County Council

Date: Thursday 6 February 2025
Time: 10.00 am
Venue: Council Chamber, Shire Hall

Final 2025-26 Revenue Resolution

2025/26 Revenue Budget Resolution

Recommendations to County Council

The County Council is recommended to plan its budget framework for 2025/26 on the following basis:

1. Financial Direction of Travel

1.1. We plan our budgets over the medium term, ensuring we have a clear financial strategy that underpins the delivery of the outcomes we set out in our Council Plan. The decisions we make will ensure Warwickshire's finances are robust and sustainable whilst being ambitious in our plans to make Warwickshire the best it can be, now and for future generations.

1.2. This budget is recommended in the wake of significant headwinds from both pressures and demand which the council has been able to navigate successfully as a result of our financial resilience and long-term decision-making. However, considerable uncertainty, and both risk and opportunity, remain in terms of changes likely to flow from devolution, funding reform and policy changes in areas such as Adult Social Care and Special Education Needs & Disabilities. This responsible budget maintains our long-term resilience and sustainability, and leaves some headroom to deal with these uncertainties.

1.3. We will sustainably tackle the major financial and demand challenges we continue to face as demand for services continues to rise much more quickly than our resources. We will respond to the demographic growth in adult social care, the increasing numbers of children and families needing support, Special Educational Needs and Disabilities (SEND), home to school transport and delivering on the challenges of climate change and commitment to strive to have net zero carbon emissions by 2030. We will do this by resourcing the additional costs we face now whilst retaining sufficient capacity to invest to be more efficient and effective in the future. We will use our investment funds to drive cost reductions through investment in digital technologies and data, reducing demand through targeted prevention activity, adopting more commercial approaches setting financial returns and payback periods for our investments and continuing to support investment that provides for a buoyant taxbase.

1.4. The way we do this will recognise the need to retain flexibility in what is an uncertain and rapidly changing economic and political environment dominated by fundamental financial uncertainties and a hugely challenging economic situation over both the short and medium term. In addition, global conflict and political change is increasing economic uncertainty. We are faced with continuing inflationary risk and relatively high interest rates, predictions of low levels of economic growth alongside the uncertain timing and impacts of key national policy choices including adult and children's social care reform, reform of the broken SEND system, achieving health and social care intervention and the funding reform of local authorities. We continue to see rising demand for our services as households and communities struggle with the impacts of inflation and the rising costs of living.

1.5. We are confident our approach of ensuring our financial resilience and medium-term financial sustainability, whilst focussing relentlessly on our major challenges, has placed the Authority in a relatively strong position to respond to the uncertainty and challenges ahead.

1.6. We will remain robust and ambitious in setting both next year's budget and our medium-term financial strategy (MTFS), with a focus on the Council's three priorities and outcomes for residents, communities and businesses across the County, and maintaining the Council's financial resilience and sustainability. Given that current economic, political and financial uncertainties remain we will continue to look for efficiencies to drive better value for money for our taxpayers. We will invest our resources to ensure:

- Warwickshire is a county where all people can live their best lives; where communities and individuals are supported to live safely, healthily, happily and independently;
- Warwickshire has a thriving economy and places that have the right jobs, training, skills and infrastructure; and
- Warwickshire is a county with a sustainable future so our generation ensures future generations can live well and reap the benefits of a sustainable and thriving Warwickshire.

1.7. We have had to make difficult decisions and choices in developing these proposals. We have not taken decisions to address the short-term challenges we face in a way that undermines our financial sustainability over the medium-term or leaves financial gaps without specific savings plans which would need to be closed in future years. We have recognised that our plans, whilst remaining robust and ambitious, also need to be flexible to handle most plausible scenarios as far as possible in such a complex and volatile environment.

1.8. To ensure the finances of the Council are robust and sustainable we will:

- Invest £46.8m to protect our elderly citizens and vulnerable adults to fund additional demand and manage the cost of placements whilst continuing to make progress on our vision of greater integration between health and social care and the adult social care reform agenda;
- Directly invest £8.1m in our children's social care services, including investment of £5.5m for the increased cost and demand for children's placements; and
- Invest £7.4m in home to school transport to ensure we continue to provide services in line with our policy whilst being able to respond to the increasing demand and cost of the service, which has been particularly impacted by inflation and the growth in the number of pupils with special educational needs and disabilities (SEND).

1.9. We will continue to support the delivery of the 2025 business plans of the Warwickshire Property and Development Group and its joint venture, Develop Warwickshire, and the Warwickshire Investment Fund. We will meet the short-term cost of ensuring there is sufficient capacity to manage the financial and commercial risks from these initiatives through the Commercial Risk Reserve in the first instance.

1.10. We have protected our Revenue Investment Fund which stands at £11.9m. We intend to maintain the approach adopted over recent years of investing our short-term resources to support the priorities of the Council Plan, the Council Delivery Plan and to invest in Warwickshire's future. We are determined to make the best use of the funding we have available, ensuring investments are supported by robust business cases and realise benefits and help address the long-term issues of growing demand for the services we provide to vulnerable residents and the structural failures in the market for these services. Our Revenue Investment Fund will be used for invest to save initiatives which support delivery of the Council's priorities through:

- Prevention, early intervention and long-term cost reduction and demand management
- Innovation and cost reduction through digital, data and process redesign
- Commercial approaches in line with the Council's commercial strategy

1.11. Through the use of the Revenue Investment Fund we expect the Chief Executive to continue to drive forward our internal organisational change programme, investing in ways to be more efficient and effective in maximising outcomes from local and national taxpayers' money, by driving savings/headcount reduction through digital, data and automation, setting financial return and pay-back periods for invest-to-save proposals and rationalising the County's estate, to meet the changing needs of our communities and the cost-effective delivery of services.

1.12. We will deliver £21.8m of budget reductions in 2025/26, increasing to £79.6m by 2030, through better procurement, improvements in efficiency, increased income and delivering reductions in demand. We all use the services the County Council provides and will ensure they deliver value for money for the taxpayers of Warwickshire.

1.13. We acknowledge the need for an increase in local council tax, which amounts to 64% of our budget, excluding Dedicated Schools Grant, and is necessary to fund statutory duties in the main demand driven service areas like social care and home to school transport. In the absence of other funding options, we will use the opportunity provided by the Government to levy additional council tax of 4.99% (2.99% core council tax plus up to 2% adult social care levy), to provide resources to fund rising costs and demand for our services. This is equivalent to an increase of £1.67p per week for a Band D dwelling.

2. Adult Social Care

2.1. Adult social care is our highest spending service area, with Social Care and Support the highest spending service. In December 2024 the Government confirmed that local authorities could levy 2% on top of their normal council tax in 2025/26, with this additional funding to be ring-fenced for use in adult social care. We had not planned to take 2% of this flexibility when we set the 2024-29 MTFS in February 2024.

2.2. However, with additional Government funding not keeping pace with continued increases in demand and cost pressures we have faced since February 2024 means we have little choice other than to take the full 2% levy in 2025/26. We know that, both locally and nationally, adult social care is a top priority for citizens; we also recognise that taking the maximum 2% levy is an additional financial burden given the financial challenges for households across Warwickshire as a result of the rising cost of living. We would not be making this choice if there was an alternative that would still ensure we were able to deliver an adult social care service that meets our statutory responsibilities.

2.3. The budget being recommended provides for £46.8m demand and cost pressures in adult social care, including an allocation to fund the additional cost of provider inflation as a direct result of increases in National Living Wage and Employer National Insurance Contributions and means we will increase the resources available to deliver adult social care by at least the amount raised from the levy of £7.9m in 2025/26. However, demand (due to demographic factors with our population ageing rapidly) and cost is rising far more quickly than the resources we can raise from the levy, for a range of reasons, which is a fundamental financial challenge we face while we await national reform to put Adult Social Care on a sustainable long-term footing. Until then, we expect adult social care services to manage within the funding allocated in this resolution, including the additional funding provided by the Government through the Social Care Grant, Market Sustainability and Improvement Fund and the new Better Care Grant.

2.4. We will continue to work with partners to progress health and social care integration, promote healthier more independent lives for adults receiving care and support, facilitate a sustainable care market, and manage the extent of any emerging demand-led spending pressure, thereby reducing the level of savings needed.

2.5. We believe this approach provides the flexibility needed for adult social care services to continue to manage its resources in the most efficient and effective way. Our focus is the improvement of adult social care pathways and the enhancement of information and advice to enable people to shape their own solutions. We will use digital technology and automation to support the well-being and independence of customers and to prevent, reduce and delay needs for care and support, ensuring we make the most effective use of resources through our approach to the commissioning and procurement of services. This decision will protect Warwickshire's adult social care services at a time when the population is ageing, and there are severe pressures on the wider system of health and social care.

3. Dedicated Schools Grant

3.1. We continue to expect the cost of funding schools and relevant pupil-related services to be delivered within the level of the Dedicated Schools Grant (DSG). Our policy remains that we do not intend to subsidise the DSG from our own resources. This reflects longstanding national policy whereby Councils cannot use locally raised income to support costs of school provision without the permission of the Secretary of State. We will continue to allocate resources to schools and other educational settings in accordance with the National Funding Formula for schools and early years.

3.2. However, we recognise that meeting our policy aspirations in relation to SEND represents a fundamental risk to the MTFS and the Council's long-term financial sustainability and resilience due to the growing cumulative deficit in the SEND High Needs Block budget. Therefore, we expect the Authority to take advantage of the statutory override in 2025/26 to carry the cumulative deficit forward with the assumption that a clear way forward will be identified before the start of the 2026/27 financial year. With the cumulative deficit standing at £84.7m, and the annual deficit at £45.2m. Without a national solution, this Council's financial sustainability is in serious question, like the majority of upper tier councils.

3.3. We recognise that a robust and sustainable solution does not lie wholly at a local level. The magnitude of the numbers means that managing the impact of the SEND forecast deficit on the overall financial sustainability of the Council's finances is now unaffordable. Additional Government funding or fundamental system reform is urgently required. Working with others across Local Government we will continue to actively pursue opportunities to highlight the national systemic change needed before the statutory override ceases at the end of 2025/26, requiring a sustainable solution to be put in place. This Council has repeatedly lobbied successive Governments on this issue and the inappropriateness of the statutory override.

3.4. Despite these challenges, we will continue to work with schools and the Schools' Forum to identify and implement solutions to mitigate partially the pressures on the high needs budget and will continue with our plans to step-up our capital programme to invest in building capacity locally to increase the proportion of SEND children educated in mainstream settings as part of our Education Transformation Programme.

4. Revenue Allocations

4.1. To reflect the significant pressures on communities and the increasing demand for services we are responsible for, whilst ensuring we continue to develop so we can deliver the public services expected for the future, we are making allocations totalling £83.136m.

4.2. We will provide £33.961m for the estimated cost of pay and price inflation in 2025/26, allocated between Services as shown in **Appendix A**. In making this allocation it is acknowledged that the allocation to Services for inflation is an approximate cost, recognising that costs will increase at different rates. Once the overall allocation has been agreed, a Service will have the opportunity to allocate the funding provided to reflect where inflation will impact at a local level.

4.3. In addition to meeting the estimated cost of inflation we will also provide £49.175m to meet additional spending need, of which £4.880m is time-limited. Details of the allocations and how we expect the funding to be used are also detailed in **Appendix A** for permanent allocations and **Appendix B** for time-limited allocations.

4.4. Allocations for future years, as listed in Appendices A and B, are indicative at this stage. They are detailed as part of ensuring that our budget proposals are robust and sustainable over the medium-term. We require the need for, and level of, all these allocations to be reviewed as part of the 2026/27 MTFS refresh.

4.5. We expect Services to manage all other issues in 2025/26 from within existing financial resource levels and support the net planned use of £1.014m of earmarked reserves to provide capacity to invest in service change and to allow space to effectively implement service redesign/reprioritisation.

5. Funding Sources

5.1. Over recent years we have taken the decisions necessary so we can continue to provide services to the residents and communities of Warwickshire whilst continuing to innovate and invest in ensuring our services are fit for the future. We are financially resilient and hold reserves to manage financial risk and promote financial sustainability. However, we recognise the need to control the level of scarce resources held in reserves and refine our approach to managing reserves to maintain a proportionate, sustainable, flexible and risk-based approach.

5.2. Our approach to the effective use of reserves is set out in **Appendix C**. It provides for transparency and accountability around reserves and ensures the framework is in place to align decision-making around the use of reserves with the Council Plan. We will continue to consider the advice and recommendations of our Executive Director for Resources (Section 151 Officer) bi-annually as part of budget setting and after closing our accounts.

5.3. We will provide sufficient resources to ensure the level of General Reserves is at least consistent with that stated by the Executive Director for Resources as the minimum level of general reserves given the financial risks facing the authority. We will retain our Revenue Investment Fund to deliver our investment proposals over the period of the Medium-Term Financial Strategy and to develop the pipeline of further budget reductions.

5.4. Our plan for budget reductions will generate savings of £21.845m in 2025/26 and a further £57.791m over the period of the Medium-Term Financial Strategy. Approval is given to the plans for the delivery of these savings detailed in **Appendix D**. If during 2025/26 any of the budget reductions are not delivered in full, the Director in conjunction with their Executive Director and Portfolio Holder should identify alternative proposals to ensure the required reductions in expenditure are delivered. We will report on this as part of quarterly monitoring reports to Cabinet.

5.5. We will use £135.327m of Government grants to support the budget. Included within the roll-forward budgets are a number of other grants we receive from the

Government for specific purposes. Any variations to the levels of funding received will be matched by an equivalent adjustment in the budget for the respective service.

5.6. We will use business rates funding of £92.844m to support the overall budget of the County Council. We recognise that the level of income we will receive from business rates remains a material financial risk. In the event of business rates funding being above or below this level the Executive Director for Resources is authorised to make an adjustment to the Business Rates Volatility Reserve during 2025/26.

5.7. We will use £4.813m of reserves in 2025/26 to fund time-limited costs and budget allocations.

5.8. **The council tax will increase by 4.99% in 2025/26, comprising 2.99% core council tax and 2% adult social care levy**. With the other funding resources identified, this will fund the proposals contained within this resolution.

6. Medium Term Financial Strategy

6.1. We will continue to operate with a rolling five-year MTFS where we can demonstrate that the finances of the authority are allocated in accordance with the priorities of the organisation, that underpinning finances and service delivery remain robust and sustainable for the benefit of the residents, communities and businesses of Warwickshire. Although this approach is more challenging than budgeting over a shorter period, it provides the lead time to manage change effectively over the medium-term. We have a strong track record of delivering savings which has served us well as we have steered the Authority through challenging financial times. Looking forward we will be operating in an environment of increased uncertainty – in respect of funding, demand and inflationary pressures - as we strive to deliver on the three priorities and seven areas of focus set out in the Council Plan.

6.2. We recognise that changes to the system of Local Government finance and the increasing movement towards self-sufficiency means our financial planning processes will need to change as our income will become increasingly variable and unpredictable. In particular, the ongoing consultation on Local Government funding reform, which signals significant and higher Council Tax equalisation for Government grants, and a stronger focus on deprivation in allocating Government funding, presents a material risk to the Council and also increases our dependence on Council Tax to deliver services.

6.3. Alongside supporting residents, individuals and businesses, the current cost-of-living challenges, technological developments, changing national and international economic relationships and the long-term challenge of climate change also mean our plans need to be more flexible than ever and able to adapt to change at pace whilst retaining a focus on our longer-term goals and ambitions.

6.4. Our Council Plan sets out our ambitions and our operating model provides the framework to deliver them. Our Council Delivery Plan to 2026, which we approved in April 2024 sets out our rolling two-year programme of deliverables against the strategic ambitions set out in the Council Plan and consistent with the available resources of the authority as set out in this resolution and the accompanying capital resolution.

6.5. The indicative future spending allocations and planned reductions we have set out deliver a balanced MTFS over the period of the Council Plan. After 2025/26 this requires us to maintain a 4.99% annual increase in the council tax (as latest OBR projections suggest). We accept that if future spending needs exceed the indicative levels, further budget reductions will need to be identified and delivered, unless a referendum is held, or the Government increases the future referendum limits.

6.6. We expect the focus of change to be on invest-to-save projects that will release the resources needed to invest in our ambitions. We require services to focus on the preventative agenda to better meet need and further improve the Council's value for money. Investment decisions should be based on a more commercial approach with greater clarity about the measurable benefits to be delivered and how these make a material contribution to the delivery of the areas of focus in the Council Plan. This work should drive the options for further budget reductions over the period of the MTFS.

6.7. We expect the MTFS to reflect on and respond to the Council's key strategic risks of:

- economic growth and inequalities across communities;
- a mismatch between demand and resources;
- keeping children and vulnerable adults safe;
- progress towards Sustainable Futures;
- operational service delivery failure;
- workforce skills and experience;
- cyber-attack;
- maintaining a safe environment; and
- governance.

6.8. We recognise our MTFS means significant challenges for the organisation, including the changing way in which people want to access services. Our proposals recognise that this will take time and investment and broad engagement with all those affected, both inside and outside the organisation. Our MTFS requires the use of £7.0m of reserves, including £4.813m in 2025/26. The availability of this level of reserves is consistent with our Reserves Strategy, attached at **Appendix C**.

6.9. Whilst we have an excellent track record of delivering savings, the level of cost and demand pressures has meant this has become more difficult during 2024/25. We are asking officers to develop thresholds for the maintenance or lifting of current spending controls, and will oversee progress through regular reports both to Cabinet and Overview and Scrutiny Committees.

6.10. A summary of our MTFS, demonstrating how we plan to balance our spending needs and resources over the medium term is shown in **Appendix E**.

7. Executive Director for Resources: Statement

7.1. The following statement from the Executive Director for Resources (s151 officer) is noted:

"The 2003 Local Government Act places specific responsibilities on me, as "Chief Financial Officer", to report on the robustness of the budget and the adequacy of proposed financial reserves when the authority is considering its budget requirement. The Council is required to have regard to this report when it sets the budget. There are a range of other safeguards that I must also consider to prevent the Local Authority from over committing itself financially, including:

- *the balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992); and*
- *the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs (section 151 of the Local Government Act 1972).*

The external auditors have assessed the Council positively in terms of its financial sustainability and governance concluding the Council is performing strongly in terms of its financial planning and management with good processes in place for the monitoring of risks, ensuring standards, behaviour and effective decision-making, and green ratings for Financial Sustainability, Governance and Value for Money. This strong financial track record provides a robust starting point from within which the 2025/26 budget and MTFS has been developed.

However, the Council has seen material overspends forecast in 2024/25 as demand and cost increases outstrip the allocations made in the budget set in February 2024, and a material shortfall in delivery of planned savings. As a result the 2025/26 budget and MTFS refresh has to incorporate the medium-term implications of this position in an environment *which continues to be dominated by fundamental financial uncertainties arising from the current, significant inflationary pressures (labour, supplies and services), global conflict, shortages of labour and low predicted levels of economic growth. The consequent impacts of these factors affect both the cost of services the Council delivers and rising demand for services as households and communities struggle with the impacts of inflation and the rising cost of living.*

The key assumptions for the 2025/26 budget and MTFS in this resolution are:

- *a 4.99% council tax increase in 2025/26 and a planning assumption of a 4.99% annual increase in future years;*
- *a 1.70% increase in the council tax taxbase for 2025/26, a 1.65% increase for 2026/27, increasing to 1.75% for the last three years;*
- *cash flat Government grants for the period of the MTFS;*
- *a 2% annual uplift in income from business rates, with a flat taxbase;*
- *a 2% provision for general price inflation each year, a 2.8% provision for the pending 2025/26 pay award (with 2.5% for two years thereafter before returning to 2% from 2028/29) plus additional specific inflationary increases for services above this where known, totalling £92.8m over the five years of the MTFS;*
- *provision for specific spending pressures of £129.8m plus £38.8m for future unknown or unquantified spending need;*
- *a programme of budget reductions totalling £79.6m to be delivered in the next five years; and*
- *the use of £7.0m reserves.*

The budget information used in preparing this budget resolution has undergone extensive scrutiny by:

- *Directors and their staff;*
- *Staff within the Finance Service; and*
- *Corporate Board.*

In addition to this I have worked closely with members and all political groups in preparing this budget resolution.

In overall terms I am of the view that this revenue budget has been prepared on realistic assumptions in an uncertain environment and that as such it represents a robust, albeit challenging, budget.

Nevertheless, the uncertainties of the economic and funding environment mean that there are significant risks facing the Authority in delivering a balanced budget. In fulfilling the various responsibilities placed on me as Chief Financial Officer, I have set out below, what I see as the key risks associated with the proposed budget and how they can be managed, so that Members are clear on the risks associated with these budget proposals when making their budget decision.

Risk 1 – Dedicated Schools Grant Deficits

This is Warwickshire County Council's largest financial risk and I cannot overstate the importance of an urgent, sustainable and just national resolution to a situation which is the direct result of national decisions. Like the majority of upper tier councils, this material and serious financial risk to the Authority has continued as a result of national policy decisions about the SEND system which have been materially underfunded and then sidestepped through the statutory override. Local authorities are not permitted to fund any part of the DSG deficit without the authorisation of the Secretary of State, in the absence of extra Government funding to resource any deficit. This has been mitigated by planning to use the DSG Statutory Override to offset the projected deficit in 2025/26, but this provides neither a long-term solution nor removes the need to identify options for bringing spending into line with the level of DSG received. However, in the absence of a national solution, the underlying financial position is deteriorating as demand increases. There continues to be a growing structural deficit in the High Needs DSG, with the accumulated deficit forecast to be £84.7m by the end of 2025/26.

The Authority has been working with the Department for Education (DfE) as part of their "Delivering Best Value" in SEND programme with authorities across the country to identify options for bringing about the required change to delivering statutory duties within allocated resources. The outputs from this work, undertaken by independent experts appointed by Government, concluded that the proposed interventions, if all were successfully delivered, are unlikely to fully remove the structural deficit; even more seriously, the deficit would continue to increase rapidly to unsustainable levels. Government has provided some additional funds for 2025/26 which is welcome but both locally and nationally this only offsets about 25% of the projected deficit. The key changes being implemented through the Education Transformation Programme will not generate sufficient underspends to repay the accumulated deficit, which will continue to grow even if all recommendations are successfully implemented. The key planned intervention requires significant capital investment in the expansion of resource provision in mainstream schools but a sustainable national solution is urgently required, which compensates councils fully for accumulated deficits arising from Government policy and resets the system on a sustainable basis to remove further in-year deficits.

The Government has put in place a statutory override until March 2026 that means that authorities do not have to make good their accumulated deficit until this point. However, unless there are material levels of additional resources provided by the Government and/or fundamental system changes at a national level, it is not affordable for the Authority to make any further provision to mitigate the deficit beyond 2024/25. The financial assumption in this budget is that the Authority will take advantage of the statutory override from April 2025 onwards while awaiting Government's long-term reforms to reset the system, deal with deficits and remove the statutory override. Without a financially *sustainable solution this magnifies the Authority's underlying financial risk and sustainability.*

This statement is drafted on the assumption that Government will find a solution towards dealing with (and accounting for) the accumulated deficit prior to the end of 2025/26, when the current statutory override is due to end. That is a considerable financial risk, and if a resolution to this is not forthcoming (in the financial year 2025/26) then the financial viability of the Council would need to be reconsidered. A resolution to put local authorities back on a sustainable footing should look to repay cumulative DSG deficits up to March 2026 and reset the system from thereafter whereby costs align to the levels of grant.

Risk 2 – Demand Growth Risk

The Council continues to face growth in demand for services, particularly care services and education, at a faster rate than the general pace of demographic change. Whilst the assumptions unpinning the demand-led allocations in this resolution for 2025/26 and the level of provision for demand growth over the remaining four years of the MTFS are based on the latest available information, whether they are sufficient remains a risk. This risk is compounded by 22% of the savings plan being linked to demand management, primarily in adult social care. Arrangements will need to be put in place to monitor the rate of growth in demand relative to the assumptions made and whether any upwards variation can be accommodated within the £38.8m set aside in the MTFS for future unknown and unquantified spending pressures. If demand growth in excess of this provision does occur, and in the absence of long-term reform of the funding of adult social care, there will be a need to consider further budget reductions.

Risk 3 – Funding Risk

The council is facing numerous continued and emerging funding risks, including those linked to recently announced plans for Local Government funding reform and a business rates reset, the future impact of council tax growth and flexibilities, and the impact of cumulative DSG deficits on the council's cash and Balance Sheet position.

3a - Uncertainty of the National Funding Position

There is uncertainty around the national funding position for Local Government, with another one-year Settlement for 2025/26 ahead of the move to multi-year settlements from 2026/27. Multi-year settlements will be an extremely welcome change following a decade of single-year settlements. However, changes in the funding formula present a material risk to the MTFS.

This current lack of long-term certainty and risk of reduced funding from Government means we need to maintain a high level of general and risk reserves and may face more significant revenue and service pressures until a multi-year spending review is received.

The Local Government Finance Settlement confirmed announcements in the Chancellor's 2024 Autumn Budget that Local Government Funding Reform and the business rates reset would be implemented from 2026/27. The Government has committed to pursuing a "comprehensive set of reforms to return the sector to a sustainable position. This will include reform of the approach to allocating funding through the Local Government Finance Settlement, starting with a targeted approach to allocating additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026-27". Looking ahead, the Government is committed to "reforming the approach to funding allocations within the Local Government Finance Settlement by redistributing funding to ensure that it reflects an up-to-date assessment of need and local revenues." The Government will also simplify the wider local funding landscape, reducing the number of grants and consolidating them into the Local Government Finance Settlement

These reforms may result in the level of our Government funding increasing or decreasing compared to 2025/26 levels, due to two main factors: stronger council tax equalisation and a heavy weighting on deprivation in funding formulae, both of which impacted on this Council receiving none of the new Recovery Grant for 2025/26. This risk increases the importance of maintaining reserves to manage any volatility and there may be a need to identify additional budget reductions in future years.

The 2025/26 provisional Local Government Finance Settlement did include significant levels of additional grant funding for social care. In allocating this funding between authorities the Government took into account the differing capacity of authorities to generate additional council tax income and their relative levels of deprivation. There is a risk to the Authority's financial sustainability if this approach to allocating funding is extended to other new and existing funding streams.

3b - Council Tax

The Office of Budget Responsibility's forecast, published alongside the Autumn Budget 2024, is for the 2.99% core council tax uplift plus a 2% adult social care levy for each year of the MTFS period. The Government's position on any referendum limits beyond 2025/26 has not been formally clarified. It is therefore a risk-based choice for any local authority to use some/all of the potential headroom from a higher council tax increase in 2026/27 and beyond.

Officers have set out for Members their options to use some of the potential (but unconfirmed) future council tax flexibility and still approve a budget and MTFS that is both balanced and sustainable but does not increase financial risk to beyond what is prudent.

This resolution assumes the Council will have to take advantage of the assumed level of future council tax flexibility set out. It does not rely on any of this potential future flexibility in setting a balanced budget for 2025/26. It also recognises that if future council tax flexibility is lower than assumed there will be a need to identify additional budget reductions.

The impact of inflation, high interest rates and cost of living pressures continues to create downward pressure on both the affordability of housing and the pace of construction of new homes. This resolution recognises the uncertainty about how quickly the pace of housing growth will recover. The MTFS is built on the rate of housing growth remaining at 1.65% up to 2026/27 before increasing to 1.75% for the remaining three years of the MTFS. These assumptions are subject to review as part of the annual MTFS refresh but provide for a robust, prudent and sustainable basis for financial planning at this time.

3c – Business Rates

The upcoming reforms to Local Government funding include the first business rates retention reset since the system was introduced in 2013/24, effective from 2026/27, which risks reducing the quantum of business rates the council retains back to MHCLG determined baseline levels. Due to growth in the business rates taxbase since 2013/24, business rates income is currently £22.2m above the current business rates funding baseline determined by MHCLG. An earmarked reserve of £29.0m is held in recognition of this risk to manage any potential transition. Further detail around the delivery of a Reset and the methodology of updating Business Rates Baselines will be included in a forthcoming technical consultation to be published in early 2025. The detailed approach to the reset and its implications for this Council will need to be factored into the 2026/27 budget and MTFS refresh.

The Local Government funding reform and business rates reset, when implemented, may result in the level of our Government funding increasing or decreasing compared to 2025/26 levels for the remainder of the MTFS. Therefore, these reforms represent a significant risk for years 2-5 of the MTFS. Any gains from Local Government funding reform, when known, would be available to support the MTFS in the relevant year. Any losses would mean there may be a need to identify additional savings in future years.

3d - Treasury Management

The level of interest receipts and return on Treasury Management activities and borrowing costs are subject to market rates. Members are advised of this risk each year, and this is mitigated by application of the Council's annual Treasury Management Strategy, which is informed by specialist external advice. However, actual interest returns/costs are determined by a variety of factors largely outside the Council's control.

The capital programme includes investment in the Warwickshire Property and Development Group and the Warwickshire Investment Fund which has created additional financial risk, and an increase in borrowing, for the Council from the associated treasury management and investment activity. These risks have been mitigated as far as possible through the governance arrangements that have been put in place, but the risk cannot be completely removed. Collectively the proposals will see a material increase in the Council's borrowing and, alongside the significant use of reserves proposed in the Medium-Term

Financial Strategy, this will increase the requirement to ensure we have sufficient liquid cash balances to manage our day-to-day activity. A specific commercial risk reserve has been set up to mitigate these risks. The current balance is £7.1m.

Collectively these approaches will mean decision-making will need to continue to take a broader range of financial risk criteria into account. Further detail on how we do this is set out in Appendix B to the 2025/26 capital budget resolution.

Our treasury management activity is determined by a combination of available cash balances, capital investment plans, and more recently the significant cumulative SEND deficit which, despite the statutory accounting override protecting the revenue budget, is applying serious downward pressure on the authority's cash balances. This is rapidly bringing forward the authority's need to undertake new external borrowing to finance the capital programme. The move to increase external borrowing is planned and provided for within the MTFS, however, national/global events have demonstrated how volatile interest rates can be which will require close management of interest rate risks on our planned borrowing. How we manage this risk is detailed in the Council's Treasury Management & Investment Strategy.

Risk 4 – Workforce Risk
The Council is faced with significant workforce risks, similar to the position being experienced by other local authorities. While retention has improved, including of some of the areas of highest risk highlighted previously, effective strategic workforce planning is essential to manage the shortage of supply, particularly in some key service areas including social care, planning and finance, and the loss of key staff particularly through retirement. This is compounded by evidence that pay levels and pay scales are becoming a growing risk, particularly with other parts of the public sector receiving more generous pay awards than Local Government.

The Local Government Finance Settlement confirmed that the compensation to local authorities from the Chancellor's increase in Employer National Insurance Contributions will be allocated as a grant based on existing local authority net expenditure data rather than being compensated for the actual increase in direct costs of the National Insurance changes. Initial modelling of this mechanism indicates the grant will be lower than the estimated additional direct cost to the Council. The Local Government Association estimates that councils need £637m against the £515m grant (80% funded). However, the specific dataset the Government is using is not complete and MHCLG is working with those councils who have not submitted data. Once updated this could potentially reduce the grant to around 75% funded leaving a £1.2m shortfall for the council. Individual authority allocations will be confirmed in the 'Final' Local Government Finance Settlement in January.

A fundamental additional inequity is that Councils which commission many of their services are significantly disadvantaged as the impacts of the National Insurance changes on *commissioned services are not compensated, yet councils providing services in-house are. In Warwickshire's case, there is a £7m impact in Adult Social Care alone which largely utilises the 2% adult social care precept, with limited scope to use the precept for other purposes such as service improvements and meeting the costs of significantly increased demand.*

Recent announcements by Pay Review bodies elsewhere in the public sector recommended a 2.8% pay award for teachers, NHS staff and senior civil servants in 2025/26. Together with latest CPI inflation projections suggesting rates may remain higher than target for longer it is prudent to uplift the provision for future pay awards above the planning assumption of 2% set in February 2024. A pay award of 2.8% in 2025/26 for WCC employees will cost a further £0.704m per year. Expectations are that inflation will return to the Bank of England target over the medium-term but that may take several years and therefore a cautious approach to pay inflation tapering back down to 2% by 2028/29 suggests a provision of 2.5% in 2026/27 and 2027/28 would be prudent. This requires annual allocations of £0.648m and £0.686m in each of these years, which are reflected in this resolution. Should pay awards be higher than these increased assumptions, costs would need to be met from the provision for future pressures, reducing resources available to meet other demand-related pressures.

Risk 5 – Delivery of the Planned Budget Reductions
The planned budget reductions need to be fully implemented to ensure the Council's 2025/26 budget remains balanced and sustainable into the future. In an environment of high inflation, high and rapidly increasing demand pressures, significant change at national and local levels, and significant workforce challenges, delivery of the savings will remain challenging. To mitigate this risk:

- *Key policy changes associated with major savings proposals in 2025/26 have been identified;*
- *Directors, Executive Directors, the Chief Executive and Portfolio Holders have been charged with ensuring that processes are in place to ensure that the planned budget reductions are delivered to the required timetable;*
- *If the planned budget reductions are not delivered, Directors, Executive Directors, the Chief Executive and Portfolio Holders are required to identify alternative ways of balancing the Service and/or Directorate budgets; and*
- *Monitoring of the delivery of the planned budget reductions has been extended to include the monitoring of project delivery milestones to ensure decisions are taken in a timely manner and implementation timescales are met.*

Risk 6 – Inflationary Risk (non-pay)
The Authority continues to face significant inflationary risk as a result of supply/labour shortages and the general economic uncertainty. The direct and indirect impacts on the County Council are uncertain. The inflation provisions in this resolution are based on the Chancellor of the Exchequer's forecast that CPI inflation will now return to the long-term

objective of 2% by the end of 2029. If this forecast reduction in the rate of inflation does not happen and inflation remains higher for longer, or specific inflation on local authority costs persists longer, there is a risk as to whether it will lead to additional budget pressures in future years.

In addition to risks of pay inflation set out in risk 5, the planned budget reductions include contract management savings, reductions in third party spend and the delivery of small-scale efficiencies to absorb the impact of inflation on budgets that increase the risk of inflationary cost increases on financial sustainability over the medium-term.

There needs to be an awareness of additional inflationary costs as part of decision-making and potential additional costs need to be managed to ensure the Council's 2025/26 budget remains balanced and sustainable into the future. The risk has been mitigated through the allocations in this resolution, but the risk cannot be completely removed. To mitigate this risk:

- *The minimum general reserves provision includes a specific £4.5m provision for the risk of inflation, in addition to the £34.0m inflationary allocations to service budgets in 2025/26;*
- *Capital maintenance allocations are no longer strictly cash limited but have been uprated for inflation to 2026/27 and will be reviewed annually thereafter; and*
- *Enhanced budget monitoring arrangements have been introduced to require corrective action to be put in place as soon as any areas of overspending begin to emerge.*

Risk 7 – Affordability of the Capital Programme

Over the next 10 years the Authority expects a further increase in the total school age population (age 4-16) of over 5,000 more pupils as a result of the housing developments that have received planning permission or are building out at present.

This creates two critical risks – ensuring the capacity across the Authority to effectively plan and deliver school places in a timely way and then funding the required investment.

The investment to deliver sufficient school places cannot be delivered within the available levels of Government grant and developer contributions that have traditionally – and rightly - been used to fund these rather than them falling to council taxpayers. These additional school places will need to be funded by increasing the Council's debt and/or prioritising this investment relative to the Authority's plans to invest to grow Warwickshire's economy.

The plans set out in the accompanying 2025/26 capital budget resolution will help in ensuring the risk is met in a planned way. Nevertheless, the need to deliver the required school places in the absence of sufficient external funding will adversely impact on investment plans to meet the Council's ambitions in other services and require additional *borrowing, with the consequent additional capital financing costs, to be included in future MTFS refreshes.*

The impact of housing and population growth also creates additional pressure on local transport infrastructure. The previous Government had released provisional local authority allocations for the Local Transport Fund to fund a wide range of projects to improve the local transport connections that people rely on every day, particularly across towns, villages, and rural areas. However, confirmation on whether these allocations will continue under the new Government is yet to be received. If this funding is not realised then this will put additional pressure on the council's internal capital resources to invest in transport infrastructure.

The total value of the emerging capital investment pipeline, plus the risk of inflationary and general cost increases on existing capital schemes, suggests it would be prudent to increase the annual Capital Investment Fund allocation from the level set out in the December 2024 Cabinet paper. The recommendation on an adequate level annual Capital Investment Fund allocation has been increased from £15m per year to £18m per year from 2025/26.

The lack of capacity in the revenue budget to resource the additional revenue costs of taking out additional borrowing to fully fund all the Council's capital investment ambitions, combined with Government and developer contributions being insufficient to fully meet need, means that rigorous prioritisation of capital investment will continue. Therefore, consideration of allocations of funding from the Capital Investment Fund will continue to be made in line with the agreed prioritisation criteria.

Risk 8 – Impact of national policy changes

There are significant uncertainties around Government policy in terms of the current consultation on funding reform, both business rates and Council Tax, the future of the major reforms to the funding of adult social care, the long-term sustainability of SEND and support for children and families in light of the continued growth in demand and market failures, the Government's Net Zero strategy and planning reform and the potential impact of the English Devolution White Paper.

The uncertainty about the delayed adult social care reforms, and associated funding, is especially material, and will only be clarified by 2028 when the Casey Commission reports.

The level of uncertainty about key national policy issues makes it more important that the Council's financial plans enable it to respond flexibly to national changes.

Risk 9 – Impact on the Medium-Term Financial Strategy

The MTFS outlines the significant additional financial challenge to the authority in future years. The indicative future spending allocations and planned reductions deliver a balanced MTFS over the period of the Council Plan with a 2.99% increase in council tax plus 2% adult *social care levy in 2025/26 and a 4.99% annual increase in the council tax in future years. Without this level of increase in council tax, or if future spending needs exceeds the indicative levels, further budget reductions will need to be identified and delivered to ensure the budget remains sustainable. Given this challenge Members are advised it is important that decisions taken in agreeing the 2025/26 budget do not increase this financial risk. The commitment of Members to meet the financial challenges ahead and take the decisions needed to ensure the finances of the authority remain robust into the future remains crucial.*

I have also undertaken a risk analysis of the adequacy of financial reserves, taking account of the financial risks above. This highlighted the need to retain a minimum of £26.0 million in general reserves in 2025/26, in addition to the £160.9m held to manage specific risks and support the delivery of the Council Plan. This resolution makes provision for this level of reserves. I am therefore of the view that this budget does provide for an adequate level of reserves."

8. Summary of Service Estimates

8.1. Approval be given to the individual service net revenue estimates shown below, which will be finalised for the service estimates to be presented to Cabinet in April 2025 of:

	Base Budget £	Additional Investment £	Budget Reductions £	Funding Sources £	Total £
Children and Families	107,502,673	8,812,000	(1,592,000)		**114,722,673**
Education Services	192,626,792	2,151,000	(229,000)		**194,548,792**
Economy and Place	23,767,060	470,000	(749,000)		**23,488,060**
Environment, Planning and Transport	72,630,309	8,998,000	(1,518,000)		**80,110,309**
Fire and Rescue	26,639,704	471,000	(172,000)		**26,938,704**
Strategic Infrastructure & Climate Change	1,485,851	0	(48,000)		**1,437,851**
Health and Care Commissioning	8,835,200	348,000	(1,308,000)		**7,875,200**
Public Health	25,042,304	597,000	(359,000)		**25,280,304**
Social Care and Support	215,825,588	46,849,000	(12,518,000)		**250,156,588**
Enabling Services	27,252,338	2,066,000	(431,000)		**28,887,338**
Finance	9,204,178	295,000	(381,000)		**9,118,178**
Strategy, Planning and Governance	6,191,929	239,000	(103,000)		**6,327,929**
Workforce and Local Services	11,176,732	193,000	(277,000)		**11,092,732**
Corporate Services – spending	44,045,480	11,647,000	(2,160,000)		**53,532,480**
Corporate Services - schools and funding	(182,788,394)	0		(230,071,235)	**(412,859,629)**
	589,437,744	**83,136,000**	**(21,845,000)**	**(230,071,235)**	**420,657,509**
Contributions to/(from) reserves:					
- Earmarked Reserves	(1,013,634)				**(1,013,634)**
- General Reserves				(4,813,278)	**(4,813,278)**
Budget Requirement	**588,424,110**	**83,136,000**	**(21,845,000)**	**(234,884,513)**	**414,830,597**

9. Council Tax Requirement

9.1. Approval is given to a council tax requirement and a Band D Council Tax for the County Council for the year ending 31 March 2026 as follows:

	£
Budget Requirement	414,830,597.03
LESS Council Tax Surplus on Prior Year Collection	(1,567,194.00)
Council Tax Requirement for the year ended 31 March 2026	**413,263,403.03**
Divided by aggregate Council Tax Base for the County Area	226,700.35
Basic Amount of Council Tax (Band D)	**1,822.95**

10. Council Tax

10.1. The council tax for 2025/26 is increasing by 4.99%. Therefore, approval is given to Council Tax amounts for each category of property as follows:

	£
Band A	1,215.3000
Band B	1,417.8500
Band C	1,620.4000
Band D	1,822.9500
Band E	2,228.0500
Band F	2,633.1500
Band G	3,038.2500
Band H	3,645.9000

11. Precepts

11.1. The Chief Executive is authorised to issue the 2025/26 precepts on the Warwickshire billing authorities, as follows:

	£
North Warwickshire Borough Council	39,940,652.21
Nuneaton and Bedworth Borough Council	74,393,313.44
Rugby Borough Council	75,802,544.93
Stratford-on-Avon District Council	114,261,211.71
Warwick District Council	108,865,680.74

12. Budget Management

12.1. The Chief Executive is directly responsible for the implementation of the budget.

12.2. Cabinet will continue to receive quarterly reports on service performance, financial performance and progress on the delivery of the savings plans.

12.3. The Chief Executive and Executive Director for Resources are authorised to vire revenue budgets between Services where such virements are as a direct consequence of the specific spending allocations, delivery of the planned net reductions and funding strategies contained in this resolution and the accompanying capital budget resolution.

12.4. The Chief Executive and Executive Director for Resources, in consultation with the Leader, are authorised to reverse allocations made as part of this budget process where the investment does not progress.

12.5. The Chief Executive and Executive Director for Resources are authorised to draw down from reserves and vire money between reserves where these adjustments are as a direct consequence of the specific spending allocations, delivery of the planned budget reductions and funding strategies contained in this resolution and the accompanying capital budget resolution.

12.6. The Chief Executive and Executive Director for Resources are authorised to make the necessary budget adjustments to fund new responsibilities given to the County Council during the year, or where responsibility for services transfers out, up to the level of Government funding provided/withdrawn.

12.7. The Chief Executive is instructed to remind the Executive Directors, the Chief Fire Officer and Directors that budgets must not be overspent and that effective budget management arrangements should be the cornerstone of Services' work to secure value for money.

12.8. Services, and also schools, are encouraged to take a medium-term view of spending commitments and ensure a prudent approach is adopted in entering into initiatives which create commitments in future years and developing clear strategies for the utilisation of service reserves.

12.9. All member bodies, Members and officers are instructed to comply with the prescriptive legal duties placed upon the Council. The Chief Executive, Executive Directors, Chief Fire Officer and Directors are instructed to ensure that the implementation of policies complies with legal requirements.

12.10. Authority is given for all necessary tenders to be obtained and contracts to be completed to give effect to this budget, subject to compliance with Contract Standing Orders, Financial Regulations and the key decision regime.

13. Pay Policy

13.1. Section 38 of the Localism Act 2011 requires us, as a local authority to prepare and approve an annual pay policy statement by 31 March, immediately preceding the year to which it relates.

13.2. The pay policy statement must set out the authority's policies for the financial year relating to the remuneration of chief officers (which, in the case of the County Council, includes the Chief Executive, Executive Directors, Chief Fire Officer and Directors) and the remuneration of employees who are not chief officers.

13.3. Our pay policy statement that meets these statutory requirements is set out in **Appendix F**. The County Council agrees the application of these remuneration policies for the financial year 2025/26 and authorises the Chief Executive to amend the Pay Policy 2025/26 to reflect any outstanding pay awards, when agreed.