

Budget Targets for 2025/26

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council's Constitution) before taking effect.

1) Recommendation

That the Cabinet be asked to:

- (a) Approve the revenue budget targets as set out in Table 1 to be incorporated in the Draft Budget for 2025/26.
- (b) Agree the capital programme is determined by Cabinet on 14th February 2025.
- (c) Note the information relating to the Local Government's Finance Settlement for 2025/26.

2) Background / Introduction

The primary purpose of this report is to seek Cabinet support for the proposed revenue Budget Targets for financial year 2025/26 so that these can be incorporated in the Draft Budgets to be considered in January and February.

The Senior Leadership Team has worked extensively with the service leads and finance officers to forecast costs and to develop plans to manage net service costs within affordable financial targets.

The budget process this year continues to build on the Financial Sustainability Programme undertaken towards the preparation of the 2023/24 budget and the Working Well Together for a Sustainable and Stronger Council objectives and action areas as agreed by Cabinet in September 2023. The approach aims to secure Best Value and ensure ongoing financial sustainability.

There has been further vigour added to the process this year with time set aside every week for directorates to focus on managing their pressures and developing robust savings plans. This has driven a significant reduction in the pressures being identified and the corresponding level of savings required to deliver affordable budgets.

The proposed service budget targets for 2025/26 total £784.1 million, a net increase of £44 million or 5.9% compared to the 2024/25 adjusted base budget.

Further detail on the proposed budgets and the underlying funding estimates will be shared with Scrutiny Committees in January. This will also be subject to further consultation with business representatives, the voluntary and community sector, and staff trade unions, prior to final proposed budgets being presented to Cabinet and Council for approval in February.

3) Service Budget Targets 2025/26

As set out in the separate report to Cabinet this month, the in-year budget monitoring projections for 2024/25 at Month 8 (November) forecast a net overspend for this year of just under £3.9 million. Ongoing implications of the current forecasts have been reflected in the 2025/26 estimates with planning undertaken to seek to balance the budget overall.

The preparation of the Budget for 2025/26 recognises that inflationary pressures continue to be felt across the economy, local government and our partners, despite the rate of inflation reducing in the past two years from its peak in October 2022. Social care is particularly impacted by increases to the national living wage which is again increased by above inflation, and the increases to National Insurance announced in the Chancellor's Autumn Budget on 30 October 2024. MHCLG is due to provide additional funding towards national insurance costs for local authorities in the 2025/26 final Finance Settlement but details are yet to be confirmed. At best it is anticipated this will mitigate national insurance cost increases related to the Authority's own employed staff, but will not mitigate the impact on suppliers' costs.

The rates of inflation used in preparing the Targets depend on the activity and any anticipated contractual obligations. Since its peak of 11.1% in October 2022, headline inflation has gradually reduced – falling to 6.7% in September 2023 and to 1.7% by September 2024. The OBR's current assumption is that rates will be around 2.5% in 2025 and remain above the Bank of England target of 2% until 2029. The September 2024 CPI rate is used as a basis in some aspects of the Local Government Finance Settlement, for example with Revenue Support Grant increasing by 1.7% in 2025/26.

Within the Target Budgets for services it is proposed to allow for £14.2 million for inflationary pressures.

The National Living Wage increase also drives an inflationary impact on our costs. In the Autumn Statement 2024 the Chancellor confirmed that the National Living Wage will rise by 6.7%, from £11.44 to £12.21 from April 2025. For 18 to 20-year-olds, the minimum wage will rise by 16% from £8.60 to £10, and for apprentices, the minimum wage will rise from £6.40 to £7.55 (up 18%). The Government intends to align 18-20 year olds' NMW and NLW looking ahead.

The Target Budgets for services reflect an estimated inflationary pressure of £17.7 million due to National Living Wage impacts.

The cost of inflation places sustained financial pressures both on our households and communities, and our suppliers and service providers, contributes to the ongoing impact in terms of price and demand pressures on the Authority's budget. This is reflected in the proposed Target Budgets with total investment of £31.9 million to cover inflation and national living wage plus £33.8 million to cover demand and other spending pressures and

priorities. To enable the authority to set a balanced budget, savings, alternative funding and additional income of £21.7 million have been identified. Overall, there is additional funding of £44 million or 5.9% for services next year compared to the adjusted base budget.

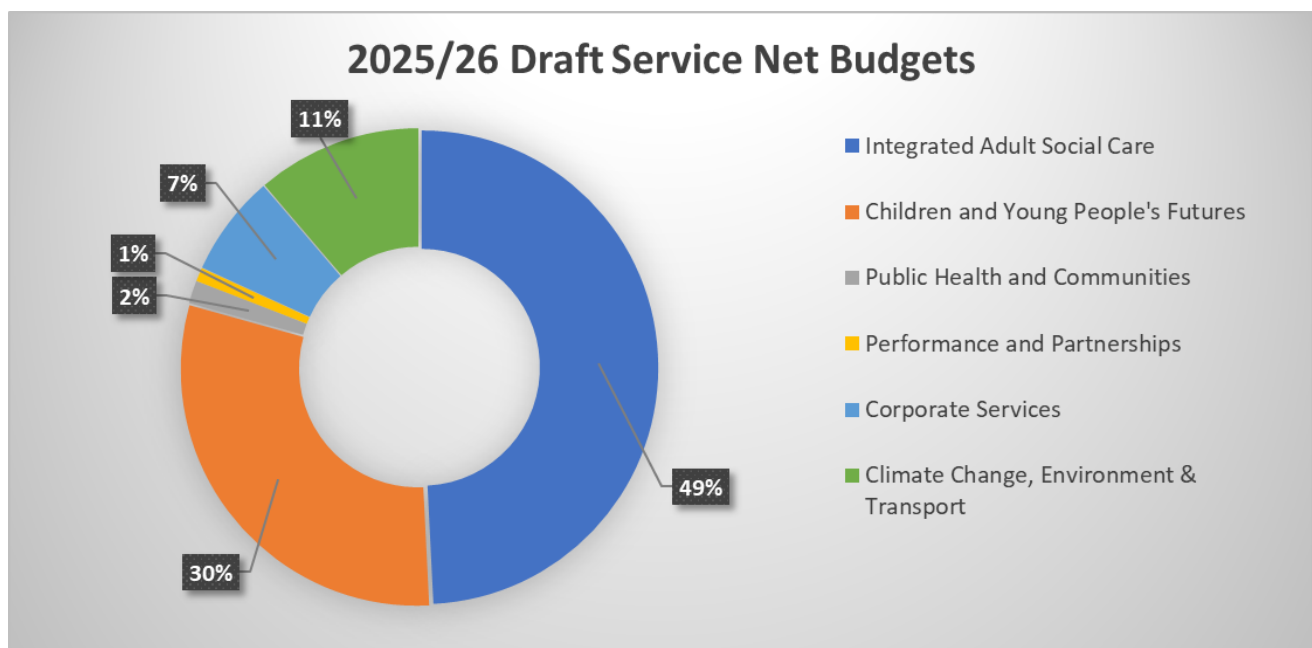
It is not currently planned to support the proposed budget targets by using general reserve balances. This reflects a strategy of ‘living within our means’ and as such to set service budgets that are affordable within anticipated income and funding totals for next year.

The proposed service revenue budget targets for the 2025/26 financial year are as follows:

Table 1 – Service Target Budgets 2025/26

	2024/25 Adjusted Base Budget £000	Inflation and National Living Wage £000	Other Growth and Pressures £000	Savings, Alternative Funding and Additional Income £000	2025/26 Target Budget £000	Net Change 2024/25 to 2025/26 £000	%
Integrated Adult Social Care	354,322	19,120	18,190	(8,185)	383,447	29,125	8.2%
Children and Young People’s Futures	224,970	7,834	11,054	(6,530)	237,328	12,358	5.5%
Public Health & Communities	13,931	225	365	(1,450)	13,071	(860)	-6.2%
Performance & Partnerships	7,431	121	75	(447)	7,180	(251)	-3.4%
Corporate Services	54,709	1,251	2,822	(3,319)	55,463	754	1.4%
Climate Change, Environment & Transport	84,753	3,346	1,312	(1,808)	87,603	2,850	3.4%
Totals	740,116	31,897	33,818	(21,739)	784,092	43,976	5.9%

The following graph indicates the relative proportion of budgets between directorates. Integrated Adult Social Care and Children and Young People’s Futures combined continue to deliver 79% of total net costs in our services.



4) Autumn Budget and Local Government Finance Policy Statement

The Chancellor published the new Government's first Autumn Statement on 30 October 2024. Some headlines from the Statement were included in the Month 6 Budget Monitoring report to Cabinet on 13 November 2024. Prudent assumptions on implications such as for the National Living Wage increase are included in the drafting of the service targets in this report, and the projected funding in the working draft of the Medium Term Financial Plan.

The Government published its Local Government Finance Policy Statement on 28 November 2024, providing further information on key policy matters and some indication of the impact of the Autumn Budget on local authority funding in advance of the Settlement. Of particular importance to our financial planning, which was not clearly evident within the Autumn Budget, was the Government's plans to repurpose existing funding, for the extra costs of delivering services in rural areas, to support a change in funding distribution based on deprivation as a proxy for need. This results in the discontinuation of the Rural Services Delivery Grant (RSDG) funding of £110 million, of which Devon County Council currently receives £10.124 million.

The repurposing of RSDG also affects funding of other public services in Devon, with the loss of £3.255 million currently allocated across 7 district councils in Devon (not Exeter City Council) and £575,000 from Devon and Somerset Fire Authority in 2024/25.

The Government also confirmed it will be introducing a new Recovery Grant to distribute £600 million of additional funding for local government. Following the Autumn Budget we had estimated around £3.5 million of additional funding would be allocated to Devon through new funding. However, the Minister for Local Government and Devolution indicated this new funding would be targeted at areas with more concentrated levels of deprivation and least ability to raise income locally through council tax. We were advised not to expect any of this additional funding to be allocated to Devon, and this has since been confirmed through the Provisional Settlement.

Despite some mitigation, for example the continuation of New Homes Bonus for one more year, altogether the information available prior to the Settlement indicated a need to plan for a significantly lower amount of funding than our previous assumptions. A decision was taken by Senior Leadership Team to defer this target setting report until January to allow more time to develop mitigation plans and await more certainty of funding.

5) Provisional Local Government Finance Settlement

Details of the Provisional Local Government Finance Settlement 2025/26 were published on 18 December 2024. This provides a one year settlement only. The Final Settlement will follow late January/early February. The Government is currently undertaking a Spending Review to inform future years' funding priorities, which is expected to conclude by March 2025.

The Settlement sets out the Authority's Core Spending Power as measured by Government, including a range of Government grants and Government estimates for funding raised through local taxation – business rates and council tax. Nationally, Core

Spending Power for local government is increasing by 6%. For DCC, our core spending power is set to increase by 4.66%. The Government assumes the Authority will implement the full allowed increase in Council Tax up to the referendum threshold of 5%. The following tables provide a breakdown of the funding included in Core Spending Power calculations.

Core Funding

	2025/26		
	2024/25 Settlement	Provisional Settlement	
	£000	£000	
Revenue Support Grant (RSG)*	713	725	+1.7%
Revenue Support Grant (RSG) – Grants rolled in*	1,211	1,255	+3.6%
Business Rates – Central Government Top Up	86,461	87,260	+0.9%
Business Rates – Local Element**	23,884	24,105	+0.9%
Total Core Funding	112,269	113,345	+0.96%
Increase / Decrease compared to 2024/25		+1,076	

* The 2025/26 Revenue Support Grant includes previously separate unringfenced grants: Extended Rights Home to School Transport, Transparency Code New Burdens

** The actual amount we receive will be derived from returns completed by our Devon Districts in January 2025.

Other Grant Income Included in the Settlement

	2025/26		
	2024/25 Settlement	Provisional Settlement	
	£000	£000	
New Homes Bonus Grant	1,140	1,279	+12.2%
Rural Services Delivery Grant	10,124	0	-100.0%
Services Grant	717	0	-100.0%
Social Care Grant	70,729	82,763	+17.0%
Children's Social Care Prevention Grant	0	1,577	New
Local Authority Better Care Grant*	35,933	35,933	0.0%
Adult Social Care Market Sustainability & Improvement Fund	15,643	15,643	0.0%
Domestic Abuse Duty Safe Accommodation Grant**	1,482	1,847	+24.6%
Recovery Grant	0	0	New
Business Rates – Compensation for under-indexation***	22,357	23,555	+5.4%
Total Other Grant Income	158,125	162,597	+2.8%
Increase / Decrease compared to 2024/25		+4,472	

* Adult Social Care Discharge Fund combined with Improved Better Care Fund as a single grant line in 2025/26.

** Domestic Abuse Duty Safe Accommodation Grant included within Core Spending as a new line in 2025/26.

*** This is included within the total of Business Rates Retention Government Grants we include in our budget.

Council Tax – Government Estimate

	2025/26		
	2024/25 Settlement	Provisional Settlement	
	£000	£000	
Assumed Council Tax Requirement*	523,974	555,475	+6.0%
Increase / Decrease compared to 2024/25		+31,501	

* This is a central government assumption. The actual Council Tax income for DCC will be determined based on local tax base information determined by our Devon Districts and the Council Tax rate set by Council in February within the Authority's Budget report.

Summary

	2024/25 Settlement £000	2025/26 Provisional Settlement £000	
Core Funding	112,269	113,345	+0.9%
Other Grants	158,125	162,597	+2.8%
Subtotal – Core grants and settlement funding	270,394	275,942	+2.05%
Assumed Council Tax Requirement	523,974	555,475	+6.0%
Total Core Spending Power	794,368	831,417	+4.66%
Increase / Decrease compared to 2024/25		+37,049	

As summarised in the tables above, the Government’s calculations for the Provisional Settlement assume an increase in Core Spending Power from £794 million in 2024/25 to £831 million in 2025/26 – an increase of 4.66% assuming the full increase in Council Tax is agreed locally. Excluding Council Tax the core funding increase is 2.05%, which is below inflation forecasts resulting in what is effectively a real terms cut in grant support, placing greater reliance on Council Tax to fund increasing costs and demand for local services.

The Core Spending Power increase at 4.66% means Devon has the lowest increase out of all 21 county councils in England.

Further information is set out below regarding these funding streams.

Council Tax – County Councils in England may increase Council Tax by up to 4.99% in 2025/26, including 2% for adult social care responsibilities, without a referendum. The actual tax increase for the Authority will be determined by the County Council in February.

Revenue Support Grant (RSG) – is increased by September 2024 inflation rate of 1.7%. In 2025/26 two grants have been rolled in to RSG that were previously issued separately: Extended Rights Home to School Transport £1.243 million, Transparency Code New Burdens £13,000.

Business Rates – the business rates funding system contains a combination of fixed and variable elements. The settlement includes the baseline target set by Government for the Council’s expected share comprising a local share under the business rates retention system plus a Top Up to reach the target funding level. It also includes grant to compensate for Government policy implications to limit rate increases which reduces the actual rates collected from businesses. Actual funding received through business rates will be determined using information provided by the district/borough/city councils in Devon, which is due to be received by 31 January 2025.

New Homes Bonus – this grant is based on delivered housing growth within the County. Government has advised local authorities to plan for 2025/26 being the final year of the New Homes Bonus grant “in its current form”.

Rural Services Delivery Grant – this grant is discontinued in 2025/26, with Government repurposing the funding distribution to support alternative funding allocations which are distributed using deprivation as a proxy for local service need.

Services Grant – this grant is discontinued in 2025/26, with Government repurposing the funding distribution to support alternative funding allocations which are distributed using deprivation as a proxy for local service need.

Social Care Grant – this grant funding aims to support local authorities in meeting the costs of adults' and children's social care needs. The national pot for this grant has increased by £880 million through the Provisional Settlement, which is £200 million more than was indicated by Government in its November Policy Statement. The increase in social care grant for the Authority, whilst welcome, is largely offset by the majority of other grant funding either being repurposed or seeing no increase in cash terms.

Children's Social Care Prevention Grant – this is a new grant introduced in 2025/26 which is distributed using a new children's needs-based formula, allocating funding according to estimated need for children's social care services. Grant conditions will be set out alongside the Final Settlement.

Local Authority Better Care Grant – this grant includes two lines of grant funding that were previously received separately: Improved Better Care Fund and Adult Social Care Discharge Fund. The funding is pooled into the local Better Care Fund and may be used only for the purposes of meeting adult social care needs, reducing pressures on the NHS including seasonal winter pressures, supporting people to be discharged from hospital when they are ready, and ensuring that the social care provider market is supported. In addition it may be used to enable more people to be discharged to an appropriate setting, prioritise those approaches that are most effective in freeing up the maximum number of hospital beds and reducing bed days lost, and boost general adult social care workforce capacity.

Recovery Grant – this is a new one year grant with £600 million allocated nationally. The Government is targeting this funding to areas with more concentrated levels of deprivation – used as a proxy for greater need and demand for services – rather than allocating to all local authorities. Devon County Council will not receive any funding through this new grant in 2025/26.

National Insurance Costs Compensation – the Government has been clear that local authorities will receive additional funding towards the increase in employer national insurance costs following changes announced in the Autumn Budget. This additional funding is aimed at costs related to the Authority's own employees and will not provide sufficient funding for increased national insurance costs borne by suppliers (e.g. care providers). Whilst an explanation of the grant methodology was included in the Provisional Settlement, actual allocations for each Authority have not yet been received with the Government due to provide this information by the Final Settlement.

Extended Producer Responsibility for Packaging Payments – a new source of income is introduced in 2025/26 which is outside of Core Spending Power, but will provide new funding towards the Authority's costs of waste services. It was confirmed within the Provisional Settlement that the Government has guaranteed the level of income through this funding will be £6.765 million as a minimum.

Overall the Government's strategy of using deprivation as a proxy for need and demand for local services, as well as adjusting grant distribution for local tax raising opportunity, does not favour Devon as it results in funding being directed away from rural areas to areas with more concentrated levels of deprivation and less ability to raise funding through council tax.

6) Capital Programme

The proposed Capital Programme is currently under development. In line with previous years' practice, it is proposed to present the Capital Programme to Cabinet and Council in February for consideration.

7) Options / Alternatives

Various assumptions and options related to service costs and income are reflected in the proposed Targets. Details will be shared with Councillors through the Scrutiny committees in January 2025, with feedback shared with Cabinet in advance of final budget decision making through Cabinet and Council in February. The alternative would be to not set targets at this stage however it is considered appropriate to enable services to plan for next year within a set financial limit, subject to the final budget decisions.

8) Consultations / Representations / Technical Data

Consultation on budget proposals will be undertaken with Councillors through the scrutiny process as described above, through briefings to political groups as well as consultation events in January with representatives from business and voluntary sectors and with trade unions. Feedback will be provided to Councillors to support the decision process.

9) Strategic Plan

The setting of directorate budget targets contributes to resources allocation towards all council priorities. This will be explained in more detail in the committee reports in January and February and reflected in the Budget Book to be considered for approval by Council in February. A further aspect is ensuring budget targets are affordable and support ongoing financial sustainability.

10) Financial Considerations

This report seeks approval for setting draft service budget targets which will support the full budget process, leading to the presentation of a proposed balanced budget for consideration by Council in February.

11) Legal Considerations

There are no specific legal considerations for this report.

12) Environmental Impact Considerations (Including Climate Change, Sustainability and Socio-economic)

Impact assessments will be published in January to support consideration of the detailed budget proposals.

13) Equality Considerations

Impact assessments will be published in January to support consideration of the detailed budget proposals.

14) Risk Management Considerations

Any budget target and estimate contain risk, as the budget represents an estimate of the financial implications of future service plans and priorities as well as future events that cannot be predicted with 100% certainty. Not all factors affecting financial performance are within the Council's control. The financial strategy and approach to budget preparation considers risk and uncertainty, and risk assessment details will be reflected in the budget reports in January and February.

15) Reasons for Recommendations

The recommendations contribute to the statutory requirement and good practice of setting a budget for the upcoming financial year.

Angie Sinclair

Director of Finance and Public Value

Electoral Divisions: All

Cabinet Member for Finance: Councillor Phil Twiss

Local Government Act 1972: List of background papers

Background Paper

Date

File Reference

Contact for enquiries:

Name: Paul Fitzgerald

Telephone: 01392 380208

Address: Room 196, County Hall, Topsham Road, Exeter, EX2 4QD