

2026/27 DRAFT POLICY AND RESOURCES BUDGETS

AGENDA ITEM NO. 12

MEETING: POLICY AND RESOURCES COMMITTEE

DATE: 22nd OCTOBER 2025

REPORT BY: FINANCE MANAGER

1.0 Purpose of the Report

- 1.1 The purpose of this report is to present for Members' consideration, comments, and approval the draft 2026/27 Revenue and Capital Budgets for the Policy and Resources Committee.

2.0 Background to the Report

- 2.1 The Council approved the 2025/26 to 2029/30 Medium Term Financial Plan (MTFP) in September. The MTFP sets the scene for and provides the overriding strategy and principles for the setting of the Council's 2026/27 Revenue and Capital Budgets.
- 2.2 The Budget Framework and Timetable for the setting of the Council's 2026/27 Revenue and Capital Budgets were approved at the September meeting of the Policy and Resources Committee.
- 2.3 The Budget Framework provided details of the background to the budget setting process, linked to the MTFP, and set out the key principles to be applied and the budget setting methodology that would be used for the setting of the 2026/27 Revenue and Capital Budgets.
- 2.4 The Budget Timetable provided the timeframe for the setting of the budgets and the reporting of the draft budget to the various Committees and Sub-Committees of the Council.
- 2.5 Officers have subsequently been working on the development of the draft 2026/27 Revenue and Capital Budgets for each Committee and the draft budgets have now been agreed by senior officers at a Performance Management Group Meeting, and at a meeting of the Chairmen and Vice Chairmen of the Committees and political group spokespeople.
- 2.6 The draft 2026/27 Capital Programme Budgets have also been reported to and agreed at a meeting of the Asset Management Sub-Committee.
- 2.7 The draft 2026/27 Policy and Resources Revenue and Capital Budgets are set out in this report and the attached appendices for Members' consideration.

3.0 Current Financial Situation / Medium-Term Financial Plan

3.1 The Medium-Term Financial Plan (MTFP) was approved by the Council in September and reviewed the ongoing impact of the challenging and uncertain economic times on the Council's finances and budgets.

3.2 A reminder of the key issues relating to the 2026/27 budget setting process are set out in this section of the report.

3.3 The MTFP concluded that the Council remains in good financial health at the present time with a balanced Revenue Budget in place for the 2025/26 financial year and healthy level of balances and reserves.

3.4 However, looking ahead, the medium-term outlook for the Council's Revenue Budget over the next five years continues to highlight a number of potential budget challenges over the coming years, and this will mean that the setting of the 2026/27 Revenue Budget will need to consider a number of risks and potential financial challenges, including:

- The current economic climate and Government spending and taxation plans e.g. possible public sector spending cuts, tax increases, increasing inflation, changes in interest rates and reduced consumer spending power;
- The third-year reduction to the Local Council Tax Reduction Scheme (LCTRS) Grant by Durham County Council;
- The continuing pressures on expenditure budgets from higher than inflation increases in some areas, particularly on insurance, water, service contracts and capital works;
- Significant likely increases in the National Living Wage, and its subsequent impact on the local government pay scale (including the deletion of the lowest salary scale point in April 2026), as well as union pressure for public sector pay to keep pace with inflation; and
- The changed priorities of the new Reform Administration at Durham County Council, and the very real risk that a decision may be made to cut the Council Tax Support Grant by more than has been forecast or to phase out the grant completely to assist in balancing their budget and fund their own priorities.

3.5 The draft 2026/27 Revenue and Capital Budgets have been developed in line with the five key principles from the Medium-Term Financial Plan which are:-

1. Continuing to provide all Council services, facilities and events and maintaining current standards of service.
2. Identifying and delivering efficiency savings where possible.
3. Delivery of the Asset Management Plan via Capital Programme Budgets.
4. Safeguarding a prudent level of balances and reserves.
5. Implementing an increase in council tax between the years 2026/27 to 2029/30 that finds a balance between recognising the 'cost of living' difficulties still being faced by local taxpayers and the budget pressures impacting upon the Council's finances in terms of grant cuts, pay awards and inflation, and the need to maintain the services valued by the local community.

- 3.6 In relation to staffing costs, the administration, finance, corporate, pre-school and works staffing budgets have been based on the latest approved staffing structure of the Council. Any specific requirements identified by service managers e.g. changes to staff cover requirements and overtime provision, have also been incorporated in the budgets. The draft 2026/27 Revenue Budgets make provision for a 4% increase in staffing costs to account for the expected pay award next year.
- 3.7 Gas and electricity costs have stabilised and fallen back and it is estimated that these budgets will deliver an underspend in the current year, with increases of 8% on gas and 6% on electricity costs in 2026/27. Further information on these budgets is included in Section 4 of the report below.
- 3.8 In relation to inflation on running costs, despite the Consumer Price Index currently standing at 3.8%, there continues to be significant increases in some costs incurred by the Council, with insurance premiums anticipated to increase in the region of 7.5% based on current premiums, and some day-to-day supply and service costs and capital works still experiencing from high increases in prices.
- 3.9 A general inflationary increase of 3.5% has been included in the draft Revenue Budgets but only for those areas where increases in costs cannot be avoided and where costs have increased at a higher level than the prevailing inflationary rate.
- 3.10 As previously reported, in light of the higher-than-expected Revenue Budget underspend delivered in the 2024/25 financial year, the Finance Manager has undertaken a full review of the Revenue Budget and where possible reduced any underutilised expenditure budgets and increased some income targets.
- 3.11 In relation to the 2026/27 Capital Programme Budget, the Medium-Term Financial Plan highlights a risk that the Council faces some potentially significant capital investment commitments in relation to its assets over the coming years, linked to the delivery of the Asset Management Plan, and that the funding of this investment will see a deterioration in the level of the Council's balances and reserves.
- 3.12 In light of this, the Council has previously agreed that future capital investment will continue to be closely monitored and controlled with only essential expenditure being agreed during these challenging economic times, in order to protect and preserve Council balances.
- 3.13 The 2026/27 Capital Programme Budget has therefore been prepared on the basis of essential investment only, mainly linked to the delivery of the Asset Management Plan.
- 3.14 As part of the 2025/26 budget setting process a review of the Capital Budget took place with a view to reducing capital spending and protecting balances, and a similar review of the 2026/27 Capital Budget will need to be undertaken as part of this budget setting process.

4.0 Draft 2026/27 Policy and Resources Revenue Budgets

- 4.1 The detailed draft 2026/27 Policy and Resources Revenue Budgets are attached at **Appendix 1** for Members' consideration.
- 4.2 Members will note that the attached draft budget figures include the actual outturn figures for the last two financial years; 2023/24 and 2024/25.
- 4.3 The prior year income and expenditure figures are included in order to enable Members to take actual spending and income figures into account, in their consideration of the draft 2026/27 budget proposals.
- 4.4 A summary of the draft Policy and Resources Revenue Budgets is shown below:-

Budget 2025/26 £	Policy and Resources Revenue Budget	Inflation and Committed Growth £	Investment in Service £	Savings and Increased Income £	Budget 2026/27 £
82,650	Members and Civic	1,200	-	-	83,850
87,200	Administration Section	5,950	-	(25,000)	68,150
105,500	Finance Section	11,450	-	(3,200)	113,750
312,600	Corporate Services	12,050	-	(3,250)	321,400
54,950	Pre Schools	19,150	-	(19,900)	54,200
267,650	Works Department	39,400	-	(39,300)	267,750
39,300	Depot	3,000	-	(2,800)	39,500
(12,500)	Capital Financing	600	-	(11,450)	(23,350)
937,350	Total Budget	92,800	-	(104,900)	925,250

- 4.5 The draft 2026/27 Policy and Resources Committee Revenue Budget shows an decrease of £12,100 or 1.3% to £925,250.
- 4.6 Pay awards, inflation and unavoidable increases in costs have added £92,800 or 9.9% to the budget.
- 4.7 However, this has been fully offset by budget reductions of £104,900 or 11.2% from reductions in expenditure budgets and increased pre-school and investment income.
- 4.8 No discretionary additional or new investment in services in the Recreation Budgets has been provided for in light of the current financial situation being faced by the Council. This is in order to help balance the 2026/27 Revenue Budget and restrict the Council Tax.
- 4.9 The largest increases year on year have been in relation to staffing costs as a significant proportion of the staff of the Council are accounted for under the Policy and Resources Committee Revenue Budgets. Net staffing costs are due to increase by around £39,100.

- 4.10 Staffing budgets have been adjusted to reflect the agreed pay offer of 3.2% in the current year, as the 2025/26 budget made provision for 4%. Provision for a forecast 4% staff pay award in 2026/27 has been reflected in the draft budget. The 2026/27 staffing budget also incorporates the deletion of pay point 2 from April 2026 which will cost in the region of £350.
- 4.11 Provision has also been made, only where absolutely unavoidable, for a number of inflationary increases on running costs. A general inflationary increase of 3.5% has also been included in the draft budget for those areas where increases in costs cannot be avoided. These include service agreements, subscriptions, internal audit fees, and machine rentals. These increases in costs have been offset by savings on a number of underutilised administration related supplies and service budgets. A reduction in fuel costs has also been included into the works section budget. Most other budgets have been frozen at existing levels, with an expectation that inflationary increases will be absorbed, although this is becoming more difficult with budgets now being so stripped back.
- 4.12 One area of expenditure where there has been continued high inflationary pressure is insurance premiums. The Council's insurance broker has indicated that insurance costs are anticipated to increase in the region of 7.5% in 2026/27 on current premiums.
- 4.13 In relation to gas and electricity costs, these have stabilised and fallen back compared to the very high costs experienced in 2022/23 at the height of the cost-of-living crisis. After some further work and research by the Finance Manager, it is estimated that these budgets will deliver an underspend in the current financial year, with estimated increases of 8% on gas and 6% on electricity costs in 2026/27.
- 4.14 The 2026/27 gas and electricity budgets have therefore been prepared based on the research undertaken and projected taking into account the current usage. These budgets will be updated if any additional information is provided prior to the budgets being finalised in January.
- 4.15 There continues to be increases in electricity costs in relation to Ofgem undertaking a Targeted Charging Review, which resulted in recovery of transmission and distribution costs. These have now been split from consumption charges. These changes and the move to the use of electric vehicles in the Council fleet continue to increase the electricity charges at the depot.
- 4.16 Increases in pre-school income have been included in the draft budget in line with expected increases in funding rates and projected attendance levels.
- 4.17 The impact of the national economic situation may result in further changes to expenditure budgets, and these will need to be monitored and factored into the final 2026/27 Revenue Budget ahead of the setting of the Precept in January.
- 4.18 The draft Revenue Budgets will be updated to take into account feedback from members at this round of meetings and then later in the year if there are any changes that are required prior to the budget being finalised and approved in January 2026.
- 4.19 A summary of the main changes in respect of each individual budget is detailed on the following pages.

4.20 **Members and Civic**

This budget has increased marginally by £1,200 to £83,850.

All budgets have been frozen at current levels with the exception of civic regalia insurance costs and central support recharges which has been increased to incorporate the pay award.

4.21 **Administration Section and Council Offices**

This budget has reduced by £19,050 to a net running cost of £68,150.

Whilst additional budget provision has been made for increases in staffing costs from the forecast local government pay award, and some inflation on running costs including the additional costs associated with the new regulations on simpler recycling, these increases have been more than offset by reductions in gas and electricity costs and savings on underutilised supplies and services budgets (particularly printing, stationery and postage costs due to the increasing move to paper light office and meetings), as well as the deletion of the vacant part-time Administration Assistant post, as agreed by Personnel Sub Committee in February this year.

4.22 **Finance Service**

This budget has increased by £8,250 to a net running cost of £113,750.

This increase provides for expected increases in staffing costs from the forecast local government pay award, an increase in the training budget to fund the Accountancy Assistant undertaking the AAT qualification, and an inflationary increase in internal audit and insurance costs.

4.23 **Corporate Services**

This budget shows an increase of £8,800 to a net running cost of £321,400.

Additional budget provision has been made for increases in staffing costs from the forecast local government pay award, inflation on running costs, increases in CCTV running costs, and an increase to the consultancy budget to provide for the increased use of external surveyor support in managing large capital projects. These increases have been partially offset by a reduction in information technology costs.

4.24 **St Oswald's Pre-Schools**

This budget has reduced marginally by £750 to a net running cost of £54,200.

Additional budget provision has been made for increases in staffing costs from the forecast local government pay award and unavoidable inflation on running costs including the additional costs associated with the new regulations on simpler recycling.

However, these increases have been more than offset by an increase in pre-school funding, along with reductions in some premises related costs.

The income budgets for funding have been increased in line with increased funding rates, with the target attendance rate remaining at 80% for the main setting and increased from 80% to 85% at the two-year-old setting.

This is in line with the projected attendance figures provided by the Pre-School Manager based on current age profile and attendance and taking into account the expansion of 30 hours free childcare at the two-year-old setting from September 2025. The forecast attendance rates represent 32 children in the main setting and 10 children at the two-year-old setting.

This increased income will be offset by a reduction in fees as a result of children in the two-year-old setting all qualifying for 30 early years funded hours which will in turn reduce the income from fees. The fees budget has been reduced by £4,000 to reflect this.

4.25 **Works Department**

This budget has increased marginally by £100 to a net running cost of £267,750.

Additional budget provision has been made for an increase in staffing costs from the forecast local government pay award, salary increments and inflation on some running costs.

However, these increases have been offset by a significant reduction in vehicle fuel costs and an increase in recharges to services to offset the increase in staffing costs.

4.26 **Depot**

This budget has increased marginally by £200 to a net running cost of £39,500.

Additional budget provision has been made for inflationary increases in premises running costs and a significant increase in electricity costs, but these have been partly offset by a reduction in gas, telephone and service agreement costs.

4.27 **Capital Financing Charges**

The net surplus on this budget has increased by £10,850 to £23,350, as a result of a projected increase in investment income, taking into account an increase in the estimated level of balances and expected interest rates over the next financial year, as well as a reduction in bank charges following the change in card machine provider at the Sports Complex and Golf Complex.

4.28 Policy and Resources Fees and Charges

The draft 2026/27 Policy and Resources Revenue Budget does not yet provide for any increases in the fees and charges for the pre-school in 2026/27.

Fees and charges will be considered separately at a Special Meeting of the Policy and Resources Committee, and if any increases are agreed, then this would generate additional resources which could then be added to the income budgets, if required later in the year, to help balance the Revenue Budget.

5.0 Draft 2026/27 Policy and Resources Capital Budgets

- 5.1 In relation to the 2026/27 Capital Programme Budget, the Medium-Term Financial Plan highlighted a risk that the Council faces some potentially significant capital investment commitments in relation to its assets over the coming years, linked to the delivery of the Asset Management Plan, and that the funding of this investment will see a deterioration in the level of the Council's balances and reserves over the medium term.
- 5.2 In light of this, the Council has previously agreed that future capital investment will continue to be closely monitored and controlled with only essential expenditure being incurred during these challenging economic times in order to protect and preserve Council balances, and the 2026/27 Capital Programme Budget has been prepared on the basis of essential investment only, mainly linked to the delivery of the Asset Management Plan.
- 5.3 As part of the 2025/26 budget setting process a review of the 2025/26 Capital Budget took place with a view to reducing capital spending and protecting balances, and a similar review of the 2026/27 Capital Budget will be undertaken as part of the 2026/27 budget setting process.
- 5.4 To be clear, it is *not* being recommended that *all* capital investment is restricted, more that investment should be focussed on those essential projects that contribute towards the delivery of the Asset Management Plan, such as building works, vehicle and machine replacement, footpath repairs and play area safety surfacing replacement.
- 5.5 The draft 2026/27 Policy and Resources Capital Programme Budget is attached at **Appendix 2** and currently stands at **£87,250**.
- 5.6 The budget includes all of the capital projects included in the Medium-Term Financial Plan and Asset Management Plan. Officers have undertaken a review of the projects and made recommendations as to which projects are considered essential, which need to be included in the budget as provisional sums, which projects can be deferred to a future year, and which projects can be deleted from the programme. This proposed classification of the capital projects making up the draft budget was considered by the Asset Management Sub-Committee on 6th October.

- 5.7 A list and description of the projects making up the draft 2026/27 Policy and Resources Committee Capital Budget is detailed below, including the officers' recommendations:

Council Offices Building Works £10,500

This budget provides for two building related projects at the Council Offices, these being the replacement of the heating system and the replacement of the external door. It has been recommended that the budget for the external door is included as essential work, and that the budget for the heating system replacement is included as a provisional sum and utilised only in the event of replacement being required on the advice of the service company.

Depot Building Works £3,750

This budget provides for two building related projects at the depot buildings, these being the upgrade of the alarm system and separation tank cleaning. It has been recommended that the budget for separation tank cleaning is included as essential work, and that the alarm system upgrade is included as a provisional sum and utilised only in the event of replacement being required on the advice of the service company.

Pre-School Building Works £13,000

This budget provides for three building related projects at St Oswald's Pre-School, these being kitchen refurbishment at the main pre-school, and internal and external redecoration at both settings. It has been recommended that all projects are included as essential works.

Felt Roof Inspections £1,000

This annual budget allocation to enable an annual inspection of those buildings with felt roofs, as required by the Council's insurer. It is recommended that this budget is included as essential work.

Replacement Works Electrical Machinery £5,000

This budget provides for the ongoing replacement of works machinery with electrical alternatives. This would include small petrol and diesel-powered hand mowers, strimmers and chainsaws. It has been recommended that the budget is included as a provisional sum and be used to be used when it is necessary only to replace machines at the end of their useful life as there are currently sufficient stocks of machinery in use.

Replacement Water Bowser £6,000

This budget provides for the replacement of a works section water bowser. It is recommended that this budget is included as an essential sum as the current bowser is at the end of its useful life and has required a number of repairs in recent years.

Computer Replacements £5,500

This budget provides for the replacement of computers and laptops as part of the Council's rolling programme of computer upgrades. Regular replacement of computers and laptops is an essential element in ensuring robust cyber security and it is therefore recommended that this budget is included as an essential sum to be spent on upgrades and replacements as recommended by the Council's information technology support company.

Information Technology Infrastructure and Cybersecurity £10,000

This new annual budget provides for any miscellaneous information technology investments mainly relating to cybersecurity, but also covering issues such as telephony, consultancy time etc. It has been recommended that this budget is included as an essential sum to be spent on various cybersecurity improvements as recommended by the Council's information technology support company following a cybersecurity audit.

Website Development £2,500

This annual budget provides for the on-going development of the Council website, including compliance requirements and accessibility improvements. It has been recommended that this budget is included as a provisional sum to be spent on any required updates next year on the advice of the Council's website provider.

Council Chamber PA System £20,000

This budget provides for the replacement of the PA system in the Council Chamber which has reached the end of its useful life. The Town Clerk is currently working on a report looking at the feasibility and investments required in the audiovisual system in the council chamber with a view to implementing hybrid meetings and the possible livestreaming or recording of Council Meetings and this budget will provide some of the resources required to make the necessary improvements. It has therefore been recommended that this budget is included as an essential sum to be spent on any required updates to the audiovisual system in the Council Chamber.

Capital Budget Contingency Sum £10,000

This is a new annual Capital Contingency Sum which is intended to provide resources for any unforeseen capital investment requirements that may arise during the year. This would be included as a provisional sum.

- 5.8 Members are asked to consider the proposed 2026/27 Policy and Resources Capital Programme Budget and confirm which projects should go ahead as essential or be retained as provisional sums, and which should be deferred to a future year or deleted altogether.

6.0 Budget Timetable

- 6.1 The remaining timetable for the setting of the 2026/27 Budgets is summarised below:

- **Early to Mid-November:** Special Policy and Resources Committee to consider proposed fees and charges increases for 2026/27;
- **Mid-November:** Issue of the online budget survey;
- **November and December:** Consideration of feedback from the October committee meetings and the budget consultation, and development of the final budget proposals, following the final notification of the Council Tax Support Grant and Council Tax Base figures;
- **3rd December:** Budget update report to Policy and Resources Committee setting out details of the above, if required;
- **21st January:** Final 2026/27 Revenue and Capital Budgets to be reported to and approved by Policy and Resources Committee;
- **28th January:** 2026/27 Precept to be approved by Full Council and Council Tax increase to be declared.

7.0 Policy Implications

7.1 The consideration of the 2026/27 draft Policy and Resources Revenue and Capital Budgets contributes towards the achievement of Strategic Aim 2 in the Council's Service Delivery Plan:

"To manage the Council's finances and assets in a responsible manner".

8.0 Staffing Implications

8.1 The draft budget proposals set out in this report were prepared in consultation with, and agreed by, the relevant service managers.

9.0 Financial Implications

9.1 The financial implications for the Council are fully set out in the report.

10.0 Crime and Disorder Implications

10.1 None.

11.0 Equal Opportunities Implications

11.1 None.

12.0 Environmental, Biodiversity and Climate Change Implications

12.1 No direct implications.

13.0 Risk Assessment

13.1 A full risk assessment will be included in respect of the setting of the Council's 2026/27 Revenue and Capital Budget, at the final stage of the budget setting process, when the Council determines and approves the 2026/27 Precept in January 2025.

14.0 General Data Protection Regulations (GDPR)

14.1 There is no personal or sensitive data required for this proposal which may have any implications for GDPR.

15.0 Recommendations

15.1 It is recommended that Members:

- a) Receive the report;
- b) Consider and agree the draft 2026/27 Policy and Resources Committee Revenue Budget and feedback any proposed amendments to officers;
- c) Consider the draft 2026/27 Policy and Resources Capital Programme Budget and confirm which projects should go ahead as essential works, which should be retained as provisional sums, and which should be deferred to a future year or deleted altogether.