for direct staff. It is not anticipated that compensation will be available for contracted services which will add to service cost pressure in the longer term. Communication from the Ministry of Housing Communities and Local Government indicates that councils will receive funding to compensate for this increase but it is unclear whether it has been included in the £1.3bn additional funding.
- 5.4 The Autumn Budget 2024 also announced £233m in new funding for 2025/26 to address homelessness. This is welcome funding, but the allocation methodology is unknown. This new funding does not address the existing costs of Temporary Accommodation and the challenges that the Council faces in this area. It is disappointing that Housing Benefit Subsidy remains frozen at 2011 LHA. This effectively transfers the cost of this statutory duty from central to local government (see paragraph 6.6.1 for forecast assumptions).
- 5.5 The announcement also included adjustment to the Right to Buy (RTB) policies to provide councils with more flexibilities. This included a reduction in discounts offered RTB purchasers from 21 November 2024. Receipts had picked up as reported in the Budget Monitoring Q2 Report. We are currently experiencing a surge of enquiries but there is no certainty over how many of these will go through to completion and the long term forecast has been reduced significantly to reflect this change. RTB receipts are a useful source of capital and the Council earns interest on the balances.
- 5.6 The Autumn Budget 2024 also announced that Extended Producer Responsibility (EPR) will go ahead. The funding for 2025/26 will be guaranteed on a one off exceptional basis. The forecast has not made allowance for this funding as the level is unknown.

Spending review phase two

- 5.7 The increase in public spending announced was frontloaded to 2025/26 with increases from 2026/27 of only 1.3% (in real terms) in overall public spending. The forecast is that spending on unprotected services, like Local Government, will reduce by 1.1% in real terms from 2026/27 onwards. Local Government has done better than average in 2024/25 and 2025/26, however, the Council has been disadvantaged because of the low growth in the council tax base due to reasons like water neutrality. This uncertainty will continue with more information becoming available in the Spring and over the summer but it is unlikely that full information will be available much before the Provisional Local Government Settlement in December 2025. Core Spending Power assumptions favour Council's with high tax bases and low needs assessment. And, although more targeted funding was announced, it remains uncertain how government funding will assist councils with a low tax base and high deprivation like Crawley.
- 5.8 The Council uses a modelling tool provided by Pixel who are the Council's advisors on Local Government funding. This predicts a significant reduction in business rates funding in future years due to business rates reform. The model also removes a significant proportion of general government grants like the funding guarantee. Although the 3 year settlement has been announced from 2026/27 there will be further information and consultation following the announcements in Spring 2025 but, again, it is unlikely that full information on actual allocations will be available before the provisional local government settlement in December 2025.

5.9 Retained Business Rates

The business rates forecast has been updated for the latest assumptions in the Pixel forecasting tool. The strategy assumes that the business rate reset is fully implemented in 2026/27. No further information is available at this time and the detail will depend how the business rate reset is implemented including any transitional arrangements including damping mechanisms. The forecast will be updated for the budget for 2025/26 and will continue to be updated as more information becomes available.

5.10 Council Tax

The Council's share of a council tax band D is currently £232.10 which is 10.55% of the overall charge. Councillors approved an increase of 2.99% which is £6.76 when setting the budget for 2024/25. The forecast assumes that the current council tax referendum principles that limit district and borough councils to a maximum increase of 3% or no more than £5 per annum (whichever is the greater) continue. The assumption in the plan is therefore a 2.99 percent increase per annum on a Band D property over the length of the budget strategy.

Table 1 Projected increase in Council tax

| | 2024/25 | 2025/26 | 2025/26 | 2026/27 |
|--------------------|---------|---------|---------|---------|
| Band D Council tax | £232.10 | £239.04 | £246.19 | £253.55 |
| Increase | 2.99% | 2.99% | 2.99% | 2.99% |

New Homes Bonus

- 5.11 The Government introduced the New Homes Bonus (NHB) in 2011 to give local authorities additional money for each new residential property created in the area. The grant was originally payable for six years, but this was subsequently reduced to four years and is now an annual award with no more legacy payments.
- 5.12 There is an additional payment of £350 for each year if the property falls into the definition of affordable housing. This additional element is paid a year in arrears. In two tier areas the District or Borough Council receives 80% of the bonus and the County Council 20%.
- 5.13 Only £35k of NHB was received in the current year. The Council has a good track record for growth and NHB in the past, but growth is now restricted by Water Neutrality which has stopped development in the Borough. The Autumn 2024 budget did not mention the NHB or its planned replacement. It is assumed that the grant continues at the same rate for 2025/26.

6. Budget Projections 2024/25 to 2026/27

- 6.1 The uncertainty around Local Government Funding and the significant increase in cost pressure has resulted in the forecast becoming increasingly volatile and unpredictable from 2026/27. It was identified as part of last year's budget strategy that the longer-term approach to balancing the budget was no longer sufficient as reserves became depleted at an accelerated rate. The escalation of the cost of temporary accommodation and other budget pressures has resulted in an increasing budget gap and, whilst some of this additional cost pressures are off set with investment income, this is only a short-term

solution. The budget strategy for 2025/26 to 2027/28 continues with this approach and focuses on the period three-year period.

The table below summarises the budget projections based on the assumptions above.

Table 2 Budget projections 2025/26 to 2027/28

| | 2025/26 | 2026/27 | 2027/28 |
|--------------------------|---------------|---------------|---------------|
| | £000 | £000 | £000 |
| Base Budget | 20,926 | 20,748 | 20,659 |
| Intestment interest | (1,442) | (1,362) | (672) |
| MRP | 523 | 544 | 566 |
| Net Budget (A) | 20,007 | 19,930 | 20,554 |
| Funded by - | | | |
| Council Tax | 8,841 | 9,196 | 9,566 |
| Revenue Support Grant | 242 | 291 | 220 |
| New Homes Bonus | 35 | 0 | 0 |
| Retained Business Rates | 7,441 | 4,737 | 4,817 |
| Services Grant | 25 | 0 | 0 |
| Funding Guarantee | 971 | 0 | 0 |
| Total Funding (B) | 17,555 | 14,224 | 14,603 |
| Budget Gap (A-B) | 2,452 | 5,706 | 5,951 |

6.2 The table shows a budget shortfall of £2.452m for 2025/26. The increase for 2026/27 and beyond is mainly attributable to the predicted reset of the Business Rate system where the Council could lose all its growth (£2.7m). It is also assumed that General Government grants also reduce by around £1m as predicted by the Council’s advisors. However, there is likely to be transitional arrangements and dampening to the formula so the forecast has to be treated with extreme caution at this stage.

6.3 The Council has a successful track record of reducing net expenditure by achieving significant savings or increasing income. The Council has achieved £4.98m of savings or additional income since 2019/20. The forecast includes the anticipated savings from the Hawth theatre contract negotiations and K2 Crawley contract negotiations reported to Cabinet 6 November 2024. However, there is no longer scope to cut services incrementally. Section 8 provides an update on the approach that has been taken to identify savings. In addition the Minimum Revenue Provision (MRP) policy was reviewed in 2023 reducing net expenditure by £458K in 2023/24 and 2024/25 respectively.

Revenue Growth

6.4 The forecast only includes essential unavoidable budget growth for business critical activities. There are no revenue growth bids for 2025/26. Essential growth items will be approved as part of the budget 2025/26 process.

6.5 The table below shows the assumptions that have been used when calculating the budget gap as outlined in Table 6 above. The assumptions are further explained in section 6.6.

Table 3 - Summary of assumptions

| | 2025/26 | 2026/27 | 2027/28 |
|-------------------|---------|---------|---------|
| Pay Award | 3.00% | 2.50% | 2.00% |
| RPI | 2.70% | 2.20% | 2.40% |
| CPI | 1.70% | 2.50% | 1.90% |
| Gas | 7.50% | 2.20% | 2.40% |
| Electricity | 7.50% | 2.20% | 2.40% |
| Customer receipts | 7.00% | 2.00% | 2.00% |
| Tax Base change | 1.00% | 1.00% | 1.00% |

The same budget parameters will be applied to the Housing Revenue Account.

6.6 Assumptions

6.6.1 Homelessness

No increase in the net cost of homelessness is assumed over the length of the strategy. The Q2 monitoring report, elsewhere on the agenda, shows budget pressure being met by improved recovery from Housing Benefit and additional grant funding. The forecast assumes no improvement in the situation with the availability of temporary accommodation in the borough continuing to be severely limited. Potential spaces have been taken up by the three asylum contingency hotels and the Council is competing with placements from London Boroughs and other councils in the area. The situation is exasperated by Housing Benefit being frozen at 2011 Local Housing Allowance levels. This means that whilst the marginal cost of additional units of temporary accommodation has increased significantly the proportion that can be recovered through Housing Benefit continues to reduce. The Council and the District Council Network (DCN) continues to lobby to have the rate increased. This uplift would have a significant effect on the forecast. It was disappointing that the unfreezing of the LHA allowance was not mentioned in the Budget 2024 announcement.

If the Housing Benefit Subsidy for Temporary Accommodation was changed to the 90% of the 2024 LHA rates the Council would be able to recover in the region of £1.1m.

The Council continues to proactively lobby Government to recognise that the rising demand and cost of homelessness must be fully funded and that the current situation poses a critical risk to the Council's financial resilience as well as the Local Government sector.

6.6.2 Pay Award

Local Government pay is negotiated nationally, and the Council has no direct influence on the settlement. An assumption of 3.0% has been included for 2025/26. This is to mitigate against the possibility of another flat rate pay award.

6.6.3 Investment Interest

An average investment rate of 3.66% has been assumed for 2025/26, falling to 3.05% in 2026/27 and 3.00% in 2027/28. Interest rate projections and cashflow are kept under constant review during the year.

Expenditure on the capital programme results in reduced investment income as there are fewer resources available for investment. However, delays in the capital programme will result in higher balances available than anticipated for investment. The estimated balance for RTB receipts reflects the reduction in the discount from 21 November 2024.

6.6.4 **Borrowing and Minimum Revenue Provision (MRP)**

The forecast reflects the MRP related to internal borrowing for the appropriation of garages from the HRA to the General Fund. Any new borrowing must be avoided because of the additional pressure it would put on the General Fund and budget gap. The estimate is around £100k to £125k per £1m borrowed.

6.6.5 **General Inflation**

Office for National Statistics (ONS) figures showed CPI inflation was 1.7% in September 2023, down from 2.2% from the previous month. This was below the Bank of England's (BoE) August projection. The Core CPI inflation fell to 3.2% from 3.6%. Looking ahead, using the interest rate path implied by financial markets, the BoE expects CPI inflation to rise slightly above the 2% target reaching around 2.75% by the second half of 2025. Over the medium term inflation is forecast to stabilise back around the 2% target.

6.6.6 **Fees and Charges**

CPI has reduced significantly (1.7% September 2024). Some fees and charges may have to be increased by more than CPI to help close the budget gap and to ensure that services are operating more closely to a cost recovery basis where possible.

Development Control fees have been reduced by £100k in the forecast. As reported in the Budget monitoring 2024/25 Q2 report planning fees have dropped significantly due to water neutrality. This figure will be reviewed as part of the budget setting process.

Fees and charges will continue to be reviewed to ensure that they cover the cost of service where appropriate.

6.6.7 **Savings from Contract Negotiations**

The forecast includes the latest anticipated savings from the Hawth theatre contract negotiations and K2 Crawley contract negotiations reported to Cabinet 6 November 2024.

6.6.8 **Commercial Property Assumptions**

The letting of the upper floors of the town hall is a significant income stream to the Council and can result in significant variations in income if not let or when tenants move out. The assumptions around letting the upper floors of the New Town Hall are as follows:

Table 4 Assumptions on New Town Hall lettings

| Year | Number of floors Previous Assumption | Number of floors New Assumption |
|---------|---|------------------------------------|
| 2025/26 | 4.0 | 3.5 |
| 2026/27 | 4.5 | 4.0 |
| 2027/28 | | 4.5 |
| 2028/29 | | 5.0 |
| 2029/30 | | 5.5 |

The challenging commercial property market conditions have required a review of the assumptions around Town Hall lettings. The assumptions are shown in the table above. The previous assumption that income for the final floor would be earmarked to cover lost income during void periods and future repairs to the shared space has been removed due to current cost pressures. The level of future provision will be reviewed as part of the work to reduce the budget gap and will include the risk of other commercial properties having empty and rent free periods as well as overall corporate asset management planning.

Ashdown House was vacated by the tenant in August 2024. RAAC has been identified and a phase 2 survey carried out which is currently being evaluated. It is assumed that the repairs can be met from the property reserve. This assumption will be reviewed for the 2025/26 budget. The commercial rental sector continues to be very volatile and difficult to predict with many organisations continuing hybrid workings and reconsidering their office space requirements.

The remainder of the Investment property and operational property income has been forecast based on lease renewal dates and current increases.

- 6.6.9 The Environment Act passed into legislation in November 2021. Simpler Recycling launched by the Government in October 2023 requires the introduction of a separate weekly food waste collection to all household by March 2026 (update elsewhere on the agenda).

It has been confirmed that New Burden’s Funding for the net cost of the proposed changes will be made available, however, there is no information at this time on how any funding mechanisms will work and whether the funding is sufficient to cover the costs of the proposals. The forecast assumes service delivery up to the New Burdens Funding. This removes an additional £250k expenditure for additional costs pressures from 2026/27 from the forecast (based on estimates obtained by consultants in 2022/23).

6.6.10 Sensitivity Analysis

The forecast is based on best assumptions that are continually reviewed. However, as explained in the report, the current level of uncertainty means that some key assumptions are likely to change for the budget 2025/26. The table below shows the budget gap when some key variables are remodelled.

Table 5 – Budget Scenarios/Sensitivity Analysis

| | 2025/26 | 2026/27 | 2027/28 |
|--|---------|---------|---------|
| | £'000 | £'000 | £'000 |
| Budget Gap | 2,452 | 5,706 | 5,951 |
| Budget Gap with: | | | |
| Increase in pay by 1% more | 2,614 | 5,872 | 6,120 |
| Increase in pay by 1% less | 2,290 | 5,540 | 5,781 |
| NI Increase 75% funded | 2,580 | 5,834 | 6,079 |
| NI Increase 50% funded | 2,707 | 5,961 | 6,206 |
| One additional floor let of Create Building in 25/26 | 1,982 | 5,232 | 5,477 |
| Create Building fully let by 25/26 | 1,508 | 4,995 | 5,477 |
| Council Tax increase of £10 | 2,338 | 5,589 | 5,828 |

As a result of the level of uncertainty there is a requirement for the minimum balance of the general fund to remain at £3m (see 7.1 below).

- 6.7 Modelling for future years at this stage is difficult. The impact on Business Rates and Council Tax is significant. There will also be demands on services such as benefit and homelessness as described above. As people claim Universal Credit they are entitled to Council Tax reduction, this results in less Council Tax collectable to support Council services.
- 6.8 The cost of supply of materials has resulted in costs increasing significantly, together with increased cost of utilities and fuel, which needs to be factored into future budgets. The

pay offer is significantly higher than anticipated and additional Government support to fund this is highly unlikely.

- 6.9 Although the Council will be compensated for the 1.2% increase in employers national insurance contributions announced in the Autumn Budget this will have an inflationary effect on Council contracts when they come up for renewal.
- 6.10 There continues to be a growing gap between funding and service pressures, driven by demographic change, and unfunded burdens such as net zero. This places additional pressures on council services.

7. Reserves

- 7.1 The work to review the Council’s reserves in order to identify any reserves that may be used to support a potentially worsening financial situation in the current and future years continues. It should be noted that the use of reserves is only a short-term solution and not sustainable as once reserves are depleted there is only limited opportunity to increase them. The budget monitoring 2024/25 Q2 report has provided councillors with an update on reserves and a further update will be provided in the Budget 2025/26 report.
- 7.2 The Council needs sufficient funds to be able to sustain services.

General Fund Reserve

- 7.3 The rate at which the General Fund balance is reducing is unsustainable. The budget for 2024/25 predicted that the General Fund balance would be below the £3m recommended minimum set by the Council without further transfers from earmarked reserves. However, the (£410k) favourable variation, as projected in the Quarter 2 monitoring report elsewhere on the agenda, in addition to (195k) of unrequired earmarked reserves results in a General Fund balance above the £3m. The forecast for 2026/27 includes the assumption that Business Rate are fully reformed that year including a full reset, where all the accumulated growth is lost and the Council would start with a new baseline. There is no information about how the Business Rate Reform will be implemented and in reality the reform is likely to be subject to damping mechanisms which would phase the reduction. Further updates will be provided once information becomes available. The Forecast General Fund Balance is shown in the table below:

Table 7 Projected General Fund Balance 2025/26 to 2026/27

| General Fund | Original Budget 2024/25 £000 | Current Budget 2024/25 £000 | Forecast table 2 2025/26 £000 | Forecast table 2 2026/27 £000 |
|------------------------|------------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| Opening Balance | (3,810) | (3,810) | (3,350) | (898) |
| Draw down from reserve | 1,065 | 460 | 2,452 | 5,706 |
| Closing Balance | (2,745) | (3,350) | (898) | (4,808) |

*** the table assumes no transitional arrangements for the Business Rate Reset because there is currently no information available and this is unlikely**

- 7.4 The net budget for the current financial year before the use of reserves is £19.1m. The recommendation is to continue to have a minimum of £3.0m which is 16% of the net budget. **This is level of General Fund Reserve that is considered to be adequate in the current financial climate but it is likely that further appropriations into the General Fund will be required to maintain the balance close to this level.** The reserve strategy will be updated with the budget for 2025/26 when the Council has more certainty over key variable including: funding levels; Employers' National Insurance contributions funding; Commercial income; and levels of other fees and charges.

Earmarked Reserves

- 7.5 Earmarked reserves will continue to be reviewed in order to identify those that are no longer required or no longer align with the Council's priorities in order to free up resources to support higher priorities and budget pressures if required. The outcome of these reviews will be the subject of future update reports.

8. Budget Process and Savings Strategy

- 8.1 The budget strategy 2024/25 to 2026/27 agreed that the scale of savings required and the uncertainty that the Council is facing over funding required a different approach to reducing net expenditure. Members were briefed on the strategy at the All Member Seminar held on 30 October 2024. It should be noted that potential reductions in net expenditure have not been included in the MTFs projections as they are still speculative in nature and subject to consultation.
- 8.2 The Council is operating in an environment of high levels of uncertainty over the Council's funding (HMG Budget; Fair Funding Review Phase 2, Local Government pay award; Business Rates; Investment income; HB subsidy; commercial income and RTB receipts) details of which are contained within the report. This level of uncertainty is unprecedented and is reflected in the budget strategy which has to remain flexible to allow for alignment of income and expenditure once the budget gap becomes clear. This may not be until mid December 2024 when the provisional Local Government Settlement will be announced and so financial forecasts are likely to change in the coming weeks as a result. It should be noted that, although unlikely to be repeated, grant funding changed from the provisional to the Final Settlement for 2024/25.

The Budget Review Exercise

- 8.3 All service budgets were reviewed over the summer and early autumn 2024 to provide a better understanding of what net expenditure reductions would potentially be achievable (statutory minimum). In order to help the process and to develop individual strategies all services were classified into four broad categories: Statutory Services; Income Generating Services; Essential Services; and Discretionary Services. The definitions developed are:
- **Statutory services** are services that the Council is required to deliver. There are flexibilities on how to deliver these services and at what standard. There is also some scope to generate income from these services. The statutory services account for approximately £16.6m of the Council's net expenditure budget for 2024/25. Examples of services included under this classification are: Democratic Services; Temporary Accommodation; Licensing; and Refuse Collection.
 - **Income Generating Services** generate a net income of circa (£9.5m). Examples of these services include: Leisure Centres; Car Parking; Property rental income; and

garages. These services are being analysed to look at options to increase income further.

- **Essential Services** include the Contact Centre; Legal and Finance; Human Resources and IT; and the Built Environment team. The net expenditure for these support services is approximately £6.5m net of HRA recharge. Reduction in other in other service areas (including capital projects) would allow for reductions in these services. To reduce these services first would impact on delivery elsewhere or expose the Council to increased externalised costs.
- **Discretionary Services** include Economic Development; Patch working and grounds maintenance; Community Development and Grants; and Play service. These services have a net expenditure of around £9.4m. Whilst discretionary, these services meet an identified need within the town and may well therefore have a detrimental impact if reduced.

8.4 The budget process will continue to identify reductions in expenditure or increases in income and any feasible reductions in net expenditure will be included in the budget for 2025/26.

Other areas under review

8.5 The Asset Review to identify assets that do not deliver income or where increased income is achievable. The review has included lease reviews with the objective of optimising income. Where the review identifies an asset that does not fulfil its intended purpose or value for money, consideration must be given to an exit strategy for that asset including disposal.

8.6 To continue the review of reserves including renewals funds to determine appropriate levels and to free up resources to support higher level priority projects and to support the General Fund if required.

8.7 To review the capital programme to ensure that it remains affordable and aligned to the Council's priorities. This review will include capital reserves and the financing of the capital programme to ensure the most effective use of limited resources.

8.8 Continue with thematic reviews identified as part of the Transformation Plan and carry out service reviews to improve services and drive future efficiencies. These reviews are in early stages and will be reported to future Overview and Scrutiny and/or Cabinet meetings.

8.9 Where budgetary proposals identify the need for the reduction of, or closure or discontinuance of a service, appropriate consultation will need to be carried out. The Council will also have to have due regard to the public sector equality duty under section 149 of the Equality Act 2010 in making their decisions. The equalities impact will be addressed on proposals as they are developed. Budget consultation will begin once the Strategy has been approved.

9. Capital Funding

9.1 Future bids for capital should be prioritised on expenditure required to maintain the Council's assets, for example for environmental obligations such as flood prevention and

for disabled facilities grants. In addition, bids can be for spend to save projects or spend to earn investment income but that such prioritisation should not preclude the initial consideration of capital projects that could deliver social value.

- 9.2 Due to commitments within the capital programme future large capital schemes are likely to result in the need for borrowing. Borrowing must be avoided where possible to due to the adverse revenue implications (interest and MRP).
- 9.3 The capital programme will be reviewed to ensure that it remains affordable and aligned with the Council's priorities. Capital resources are extremely limited and consideration must be given to asset disposal to generate capital receipts.

Asset Review

- 9.4 A corporate asset review has commenced with the aim of assessing performance (which assets do not deliver income or where increased income is achievable). The review also covers the cost of holding an asset and whether the Council can afford to hold the asset; lease renewals and rent reviews (potential to optimise income); and assets let at less than best consideration. Where the review identifies an asset that does not fulfil its intended purpose or value for money consideration must be given to an exit strategy for that asset. Disposal policy to generate capital receipts to support the capital programme and to avoid the cost of borrowing. The Corporate Asset Board receives regular updates.

10. Risk Management

- 10.1 The key risks for the Council highlighted in this report is the future funding provided by the Government for both revenue and capital spending. In the short term in the formula used to distribute the additional funding identified as part of the Autumn Budget could be an opportunity resulting in additional short term finance based on need and deprivation. In the longer term, phase two of the funding review, could be the reset of business rates.
- 10.2 There remains a significant risk that the increase in net expenditure on homelessness continues to increase as demand and costs continue to increase and there is not sufficient grant funding to make up the difference. The forecast does not make allowance for homelessness arising out of the Chagossian British Overseas Territories Citizens and asylum dispersal issues as it is assumed that this will continue to be met with New Burdens Funding. However, this is only guaranteed until March 2025 and the Council is yet to recover any claims. The cost of Temporary Accommodation poses significant risk to the financial resilience of the Council.
- 10.3 There will also be addition costs associated with the Climate Emergency Action Plan that will have to be factored into future budgets. This risk will be managed through careful bidding for external funding and the identification for match funding like Community Infrastructure Levy (CIL).
- 10.4 The announcement of a 3 year settlement from 2026/27, to be announced in Spring, 2025 will add some certainty for future budgets but the level of core funding is likely to decrease.
- 10.5 The additional funding for the Extended Producer Responsibility ERP from January 2025 should provide additional funding but there is no certainty over the mechanism or amount. The amount once known will be guaranteed for 2025/26.

11. Background Papers

[2024-2025 Budget Monitoring Quarter 1 FIN/665](#)

[Budget Strategy 2024/25 – 2026/27 FIN/636](#)

[2024-2025 Budget and Council Tax.pdf](#)

[Amendment to Budget Report 2024-25 FIN650](#)

[Financial Outturn 2023-2024: Budget Monitoring - Quarter 4 FIN/658](#)

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