Cabinet

28 January 2025

2025/26 Budget and 2025-30 Medium Term Financial Strategy – Updated Information

Recommendations

That Cabinet:

1) note the latest resource and spending information, the advice and the impact on the emerging budget proposals presented in this report;

2) note the Executive Director for Resources' risk assessment on the level of general reserves, as detailed in Appendix A;

3) note the draft Capital Strategy, Technical Annex and Capital Programme, as detailed in Appendices B to D; and

4) publish, in light of the information provided, their 2025/26 budget resolutions for recommendation to Council on 6 February 2025.

1. Introduction and Background

1.1. The Cabinet meeting on 12 December 2024 considered a report outlining all the information underpinning the development of the 2025/26 budget and 2025-30 Medium Term Financial Strategy (MTFS) alongside options from Corporate Board as to what should/could be funded and/or reduced to enable a balanced budget for 2025/26 to be agreed.

1.2. The proposals focussed on ensuring the Authority remains robust, ambitious and resilient in setting the MTFS, given the economic uncertainties that will continue to exist. As of December this meant that the budget for 2025/26 was balanced with a 4.99% council tax increase including a 2% adult social care precept in 2025/26 but that sustainability over the period of the MTFS required a combination of taking the maximum assumed council tax flexibility of 4.99% in each year of the MTFS plus a material programme of budget reduction options.

1.3. The budget for 2025/26 is a refresh of the five-year rolling MTFS approved in February 2024, with an additional year added, that will continue to align the resources of the Authority to the objectives and ambitions set out in the Council Plan. The use of a rolling MTFS ensures plans for the use of resources are responsive to changes in the context within which the Authority is operating, something that has been critical during 2024/25 as we continue to be dominated by rapidly rising demand and unit costs for statutory services as households and communities struggle with higher inflation and interest rates, and the rising cost of living.

1.4. The key assumptions underpinning the options presented to Cabinet on 12 December 2024, were:

- a 2.99% increase in the basic level of council tax in 2025/26 and 2.99% for the remaining four years of the MTFS;
- a 2% adult social care precept in 2025/26 and each year to 2029/30;
- a 2% provision for pay inflation and 2% for price inflation in 2025/26 with both assuming a 2% annual uplift over the medium term plus a provision for contractual commitments above this level, collectively estimated to cost £33.257m in 2025/26 and £90.726m over the period of the MTFS;
- on-going allocations of £38.729m and time-limited allocations of £4.880m in 2025/26 to meet the growing demand and cost pressures, with indicative further allocations in future years bringing the investment over the period of the MTFS to £164.853m and £6.036m respectively;
- using the DSG Statutory Override for 2025/26 to provide financial cover for the gap between the Dedicated Schools Grant (DSG) funding for pupils with Special Educational Needs and Disabilities (SEND) and the estimated level of spend, with no provision to set aside further resources to underwrite the DSG deficit in 2025/26 in the absence of clarity from Government about future arrangements to make good the cumulative deficit; this is a major national issue, and the uncertainty about what will happen to DSG deficits after the statutory override ends in March 2026 represents the key risk for the MTFS;
- budget balancing options of £79.994m that will help ensure the Council remains financially sustainable and resilient over the medium-term; and
- a reserves strategy that balances retaining sufficient resources to manage financial risk whilst identifying £12.148m of reserves that could be made available to support the MTFS, through controlling the amount of the Council’s scarce resources held in reserves.

1.5. These proposals were based on the best information available at the time. In a number of areas final information was either unknown or has changed over the intervening period. These areas are:

- the provisional Local Government Finance Settlement and other Government funding announcements;
- the impact in 2025/26 of the 2024/25 Quarter 3 forecast outturn as part of the quarterly budget monitoring reported elsewhere on today's agenda;
- the level of business rates expected to be generated locally in 2025/26;
- the council tax taxbase for 2025/26;
- the surplus/deficit on council tax collection from previous years;
- the sustainability of schools and the proposals for use of the Dedicated Schools Grant (DSG) in 2025/26; and
- the latest reserves forecasts and the impact of the Executive Director for Resources' reserves risk assessment.

1.6. The December Cabinet report also set out how the Office for Budget Responsibility's forecasts, published alongside the Autumn Budget 2024, included an assumption that on average Council Tax will increase nationally by an average of 4.8% a year over the MTFS period. These forecasts suggest that further Council Tax flexibility beyond 2025/26, either core or through the extension of the adult social care precept, is likely.

1.7. This report updates members on the latest information for each of these areas. It sets out a framework for a risk-based approach to incorporating the potential Council Tax flexibility that will mean the MTFS remains both balanced and sustainable but does not increase the Council's financial risk to beyond what is prudent. In doing so the report provides Cabinet with the opportunity to issue their 2025/26 revenue and capital budget resolutions.

2. Impact of the Local Government Finance Settlement

2.1. The provisional Local Government Finance Settlement was announced on 18 December 2024, with all Members provided with a briefing the same day. Much of the detail in the Settlement confirmed things already built into the resource figures included in the December Cabinet report. The recent trend has continued, with the Local Government Finance Settlement remaining a one-year settlement. This means the authority is not benefitting from the additional financial certainty a multi-year settlement would have provided but the Government has committed to multi-year funding settlements from 2026-27 as part of a series of much wider reforms to Local Government funding, which are the subject of an ongoing consultation, Local Authority Funding Reform Objectives and Principles.

2.2. There were several elements of the announcement that had an impact on the financial position reported to Members earlier in December. The Settlement confirmed an additional **£2.421m** more in Government grants in 2025/26 than contained within the estimates in the December Cabinet report, comprised as follows:

- Social Care Grant **(+£1.853m)**
- Domestic Abuse Grant **(+£0.267m)**
- Childrens Social Care Prevention Grant **(+£0.210m)**
- Revenue Support Grant **(+£0.146m)**
- New Homes Bonus **(-£0.055m)**

2.3. However, the Council received none of the new allocated £600m Recovery Grant announced as part of the Local Government Finance Policy Statement in November 2024. The distribution methodology used for this grant, using deprivation indexes as a proxy, demonstrates the risk of the future funding reforms for the council.

2.4. The Settlement confirmed the Employer National Insurance Contributions compensation 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.

2.5. 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 are 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.

2.6. Therefore, the net benefit to the Council from the settlement, subject to confirmation of the Employer National Insurance Contributions compensation, is additional resources in 2025/26 of £1.220m.

2.7. Separately, the settlement confirmed the New Homes Bonus grant is to be fully withdrawn from 2026/27, with 2025/26 being the final year of receiving this income. This was anticipated and was reflected in the December Cabinet position.

2.8. The Settlement also 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.

2.9. The reforms 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 receives back to 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.

2.10. 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.

Social Care Grants

2.11. The Authority will receive £76.062m of social care grants in 2025/26 that form part of the Local Government Finance Settlement (an increase of £7.8m from 2024/25). Each comes with a different distribution methodology and more or less stringent grant conditions. However, the allocations move some way towards the Government's commitment to simplify the funding landscape through fewer grants, which has seen some social care grants combined in 2025/26 with others to be combined in 2026/27.

2.12. The new Better Care Grant combines the previous Improved Better Care Fund and Adult Social Care Discharge Fund. The new Children's Social Care Prevention Grant has been included in the 2025/26 Settlement for the first time. From 2026/27 this grant will become part of a new Children and Families Grant which will be rolled in with several existing service grants.

2.13. The spending allocations included in the proposals in the December Cabinet report are sufficient, even after netting off the savings options, to comply with the grant conditions for the amount of additional funding going into social care from both the settlement and adult social care precept.

3. Local Taxation

Council Tax

3.1. In the December Cabinet report the recommendations were based on an increase in the taxbase of 1.65% in 2025/26. The districts/boroughs have now confirmed their council tax base for 2025/26 and these are showing a year-on-year increase of 1.68%. In terms of actual numbers of households it is 76.57 Band D equivalent properties higher than estimated in the December Cabinet report and will generate an increase in on-going resource of £0.140m for 2025/26 if Council Tax is increased by 4.99%. The breakdown of the 2025/26 taxbase across the districts/boroughs is shown in Table 2.

Table 2: A Comparison of the 2024/25 and 2025/26 Council Tax Taxbase

	2024/25 Taxbase Band D Properties	2025/26 Taxbase Band D Properties	Variation Band D Properties	Variation %
North Warwickshire	21,869.06	21,909.90	40.84	0.19%
Nuneaton and Bedworth	40,085.80	40,809.30	723.50	1.80%
Rugby	40,975.91	41,582.35	606.44	1.48%
Stratford-on-Avon	61,704.13	62,679.29	975.16	1.58%
Warwick*	58,280.77	59,689.51	1,408.74	2.42%
Total	**222,915.67**	**226,670.35**	**3,754.68**	**1.68%**

****subject to formal confirmation at time of publication***

3.2. However, as has been raised in previous reports on the MTFS, the level of uncertainty over the future taxbase remains high. Of particular concern is the potential impact on future taxbase growth from any downturn in the housing market as a result of continued increases in construction costs, affordability risks from higher interest rates and wider inflation/cost of living impacts. The MTFS assumes taxbase growth beyond 2025/26 will remain at 1.65% for 2026/27 before rising to 1.75% annual growth from 2027/28. There is a risk that if growth in the housing market does not follow these projections this will reduce the resources available to support the 2026/27 MTFS refresh.

Business Rates

3.3. The partial localisation of business rates is still volatile with annual changes to the schemes of discounts and allowances continuing to make it difficult to make any realistic assumption about the likely level of income. This continues to be exacerbated by the range of grants and reliefs provided to businesses to support growth in the business rates taxbase and to protect them from having to meet annual increases in line with the prevailing inflation rate.

3.4. We do know that for small businesses the business rates multiplier has been frozen again for 2025/26 at 49.9p but for larger businesses subject to the standard rate multiplier business rates will increase to 55.5p. Local authorities will be compensated for the loss of income from freezing the small business rate multiplier through an additional grant.

3.5. The statutory deadline for the Districts/Borough Councils providing details of our share of expected business rates in 2025/26 is 31 January 2025 and no provisional or final figures have been received to date. It is therefore recommended that the current estimates, as included in the December 2024 Cabinet report are used for budget setting. Any variation will then be managed through the use of, or a contribution to, the provision set aside in reserves for this purpose. Any material variation will be reported to Cabinet in April as part of the Service Estimates report and will form the starting point for the 2026/27 MTFS refresh.

Surplus/Deficit on Collection

3.6. As part of setting the council tax we also have to take into account any surplus/deficit on collection of council tax from previous years. The breakdown of the surplus/deficit across the District and Borough Council areas is shown in Table 3 and shows a surplus which can be used in 2025/26 to offset the use of reserves of £1.567m.

Table 3: 2024/25 Council Tax Collection Fund Surplus/Deficit	
	Deficit/ (Surplus) £m
North Warwickshire	-0.013
Nuneaton and Bedworth	-0.773
Rugby	-0.558
Stratford-on-Avon	0.306
Warwick	-0.529
Total	**-1.567**

4. A Balanced 2025/26 Budget and 2025-30 MTFS

4.1. The Cabinet report setting out the background information to the 2025/26 budget and the options available to Members was considered on 12 December 2024. It set out a range of options that would provide for a balanced budget in 2025/26 and a balanced MTFS. This was achieved by:

- a 4.99% council tax increase in 2025/26 (2.99% core council tax and 2% adult social care precept);
- a planning assumption of 4.99% council tax increase in each year from 2026/27 to 2029/30;
- the delivery of £80m of savings options over the next five years; and
- using £10.542m of reserves to fund the budget shortfall in Years 1 to 3 of the MTFS and other time-limited allocations.

4.2. The Office for Budget Responsibility's forecast, published alongside the Autumn Statement 2024, is for the 2.99% core council tax uplift plus a 2% adult social care precept for each year of the MTFS period.

4.3. In light of this Corporate Board has considered to what extent Members could choose 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.

4.4. The result is the following framework for Members to take into account in utilising the additional council tax flexibility:

i.) The 2025/26 budget must be balanced using 2025/26 resources and cannot rely on uncertain future increases in council tax. Based on the figures in the December Cabinet report, this means increasing the council tax by the maximum confirmed flexibility of 4.99% in 2025/26.
ii.) Taking the maximum council tax increase over the period 2025/26 to 2029/30 of 4.99% a year would mean the Executive Director for Resources would be content to sign off a budget resolution as balanced and sustainable.
iii.) If council tax thresholds are lower than current thresholds in future years Members will need to identify additional budget reductions.

4.5. In planning their budgets and MTFS Members should note the additional resources can only be used in the year identified or in a subsequent year. They cannot be used in an earlier year because, as reported in the December Cabinet report, any further use of reserves for additional allocations or to manage timing differences between spending need and the delivery of budget reductions or future Council Tax increases needs to be carefully considered. This is to ensure funds in the Revenue Investment Fund and Short-Term Financial Risk reserve remain available to invest to support the delivery of the Council's priorities and further efficiencies over the medium-term, particularly to invest in mitigating and managing the areas of significant pressure.

5. Reserves

5.1. The primary purpose for holding reserves is to manage financial risk and promote financial sustainability whilst recognising that there is a need to control the amount of scarce resources held in reserves to ensure we are using taxpayers' money to deliver services to residents and communities, while maintaining the Council's medium-term financial sustainability and resilience.

5.2. The Authority continues to have a robust reserves position, with total reserves in the latest monitoring report to Cabinet forecast to be £139.739m at the end of 2024/25. However, the rising negative reserve for the Dedicated Schools Grant deficit which is reflected in this forecast means the stated reserves are significantly lower due to the cumulative SEND deficit, and much depends on the Government's decision on the future of the DSG Statutory Override and willingness to reimburse councils for cumulative SEND deficits. As part of the MTFS agreed in February 2024 Council reconfirmed its Reserves Strategy with the objective of ensuring we are using all our resources effectively, providing increased transparency and accountability around reserves and ensuring the framework is in place to align decision-making around the use of reserves with the Council Plan.

5.3. There are no further proposals to change the Reserves Strategy for 2025/26 other than to update the strategy that will be considered by Council in February to reflect the reserves position forecast as at the end of Quarter 3.

5.4. When looking at short-term funding to support the 2025/26 budget we need to consider the known calls on reserves. The 2024/25 Quarter 3 forecast outturn position, reported elsewhere on today's agenda, is an overspend of £39.405m. £32.838m of this overspend relates to earmarked/ring-fenced funding that cannot be used to support the budget more widely. The balance (an overspend of £6.567m) has been taken into account when determining there is now £10.658m in the Medium Term Financial Contingency reserve that could be released to support the 2025/26 budget, in line with the report to Cabinet in December 2024.

5.5. The 2024/25 Quarter 3 forecast position of a £6.567m overspend is a decrease of £2.920m compared to the Quarter 2 position reported to Cabinet in November

2024, reflecting the positive impact to date of the financial mitigation strategy including spending controls. At this stage, the only additional reserves, beyond the £10.658m, available to fund the MTFS are the Revenue Investment Fund and the Short- Term Financial Risk reserves. It is recommended that any use of these funds to bridge timing differences between spending allocations and the delivery of savings in the 2025/26 budget and the MTFS is carefully considered, to ensure funds remain available to invest to support the delivery of the Council's priorities and further efficiencies over the medium-term, particularly to invest in mitigating the areas of significant pressure (SEND, Home to School transport, and children's and adults' social care).

5.6. Legislation requires that the Chief Finance Officer makes an annual statement on the adequacy of general reserves and provisions. The risk assessment relates to the short-term financial risks that could impact on the authority in 2025/26 to deliver core services and drive forward the ambitions set out in the Council Plan. The Executive Director for Resources has now completed the risk assessment for 2025/26. The risk assessment confirms that the minimum level of general reserves it is prudent to retain is £26.0m, which is unchanged from 2024/25. A summary of the risk assessment is attached at **Appendix A**.

5.7. The approved budget will be expected to reflect the minimum £26.0m General Reserves provision required as a result of the Executive Director for Resources risk assessment. In his capacity as Chief Financial Officer (S151 Officer), his statement on whether the budget is balanced and sustainable will include reference to whether the required General Reserves provision is maintained.

5.8. Based on the estimated 2025/26 net revenue budget, the aspiration in the Reserves Strategy for risk reserves to be a minimum of 5% of the net revenue budget suggest this reserve should hold a balance of circa £32m in 2025/26. However, risks have also been underwritten by several other earmarked reserves set aside for specific identified risks. Therefore, on balance, at this point it is not to recommended to make provision in the 2025/26 budget to fund an increase in this reserve but this position will be revisited each year as part of refreshing the MTFS and the Reserves Strategy.

6. Changes to Proposed Allocations

6.1. There are several changes to the proposed pressure allocations from 2025/26 onwards in light of new information following the December 2024 Cabinet report.

Pay Award Provision

6.2. The MTFS currently contains provision for a 2% pay award each year from 2025/26, however, 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. A pay award of 2.8% in 2025/26 for WCC employees would 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 the updated figures in this report.

Additional Cost of Employers National Insurance Contributions

6.3. Where applicable, services will receive a permanent pressure budget allocation in 2025/26 to reflect the additional cost on staffing budgets from the Employer National Insurance changes. The compensation grant element of the changes will be held corporately, with the anticipated shortfall in the compensation grant being funded corporately within the MTFS rather than being absorbed by services.

Capital Financing Costs

6.4. The working assumption in the MTFS is a new Capital Investment Fund allocation of £15m per annum from 2025/26. The total value of the emerging capital investment pipeline, plus inflationary and cost risks on existing capital schemes, suggests it would be prudent to increase the annual CIF allocation to the level we have maintained in recent years. The updated recommendation on an adequate level annual Capital Investment Fund allocation has been uplifted from £15m per year to £18m per year from 2025/26. This additional allocation would result in further revenue costs of £0.270m in 2025/26 rising to £1.350m by 2029/30. If agreed, the final Capital and Treasury Strategies will be updated to reflect any change to the annual CIF allocation.

Client Records & Information System Programme (CRISP)

6.5. The Client Records & Information System Programme (CRISP) has recently entered into a new contract with a software provider. This involves a Cloud rather than on-premises solution, which has created an ongoing revenue pressure of £0.506m from 2026/27, with a part year effect in 2025/26. However, this pressure will be managed within the services affected, meaning there is no overall net impact to the MTFS. Additionally, since December Cabinet, two additional and necessary modules have been identified and costed which will result in a new pressure of £0.239m to be funded from 2026/27. All of these changes are reflected in the updated allocations and savings proposals. Further efficiencies are likely when we have moved beyond the implementation phase.

Public Health

6.6. Public Health have identified an emerging pressure of £0.400m in Health Visiting and School Nursing services, some of this pressure has been funded from recently announced additional Public Health grant in 2024/25. For 2025/26 only one-off funding has been identified but the recurring element of the pressure in future years will be offset by savings from the proposed re-use of funds diverted from the Dietetics service which is not a Local Authority/Public Health responsibility. Therefore, the Public Health service's response to this emerging pressure will result in no overall net impact to the MTFS.

Extended Producer Responsibility for Packaging Grant

6.7. Prior to the Settlement the Government confirmed new funding to local authorities for Extended Producer Responsibility for Packaging. Warwickshire's confirmed allocation in 2025/26 is £5.141m. In the 2024/25 MTFS, £1.0m of this had been anticipated and included in savings plans as additional income. Now that the larger amount has been confirmed and will be treated as a corporate grant, the £1m in the service will be moved into the Corporate Grants budget from 2025/26, this reduces the Savings Options total by £1.0m but has no overall net impact on the MTFS. The additional responsibilities for Waste Disposal authorities in connection to Extended Producer Responsibility for Packaging are already funded from existing service budgets, therefore, this funding will be wholly treated as a new corporate grant.

Medium-Term Financial Risk Provision

6.8. The additional revenue pressures arising as a result of the increases in the Pay Inflation Provision and the Capital Financing budget will require some use of the Medium-Term Financial Risk Provision to balance the MTFS. The December Cabinet report contained an annual allocation of £10m per year from 2026/27 to 2029/30 which, having been slightly reduced to account for these changes the allocation, is still above the minimum advised allocation of £7.5m per annum. Corporate Board's recommendation to members is that maintaining an allocation as close to the £10.0m annual provision as possible will be prudent to provide for future unknown and unquantified spending need to mitigate future potential costs as part of ensuring the Council's services are sustainable over the medium-term, particularly in light of the significant risk to funding levels from the Government's Funding Reform proposals.

7. Dedicated Schools Grant

7.1. At the same time as the Local Government Finance Settlement was announced the Department for Education also announced a Dedicated Schools Grant of £702.051m for 2025/26 to provide funding for services to schools and pupils. A report seeking approval for the allocation of the Dedicated Schools Grant can be found elsewhere on today's agenda.

7.2. The Council's policy is to expect the cost of funding schools and relevant pupil-related services to be contained within the level of the Dedicated Schools Grant. Indeed, Councils may not apply Council Tax revenues to school provision without approval from the Secretary of State. However, meeting this policy aspiration in relation to high needs services and support is both impossible and unaffordable even over the medium-term in the absence of further additional Government funding or fundamental system change; given the national rapid growth in price/cost increases and demand for services at a rate well in excess of funding levels, and the wider lack of capacity in the system. This represents a fundamental risk to the MTFS, and it is a matter of the utmost urgency for there to be a national reset of the SEND system to better meet children and young people's needs on a financially sustainable basis, and for the Government to reimburse councils for accumulated deficits created as a result of policy change without sufficient funding.

8. Capital Strategy and Programme

8.1. Each year Council is required to approve a capital strategy as part of its budget proposals. Much of the content is specified, however the strategy is an important document in setting out the Council's ambition to ensure capital and revenue spending on the asset portfolio is directed efficiently and effectively.

8.2. As a suite of documents, the capital strategy sets out:

- Our strategic intent – the aspiration and direction for our capital investment, defining the outcomes we are seeking to achieve through investment (why) (**Appendix B**);
- The draft programme – the activity programmes and projects funded from our capital investment (what) (**Appendix C**); and
- The governance framework – the way we will manage capital spend and the capital programme (how) (**Appendix D**). It is this technical appendix that ensures we comply with statutory guidance. It also sets out how we will optimise delivery by strengthening of performance, adopting commercial principles and practice and robust benefits realisation.

8.3. The documents reflect the ambitions and three priorities in the Council Plan and its seven Areas of Focus. The documents have been updated to reflect CIPFA policy requirements, the management of risk, Quarter 3 monitoring and the Warwickshire Investment Fund and the Warwickshire Property and Development Group 2025 business plans.

8.4. The three documents will need to be included, subject to any changes proposed by Cabinet, as part of the capital resolution to Council in February.

8.5. As outlined in Section 6, the working assumption in the December MTFS paper was a new CIF allocation of £15m per annum from 2025/26. 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 CIF allocation. The updated recommendation on an adequate level annual Capital Investment Fund allocation has been uplifted from £15m per year to £18m per year from 2025/26.

8.6. 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 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 hierarchy of schemes structured around the level of choice for the Authority in the decision being made. Proposed capital investment schemes will continue to fall into one of three categories:

- **Category A – 'Must Do', highest priority** – those schemes where the Authority has minimal choice about whether to invest, with the focus being on ensuring value for money in how the scheme is delivered. The main areas of capital investment in this category are expected to be the provision of new school places due to insufficient grant funding and investment required to ensure the continued delivery of existing services.
- **Category B – 'Should Do', secondary priority** – invest-to-save schemes that deliver savings in the Authority's revenue budget and/or generate additional income to support the revenue budget.
- **Category C – 'Optional', third priority** – investment to deliver on the Council's wider ambitions and support the delivery of the Council Plan.

9. Outstanding Issues for 2025/26

9.1. Section 3 of the report highlighted where information is still outstanding on the final level of resources that will be available to the authority in 2025/26. Where this information is available before 28 January 2025 it will be included in a revised report and/or the 2025/26 budget resolutions. Where any information is not known when the papers for Council in February are published, any variation to the estimated figures will be managed through reserves for 2025/26 and picked up as part of the preparation for the 2026/27 refresh of the MTFS. Any areas of concern will be specifically reported to Members as part of the Service Estimates report to Cabinet in April 2025.

10. 2025/26 Budget Resolutions

10.1. In putting forward their proposals, Members are reminded that local authorities are required by law to set a balanced budget. An intention to set a deficit budget is not permitted. However, what is meant by 'balanced' is not defined in law. A prudent definition of a sustainable balanced budget is a financial plan based on sound assumptions which shows how income will equal expenditure over the short- and medium-term, acting in a way that considers both current and future local taxpayers.

10.2. If the budget is unbalanced then the Executive Director for Resources (as Chief Finance Officer), in consultation with Corporate Board, would have to consider issuing a Section 114 notice. Such a notice is only given in the gravest of circumstances, as during that time the ability to incur new spending that is not an existing contractual or salary commitment is suspended, the External Auditors would investigate and publicly report on the circumstances and the Ministry for Housing, Communities and Local Government (MHCLG) may take over the running of the Authority.

10.3. Because Members decide on the council tax before the year begins and cannot increase it during the year, there is a need to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by making prudent allowance in the estimates for services and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

10.4. To avoid setting an unbalanced budget the Local Authority has to be financially resilient. Setting a clear MTFS helps clarify expected income and expenditure. Awareness of the funding available in the forthcoming years means the Council stands a better chance of balancing the budget. Reserves are a useful option for balancing the budget in the short-term. However, reserves should not be used to pay for day-to-day expenditure, and it is important that they are replenished, in accordance with the reserves strategy, when the short-term need has passed. Therefore, the MTFS needs to be fully balanced on an ongoing basis, with no ongoing spending funded from one-off resources, meaning the next MTFS does not start from a deficit position.

10.5. It is important that the Authority complies with its obligations under the Equalities Act 2010 - the Public Sector Equality Duty (PSED) - to promote equality and to reduce discrimination in relation to any of the nine ‘protected characteristics’ (age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race; religion or belief; sex; and sexual orientation). The Council must have ‘due regard’ to the PSED when taking any decisions on service changes whilst recognising that local authorities have a legal duty to set a balanced budget. Similarly, if proposals are likely to have adverse impacts on customers, public consultation should be undertaken before any final decisions are made and consideration given to the outcomes of those consultations. This may mean that some proposals are not implemented, and alternative solutions may need to be sought. Legal challenges to Local Authority budget setting processes have tended to turn on whether the Authority has complied with these duties. Where required Equality Impact Assessments have been prepared and made available to Members.

10.6. Using the information contained in this report, Cabinet is asked to approve their 2025/26 budget resolutions for recommendation to Council on 6 February 2025. Cabinet is also asked to authorise the Executive Director for Resources to update the budget resolutions to Council to reflect the final resource information.

11. Financial Implications

11.1. There are no direct financial implications for the Authority arising from this report. The report is part of a series of reports that will culminate in Council agreeing the 2025/26 budget and council tax at their meeting on 6 February 2025.

12. Environmental Implications

12.1. There are no immediate environmental implications for the Authority from this report. There will be environmental implications that flow from the individual allocations and proposals agreed as part of the Council’s approved budget and these should be considered by Members as part of reaching their decisions.

13. Background Papers

13.1. None.

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Elected Members have not been consulted in the preparation of this report.