

<b>Report to</b>	Cabinet
<b>Date of meeting</b>	18 <sup>th</sup> February 2025
<b>Lead Member / Officer</b>	Lead Member for Finance, Performance and Strategic Assets
<b>Report author</b>	Head of Finance and Audit
<b>Title</b>	Council Budget 2025/26

## **1. What is the report about?**

- 1.1 The report sets out the proposals to set a balanced budget for 2025/26 for Cabinet's consideration prior to Council on 20<sup>th</sup> February 2025.

## **2. What is the reason for making this report?**

- 2.1 The Council is legally required to set a balanced and deliverable budget before the start of each financial year and to set the resulting level of Council Tax to allow bills to be sent to residents.
- 2.2 There is a statutory duty on the Head of Finance and Audit (Section 151 Officer) to report to full Council, at the time the budget is considered and the Council Tax is set, on the robustness of the budget estimates and the adequacy of financial reserves.
- 2.3 To set out the impact of the Provisional Settlement and to approve the budget for 2025/26, including the level of Council Tax.

## **3. What are the Recommendations?**

- 3.1 That Cabinet supports the proposals outlined in the Medium Term Financial Plan (MTFP) 2025/26 – 2027/28 (Appendix 1), detailed in Section 4, in order to set the budget for 2025/26.

- 3.2 To approve the average Council Tax rise of 5.29% for council services plus an additional 0.71% for the increase in the levy to the North Wales Fire and Rescue Authority. This equates to an overall uplift of 6.00% proposed (paragraph 4.5).
- 3.3 To delegate authority to the Head of Finance and Audit, in consultation with the Lead Member for Finance, to adjust the use of cash reserves included in the budget proposals by up to £500k if there is movement between the draft and final settlement figures in order to allow the setting of Council Tax in a timely manner.
- 3.4 That Cabinet supports the strategy for use of reserves as set out in paragraph 4.6.
- 3.5 That Cabinet confirms that it has read, understood and taken account of the Cumulative Well-being Impact Assessment as set out in Section 7.

## **4. Report details**

### **4.1 Provisional Funding Settlement for Local Government 2025/26 (Appendix 2)**

- 4.1.1 The Provisional Settlement for 2025/26 was received by the Council on 11th December 2024 and resulted in a cash increase of £14.427m or 7% when compared with the level of funding received at the start of 2024/25. WG have produced tables so that funding levels in 2024/25 and 2025/26 can be compared on a like for like basis across all Welsh councils. Denbighshire's reported percentage increase at 4.6%, is lower than the cash comparison above as additional funding to cover pay and pensions costs have been made during the year and WG have adjusted for this in the 2024/25 comparator used. Further details regards the provisional funding settlement are set out in Appendix 2.
- 4.1.2 Denbighshire's reported increase compares favourably to the Welsh average of 4.3% and follows increases in pupil numbers and free school meals data used in the formula to distribute funding to councils. The increase in these 2 data sets will result in higher demands for services.
- 4.1.3 The increase in the settlement is above the planning assumption reported in the Medium-Term Financial Strategy and Plan (MTFS and MTFP) updates Members have received throughout the 2024/25 financial year. Although positive and welcomed it does not resolve the financial challenges the council faces in setting a

balanced budget in 2025/26, which will still require a combination of savings and increases in Council Tax.

## **4.2 2025/26 Budget Setting – Medium Term Financial Plan 2025/26 – 2027/28 (Appendix 1)**

- 4.2.1 The Council, like all councils, continues to face significant financial challenges in setting balanced budgets on a scale it has not experienced before. The medium term economic and political environment within which the Council operates, like all councils, remains extremely uncertain making forecasting budget projections with accuracy difficult.
- 4.2.2 Demand for services from our communities continues to grow and the complexity of needs has intensified in areas such as Education and Children’s Services and Adult Social Care. Whilst headline rates of inflation have eased, the inflation that the Council is subject too continues to have an impact by increasing costs of service delivery. These cost pressures include, nationally set pay awards and increases in complexity for demand led services in adults’ and children’s social care that the Council has a statutory duty to provide and are outside of the Council’s control. They have the effect of increasing the Council’s budget requirement for next year.
- 4.2.3 Circa 75% of the Council’s budget (net) is funded by the settlement from WG. In recent years funding from WG has not kept pace with demand for services and cost increases. The Council has a legal responsibility to balance budgets and to do so has had to make difficult decisions including increasing Council Tax and making reductions to some services.
- 4.2.4 The proposals to balance the 2025/26 budget are shown in the Medium Term Financial Plan (MTFP) in Appendix 1.

## **4.3 Pressures (Appendix 3)**

- 4.3.1 The proposed budget pressures included within the MTFP for 2025/26 (Appendix 1) are summarised in detail in Appendix 3 along with associated risks and how those risks have been dealt with in the budget.
- 4.3.2 These pressures have been regularly reported to Members throughout this financial year and total £23.854m. This equates to 8.8% of the 2024/25 budget and is the 3rd

consecutive year of pressures in excess of £20m. A funding settlement of 11.9% from WG would have been needed to cover all of these budget pressures.

4.2.3 The UK Government's Autumn Statement referred to changes in rates and threshold for employers' National Insurance Contributions from 1st April 2025. The increase in contributions will impact on the costs of employees the Council directly employs and will also impact indirectly through increased supplier costs and, the cost of commissioned care from care providers in particular. The increase in the direct costs of employers' contributions is certain and has been included in the Council's cost pressures for 2025/26 at £4.4m. Provision has also been made for increased costs in commissioned social care. Some uncertainty remains around funding for this cost pressure from both UK and Welsh Governments; WG expect funding to be provided by UK government during the first half of 2025/26 financial year following assessment of costs of public sector workers in Wales. This means we will not know the position with regards to funding for the increase in employers National Insurance until after our budget for 2025/26 has been set.

#### **4.4 Savings (Appendix 4)**

4.4.1 Our medium-term financial updates reported to various committees throughout the year (in the MTFs) has set out the approach to setting balanced budgets over the next few years as needing to both identify savings and invest in transformational projects. To deliver savings in 2025/26, target percentage budget reductions were issued which services have been working towards achieving whilst balancing the impacts on service delivery, many of which are statutory. Early savings proposals were included in an update report to Council in November 2024.

4.4.2 'Savings' is a 'catch all' term for the different ways in which the Council's budget can be reduced. Savings categories can include efficiencies, increases in income in line with the fees and charges policy, savings from transformation projects, and reductions to services amongst other ways.

4.4.3 The savings being proposed for inclusion in 2025/26 budget are listed according to category in Appendix 4 and total £4.170m. Due to the settlement from WG being better than anticipated the savings proposals have focused on the categories of efficiencies, income, and transformation projects, with a lesser focus on those categorised as reductions to services. The savings proposals that have been categorised as 'reductions to services' are ones that have either already been

achieved during this year or are so advanced that the most appropriate course of action is to continue.

- 4.4.4 Given the financial challenges that the Council faces is set to continue in the medium term a number of savings proposals, including many of the transformational projects set up this year, are still being developed to deliver savings in future years. Some of these are listed towards the end of Appendix 4 and are included for information.
- 4.4.5 Furthermore, it is proposed to defer some savings proposals put forward and again for completeness these are listed for information towards the end of Appendix 4. This is mainly due to concerns of the impact on service delivery the reduction in budget will have. This is on top of the impacts reductions made in 2024/25 have had. There are also some proposals being deferred as it cannot be delivered currently, but conditions may change in future years.
- 4.4.6 In developing the budget proposals contained within the report much discussion has taken place with all Members through the use of regular budget briefings and workshops. A full list of savings proposals being considered was discussed at Council in November. Following concerns raised by Members the savings proposals listed below have been ruled out for consideration:
- Reduction to planning enforcement service which is a service that has been affected by carrying vacancies.
  - Review of winter maintenance – priority routes.

#### **4.5 Council Tax (Appendix 5 for Council Tax sensitivity analysis)**

- 4.5.1 Based on the final additional budget requirement of £23.825m, an overall annual increase of 5.29% is required on Council Tax for council services plus an additional 0.71% for the increase in the levy to North Wales Fire and Rescue Authority. This equates to an overall uplift of 6.00% and provides overall additional yield of £5.257m in 2025/26.
- 4.5.2 The council services increase combined with the fire levy equates to an average increase of £100.73 per annum and brings the amount to £1,779.48 on a Band D equivalent (£1.94 per week equivalent).
- 4.5.3 On the 5<sup>th</sup> September 2023 at Council, the Long Term Empty and Second Home Premium charging policy was approved for 2024/25 and 2025/26. The charges agreed from 1<sup>st</sup> April 2025 were 150% over the standard Council Tax charge for all

second homes and long-term empty properties (empty less than 5 years), with an additional 50% charged on properties that have been unoccupied and unfurnished for 5 years or more. The effectiveness of the policy is currently being reviewed in readiness for developing the policy for 2026/27 within the timeline agreed by Cabinet at its meeting on 22<sup>nd</sup> October.

4.5.4 Were the Council to set its budget with no savings (as outlined in Appendix 4), then a Council Tax increase of circa 11.85% would be required to set a balanced budget for 2025/26.

#### **4.6 Reserves (Appendix 6)**

4.6.1 Unearmarked reserves currently stand at £5.6m. The current convention is to keep a minimum level of unearmarked reserve to meet any unforeseen costs pressures and unexpected events outside of the Council's control. This is a reserve that the Council would not plan to spend, it would be imprudent to plan to use it. Should there ever be a call on this reserve, there would need to be a plan to replenish the reserve to its previous level. As explained in Appendix 6 – Reserves, the aim in the MTFS is to increase the level of unearmarked reserves over the medium term, as the Council's net revenue budget has increased (due to high levels of inflation) in recent years and the value of the unearmarked reserve is therefore being eroded. Given that the net budget will increase again in 2025/26 it is proposed to include a £0.5m pressure to contribute to unearmarked reserves to maintain the proportion of unearmarked reserves to net budget.

4.6.2 The Council also has earmarked reserves which are set aside for specific purposes. Some are restricted in their use by, for example, the terms and conditions of grant where their source is government funding. Earmarked reserves are also used by services to manage their budgets and are reviewed regularly as part of budget monitoring. The Council holds limited centrally held earmarked reserves and it is appropriate to consider the need to use these reserves cautiously to assist the Council to set annual budgets as set out within Appendix 6.

4.6.3 Reserves can only be used once and reliance on reserves is not sustainable. Reserves should be used to fund time limited or one-off expenditure, rather than recurring expenditure. The strategy for use of reserves therefore is to minimise the use of cash reserves in setting future budgets as far as possible and the proposal is not to use reserves in balancing the 2025/26 budget.

## **4.7 Schools**

- 4.7.1 Schools will receive a total increase in funding of 5.91% in 2025/26. This includes all increases in funding as set out in section 4.3 of the report for pay, and employers' national insurance etc.
- 4.7.2 The Schools and Non-delegated School Budgets are currently £89m and accounts for 33% of the Council's budget, its largest budget. Given the scale of the financial challenge the Council faces in setting balanced budgets in the medium term, schools cannot be exempt from finding savings and reducing their levels of expenditure. The Council has committed to regular communication with schools regarding its budget through regular updates to the Schools Budget Forum and Headteacher meetings. Schools had been notified to expect a reduction in funding of between 3-5% after inflationary funding in the early part of the current financial year when the 2025/26 budget strategy was being developed.
- 4.7.3 Schools and schools budgets are under pressure from, higher levels of inflation, supporting learners through the ongoing impacts of the pandemic, significant legislative changes to support learners with additional learning needs and a new curriculum which have all served to increase needs, demands and workloads in schools. The total level of reserves schools hold is forecast to be negative at the end of 2024/25. Given the pressures in schools and the improved settlement from WG, the proposal is not to reduce the schools' budget as the Council had to in setting the 2024/25 budget. Schools will therefore have all inflationary pressures funded with no reductions to budgets (other than demography).

## **4.8 Summary and Medium Term Financial Plan – 2025/26 to 2027/28**

- 4.8.1 Appendix 1 MTFP also shows the headline financial projections for 2026/27 and 2027/28. The funding assumption used is based on Council Tax increases of 5.5% for both years and, with no indication of future funding available from Welsh Government, a modest 1% has been included for both years. Forecast pressures have been included for pay and price inflation, demography and increases in demands in Social Care resulting in a shortfall in funding of £13m in 2026/27 and £10m in 2027/28. The cumulative shortfall over the 2 years is £24m. To put that into context, that equates to 9% of the current budget (2024/25 budget equates to £271m). The financial challenge therefore continues into future years, and the Council will need to continue its strategic approach to delivering services within the funding available, through its transformation programme. The approach of the

transformation programme is to target the delivery of a basket of significant changes each year, corporately supported, so that these savings can be banked ahead of time lessening, and eventually avoiding, the requirement of service-by-service cuts in setting a balanced budget annually. Appendix 4 provides a list of some of the transformation projects being progressed to impact 2026/27 and 2027/28 budgets. Future engagement on the transformation programme is currently being planned and will include internal briefings and external communication via our Council website.

4.8.2 Current government spending plans indicate there will be a return to much tighter budget rounds after 2025/26. That implies real terms cuts in later years of this parliament. The UK government is planning a 3-year spending review in the first half of 2025. Early forecasts of the council's budget requirements in 2026/27 and 2027/28 are that pressures are still high.

4.8.3. Medium term funding from government remains uncertain, there is hope for multi-year settlements which would greatly assist with planning in the medium term. The 2025/26 budget presents an opportunity, it buys time to move forward with the transformation programme so that the transformation of services produces the savings necessary to balance future budgets in the medium term rather than cuts to services. It is therefore necessary to continue to move forward at pace with the transformation programme.

## **5. How does the decision contribute to the Corporate Priorities?**

5.1 Effective management of the Council's budgets and delivery of the agreed budget strategy underpins activity in all areas. The proposals include allocations to continue to support both corporate and service priorities, but the Council will need to reflect on the future financial outlook and consider realistically what can be achieved within available funding.

## **6. What will it cost and how will it affect other services?**

6.1 As set out within the report.



## **7. What are the main conclusions of the Well-being Impact Assessment?**

- 7.1 Setting annual budgets is now more of an evolving process rather than a one-off event in January/February. The Well-being Impact Assessment (WIA) for the budget is similar and is evolving alongside saving proposals.
- 7.2 A full Well-being Impact Assessment is developed for each savings proposal of significant impact to support understanding more holistically as to the impact of the reduction in service and develop further the possible mitigations.
- 7.3 All assessments are collated and reviewed by strategic planning and performance officers to highlight any themes and patterns emerging to provide the Corporate Executive Team, Cabinet and the Strategic Equalities and Diversity Group with regular updates on the aggregate impact in respect of each of the well-being goals and whether the savings were disproportionately affecting any particular protected group. This has been collated to form an overall cumulative WIA regarding the impact of necessary budget reduction measures at Appendix 7. It should be noted that this WIA focuses on a high-level aggregation of the combined budget reduction measures, it reflects savings proposals from prior years and this work will continue as savings proposals are refined.

## **8. What consultations have been carried out with Scrutiny and others?**

- 8.1 In addition to regular reports to the Governance and Audit Committee and Performance Scrutiny, the budget process has been considered by Middle Managers at the Leadership Conference, the Senior Leadership Team, Cabinet Briefing, Group Leaders and Council Briefing meetings. The School Budget Forum have been included in the proposals through-out the year. Trade Unions have been consulted through Local Joint Consultative Committee.

## **9. Chief Finance Officer Statement**

- 9.1 There is a statutory duty on the Head of Finance and Audit (Section 151 Officer) to report to full Council, at the time the budget is considered and the Council Tax is set,

on the robustness of the budget estimates and the adequacy of financial reserves. The Council must have regard to this report in making its decisions on its budget.

- 9.2 The Council, along with all other Welsh councils, continues to face unprecedented financial challenges. The report contains proposals for setting a balanced budget in 2025/26 adopting a prudent approach. Although, the settlement from WG was more positive than anticipated the medium-term financial outlook for financial years 2026/27 and 2027/28 remains challenging and must be given due consideration when making decisions for the 2025/26 budget.
- 9.3 Cost pressures have been included within the budget that recognise and remedy in-year and forecast service pressures as much as possible in order to build in resilience. These have been estimated based on latest forecasts of demands and costs and are therefore considered to be reasonable having regard to statutory services' spending needs in 2025/26 and the financial context within which the budget is set.
- 9.4 The budget proposals for 2025/26 contains a level of financial estimates due to the uncertainty of the impact on the Council of current economic events. Having considered the level of funding required by services and the savings proposals put forward, I am satisfied that they are reasonably robust. It is clear, however, that there continue to be some significant risks within the 2025/26 budget proposals (as set out in section 10 of this report).
- 9.5 During 2024/25 we have been reporting the achievement of savings made in setting the 2024/25 budget through the 'Savings Tracker' regularly to Cabinet. The majority of all savings have either been made or are on track to be made in year. In setting the 2025/26 budget those savings that have not been achieved have been reviewed to assess if there was a need to increase budgets for unachieved savings in 2025/26. A plan is in place in 2025/26 to address savings that won't be made in 2024/25.
- 9.6 The position with regard to financial reserves is set out in section 4.6 of the report. I recommend that the council increases un-earmarked reserves to keep the reserve proportionate to its net budget, which has increased in recent years, and minimises as far as possible further use of reserves to balance the budget in 2025/26. It is important to protect current levels of reserves to safeguard the Council's position against potential risks.

- 9.7 Due to the very late date for the Final Settlement it is recommended that Cabinet and Council delegate authority to the Head of Finance and Audit in consultation with the Lead Member for Finance to adjust the use of reserves included in the budget proposals by up to £500k. Welsh government has indicated that there are unlikely to be any material changes, however it is sensible to have a contingency plan agreed beforehand.
- 9.8 It is important to note that if the proposals in this report are not accepted, alternative proposals must be submitted so that the Councils statutory responsibility to set a balanced budget can be met.

## **10. What risks are there and is there anything we can do to reduce them?**

- 10.1 The budget process itself is a risk management measure with the aim of identifying, assessing and agreeing budget proposals in a planned and timely way. Failure to agree these proposals without viable alternatives will risk not achieving a balanced budget for 2025/26.
- 10.2 Forecasting cost pressures continues to be challenging in setting budget proposals. Cost pressures are driven by both increases in demands for services and increases in costs. Despite the use of the most up to date demand forecasts in budget calculations, these are estimates and risks remain that expenditure could exceed budgets even though budgets have been increased in the new financial year. In particular are the specific demands for statutory services within social care, education and waste services. The Council's reserves mitigate against such risks materialising in year, and also a prudent approach has been adopted with contingencies built into the budget.
- 10.3 The total savings being proposed for the 2025/26 budget at £4.170m is not insignificant, especially on the back of savings of £7.683m (excluding schools) being delivered in setting the 2024/25 budget. Savings listed have been given a Red, Amber, Yellow and Green rating based on initial assessment of ease of achieving the savings proposed and are shown in Appendix 4 (please note that this does not assess risk to service delivery). The Finance Team will continue the system to track and measure savings delivered ensuring that progress can regularly be reported at an appropriate level of detail at various committees. This strengthens the

effectiveness of the Council's financial management and ensures prompt action can be taken to mitigate any impacts should variances occur in year.

10.4 Despite careful monitoring of costs and tracking of savings proposals, ultimately if a significant in-year over spend materialises in 2025/26, and, if savings proposals cannot be delivered, this will lead to reserves being called upon in 2025/26. This will reduce the Council's level of financial resilience and sustainability going forward. The financial situation is extremely challenging and effective and disciplined in-year financial management is essential by all budget holders.

## **11. Power to make the decision**

11.1 Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.