Subject:	**COUNCIL BUDGET 2021/22, MEDIUM TERM FINANCIAL PLAN 2021/22 – 2024/25 AND 2021/22 COUNCIL TAX SETTING**
Meeting and Date:	**CABINET – 1 MARCH 2021** **COUNCIL – 3 MARCH 2021**
Report of:	**Mike Davis, Strategic Director (Corporate Resources)**
Portfolio Holder:	**Councillor Chris Vinson, Portfolio Holder for Finance, Governance and Digital**
Decision Type:	**KEY**
Classification:	**UNRESTRICTED**
Purpose of the report:	To seek approval for the 2021/22 budget and the Medium Term Financial Plan (MTFP) for 2021/22 – 2024/25. To set the Council Tax for 2021/2022.

Recommendation:	It is recommended that Cabinet:
	• Authorises the Strategic Director (Corporate Resources) in consultation with the Leader and Portfolio Holder for Finance, Governance and Digital to Administer funding for local businesses and families as intended by Government.
	• Approve the grants to other organisations as set out in Annex 9 subject to Council approving the 2021/22 budget;
	• Approve the refuse and recycling vehicle capital project (subject to Council approval of the Capital Project Programme); and
	• Approve the various Cabinet recommendations produced at the end of the sections within the attached budget and MTFP and summarised in Annex 10 to Appendix 1.
	It is recommended that Cabinet recommends to Council:
	• That the General Fund Revenue Budget, the Capital and Special Projects Programmes, the Housing Revenue Account Budget, the Council Tax Resolution and the content of the MTFP be approved;
	• That the Strategic Director (Corporate Resources) in consultation with the Leader and Portfolio Holder for Finance, Governance and Digital be authorised to:
	    • Draw on the Council's earmarked reserves to fund the 2021/22 budget as required;
	    • Apply new burdens funding as intended by Government;
	    • Take any surplus 2020/21 new burdens funding and "non-earmarked" funding into earmarked reserves to support the General Fund budget and to apply them in 2021/22.
	• That a Council Tax increase of 2.6% for DDC purposes be approved, resulting in an increase on Band D properties of £4.95 per year and an annual DDC Council Tax of £197.19.
	• To note that it is the view of the Strategic Director (Corporate Resources), the Section 151 Officer, having due regard to the circumstances and the range of uncertainties, that the budget has

been prepared in an appropriate and prudent manner and that as far as can be determined, and based upon the information available at the time of producing this report, the estimates are robust and the resources are adequate for the Council's spending plans in 2021/22;

- That the various Council recommendations at the end of the sections within the attached budget and MTFP, and summarised in Annex 10 to Appendix 1, are approved.

Members are advised that Section 106 of the Local Government Finance Act 1972 applies to this item.
Accordingly, if any sum of council tax become payable by any member and has remained unpaid for at least two months, that member must, if present at the meeting, declare that fact to the meeting as soon as possible after the meeting has started and may not participate in any vote on that item.

1. Summary

1.1 This report has been produced to seek approval for the 2021/22 budget and the MTFP for 2021/22 – 2024/25. If approved by Cabinet, the budget will be presented to Council, together with the resolution to set the Council Tax.

1.2 As part of its financial management process the Council is required to consider the MTFP and its implications for the Council's service objectives and financial management. The Strategic Director (Corporate Resources), the Section 151 Officer, is required to comment on the robustness of the budget and the adequacy of the reserves. These requirements are addressed in the attached budget and MTFP report.

1.3 The detailed background information presented to Cabinet in February has been included again in this report for completeness for presentation to Council.

2. Introduction and Background

2.1 The budget faces a range of uncertainties due to the pandemic, the exit from the EU and the role DDC will play as host to a Border Control Point. This report sets out the broad areas of pressure and uncertainty and the strategy adopted to deal with them.

2.2 In summary the position is:

(a) The General Fund budget for 2021/22 forecasts a deficit of c.£500k.
(b) The Housing Revenue Account is balanced.
(c) The Capital Programme is fully funded.

2.3 The forecasts contain a wide margin of uncertainty. For the General Fund a budget strategy has therefore been developed for 2021/22 which will rely on the use of reserves, if required, for 2021/22 in order to avoid making undue service and staff reductions in circumstances where the Council's financial position when business returns to normal is not yet clear.

2.4 It should be noted that a significant proportion of the support from government to the Council for 2020/21 in response to the Covid pandemic and EU transition is not ringfenced and is likely to be carried forward. This will assist in reducing any call on the Council's underlying reserves in 2021/22.

2.5 Because the situation is likely to remain volatile for a significant period of 2021/22, and because the Council needs to be able to respond to demands in an agile manner, it is also proposed that any draw down on any of the Council's reserves (as set out in Annex 4 to Appendix 1) is delegated to the Strategic Director (Corporate Resources) in consultation with the Leader and Portfolio Holder for Finance, Governance and Digital and is retrospectively reported to all Members in the quarterly performance report.

3. Overview

3.1 The budget for 2021/22 and the Medium-Term Financial Plan (MTFP) for 2021 – 2025 have been produced in wholly exceptional circumstances as a result of two events, the Covid pandemic and the EU Transition.

3.2 The various lockdowns and the system of tiers has had an impact on DDC's budget, primarily through the loss of income. In addition, the EU Transition has led to the requirement on DDC to create an expanded Dover Port Health Function which, when fully staffed, is currently estimated to have on the region of 100 additional staff operating within a new purpose-built Border Control Post (BCP) facility provided by DEFRA.

3.3 These events have led to significant uncertainties at the time of writing, impacting (mainly) the 2021/22 revenue budget, including:

- 2020/21
  - Expenditure for the year
  - Income for the year
  - Council Tax income
  - Business Rates income
  - The final value of government support to local authorities
  - The 2020/21 outturn and the reserves and balances to be carried forwards.

- 2021/22
  - The duration and severity of the lockdown / tiered restrictions
  - The speed of economic recovery
  - The net cost to DDC of the expanded Port Health Function
  - The costs to DDC of the changes in the flow and any disruptions in cross channel trade
  - The extent to which government are willing to underwrite the council's financial risks from income levels from Port Health, given the uncertainty of volumes
  - Expenditure for the year
  - Income for the year
  - Council Tax income
  - Business Rates income – including potential Material Change of Circumstances appeals to the VOA by businesses within the Dover district who believe they have been adversely affected
  - The final value of government support to local authorities.

- 2022 – 2025
    - The continuing impacts of Covid and the speed of economic recovery
    - The review of local government finance and the on-going baseline level of financing available including:
        - The Fair Funding Review
        - New Homes Bonus (or any replacement)
        - The reform of the Business Rates Retention model
        - Business Rates revaluations and re-sets

3.4 It should be noted that the Covid support from government is likely to lead to an overall underspend in 2020/21, which will be used to support pressures in 2021/22. None of the Covid support measures are expected to remain in place beyond 2021/22 and so they do not affect the Council's underlying baseline position. The recovery from Covid may, of course, last into 2022/23 and beyond.

4. General Fund Budget Strategy

4.1 The Council is required to approve a General Fund revenue budget having regard to net expenditure requirements, Government funding, available internal reserves and the yield from Council Tax and the retained element of Business Rates.

4.2 The Council has discretion over allocation of resources to service priorities and its use of reserves and can determine its Council Tax within the constraints as set by Government. The Council has no influence over the level of Government funding but must have due regard to the capacity to set viable budgets in ensuing years.

4.3 In past years the standard budget strategy for DDC has been to estimate the baseline service costs, determine the financing available, drive savings where possible / required, produce a broadly balanced budget and maintain reserves and balances for one-off and planned purposes such as the project programmes, elections, ICT investment etc.

4.4 Although the standard strategy has served the council well, it would not be robust in the current circumstances, since the levels of uncertainty mean that it could lead to excessive (and ultimately unnecessary) service and staff reductions, or to an unbridgeable budget gap.

4.5 Therefore, given the scale of the current unknowns, a different strategy is required. The strategy that has been adopted for 2021/22 is to include those savings in costs that are reasonable and deliverable without material reductions in staff or services and to apply reserves to meet any subsequent budget deficit. Specifically:

- Identify the "normal" or "business as usual" budget pressures. These were £1.8m for 2021/22, increasing to £3.1m by 2023/24.
- Identify savings of c.£2m to address these pressures.
- Identify the pressures caused by Covid 19 lockdowns. These were c.£2m.
- Identify supporting Government funding to offset the Covid 19 pressures. These are c.£1.3m.
- Resulting budget deficit of £500k to be funded from General Fund balances.
- Allow any budget surplus resulting in 2020/21, arising as a result of normal income and expenditure and unspent government support, to pass into reserves.

- Avoid any undue or excessive service changes or reductions in 2021/22 by using reserves in 2021/22 to fund any budget deficit, with the intention to review the budget during 2021/22 and plan for a balanced budget in 2022/23.
- As the level of reserves to be used at this time is unknown, it is recommended that Cabinet delegate the application of reserves to the Strategic Director (Corporate Resources) in consultation with the Leader and Portfolio Holder for Finance, Governance and Digital through 2021/22 to balance the financing of the General Fund.

4.6 It is important to note that reserves expended in 2021/22 will not be available for capital or other projects and may take time to rebuild, but this is a judgement call in a period of uncertainty for the Council and high levels of service need for the community.

4.7 With regard to the rest of the MTFP, because this is a planning document, adoption of the MTFP does not commit the Council to the forecasts for 2022/23 - 2024/25. These are for planning purposes and are likely to be adjusted in the light of new information or changes in the Council's circumstances, the on-going impacts of Covid 19, the national economic picture, the EU transition, future local government settlements and the Council's response to any future savings required.

5. Government Support to Local Authorities for Covid

5.1 The support has come from several government departments. Some has been well thought through and meets the intended costs, in other areas that is not as much the case. However, the funding streams have been drawn up in a time of unparalleled pressures when speed of response has been more important than precision, and this has been delivered. It is not, therefore, surprising that there are some issues and challenges – but overall the quantum of support to DDC for 2020/21 has been sufficient.

5.2 The particular issues and challenges have been:

- The multiplicity of funding streams (some 35+) across local government.
- Some funding streams are likely to be in excess of DDC requirements. Others fall short.
- Some are for 2020/21, some for 2021/22, others span both years.
- The lack of clarity in some streams and the frequency of changes.
- The number of government departments involved.
- The significant volume and frequency of data returns required by government.

5.3 The funding streams falls into three main categories:

- Support to the Council
    - This support is not generally ringfenced. Any funds unspent in 2020/21 will be carried over in reserves and can be used in 2021/22 to support the General Fund budget.

- Direct support to local families and businesses
    - Some of this support is for defined purposes or to be allocated in specific ways, other elements are to be allocated using the council's discretion. In either case, this funding will generally be used in 2020/21 or held in an earmarked reserve to be used for its intended purpose in 2021/22.

  - The council is, effectively, administering a funded government scheme and so the cost of the scheme has a nil impact on the Council's budget.
  - They include:
    - Local Restrictions Support Grant (LRSG) Closed
    - LRSG (Open)
    - LRSG (Closed) Addendum
    - Closed Business Lockdown Payment
    - Additional Restrictions Grant (ARG)
    - ARG Top-up.
  - Some of these schemes, such as the LRSG (Open) support for businesses will be replenished on a two-weekly basis, reflecting expenditure by the Council.
  - Other schemes, such as the ARG, have a fixed sum which the council has the discretion to allocate, but is expected to last until March 2022.
  - It is not clear whether any remaining funds from such schemes will be available for the council to retain or will have to be repaid. Accordingly, these schemes have not been included in the general fund budget.

- Support to the Council to meet the costs of new burdens.
  - This is to meet the costs of additional services such as support to the "Clinically Extremely Vulnerable".
  - It is not clear whether any remaining funds from such schemes will be available for the council to retain or will have to be repaid. Accordingly, these schemes have not been included in the General Fund budget.
  - A significant proportion of such schemes are allocated to upper tier and unitary authorities. In such cases DDC involvement is through re-distribution by KCC.

5.4 The main grant streams that comprise "Support to the Council" are set out in Appendix 2, as they have an impact upon the General Fund.

6. Dover Port Health Function

6.1 Imported food control is only a very small part of the current Port Health service. The main activities currently revolve around ship inspections and infectious diseases. Existing imported food controls amount to approximately 1,000 checks per annum and are conducted by just 1.5 FTE.

6.2 As a result of leaving the EU additional controls will be required on imported products from the EU and Rest of the World (RoW). Based on DEFRA's anticipated figures, Dover Port Health Authority will be required to undertaken approximately 94,000 checks on products of animal origin (POAO) from EU, as well as an unknown but significant increase in number of checks on RoW products, Organic products and fish. As such a 24-hour, 7 day a week service requiring a minimum of 100 additional staff will be needed, costing in the region of £8 million per year to operate. This function will operate out of a brand new, purpose-built Border Control Post (BCP) facility provided by DEFRA.

6.3 The expansion of the Dover port health function will add major value to the council, the community and the local economy. Based on current estimated volumes and inspection requirements, employment opportunities will include the creation of approximately 100 jobs and thereby boost the local economy. However, the expansion also creates a significant risk to the organisation both financially and reputationally should volumes, inspection levels, government policies change. In addition, and perhaps of higher concern are the wider political and commercial implications of any failure.

6.4 The DEFRA model assumes that the service will be self-financing, based on the fees charged for inspections. However, volumes are uncertain, since there was no need to gather this data when the UK was part of the EU, some fees will be set by DEFRA and those set by DDC need to be at a practical level so as not to impact the level of trade through the port.

6.5 DDC has received £4.1m funding for the initial set up of the service and a commitment to underwrite any additional costs to DDC has been made by DEFRA, but only for the current year to 31st March 2021. In reality, much of this is likely to be carried over into 2021/22.

6.6 No clear funding has been agreed by DEFRA for 2021/22. Future underwriting of any costs is being requested from DEFRA up to 2023.

6.7 In view of the uncertainty as to the net cost of the service, the phasing in of the additional staff, funding for 2021/22 and the underwriting by DEFRA of any net losses in 2021/22, the budget does not yet contain any estimates for the costs of this service.

6.8 The £4.1m of set up funding provided to DDC by DEFRA in 2020/21 will be held in an earmarked reserve and released to offset expenditure as it arises, whether that is in 2020/21 or 2021/22.

7. Funding for Inland Port

7.1 DDC has also received £500k for use within the period of January 2020 to March 2021, to assist in the preparations for the end of the Transition Period. This funding is to support business continuity in the eventuality of disruption from the changes.

7.2 This funding is not ring-fenced and the quoted time period ending March 2021 should probably be treated lightly. The method of calculating the £500k is not clear. A list of awards to other councils for the same purpose is provided at Appendix 3.

7.3 It should be noted that the actual costs to DDC of being an "inland" port will not be one-off and will be driven mainly by the levels of traffic and traffic disruption and include:

- Waste contract operational impacts, (all waste streams affected).
    - Longer operating days 6am - 10pm and longer week,
    - Saturday working.
    - Cost to cover contractors' costs and transfer station opening costs.
- Street cleansing operational impacts.
    - Increased cleansing of the highways, slower turnaround times, contractor costs and transfer station costs for this seven day per week service.
- Upgrade of CCTV and Control Room and enhanced monitoring for traffic management.

7.4 DDC is currently lobbying MHCLG to support these extra costs that DDC bears for a service which is of national importance.

8. **Wider Local Government Finance Picture**

8.1 There is a pressing need for reform to local government finance. On 17 December MHCLG Secretary of State, Robert Jenrick said:

> "When there is a clearer path ahead, we will work with the sector and Members across the House to **seek a new consensus** for broader reforms to local government, including the fair funding review and the business rates reset, and we will ensure that councils are set on a long-term trajectory of sustainable growth and fair resources."
>
> "We all … would agree that we need an updated and fairer method for distributing public funds within local government. This year would have been the wrong time to bring that forward, I think. This is a one-year settlement in a period of almost unique instability in the sector. **There might be an opportunity to do it next year, and my Department will work with the Treasury to review that**."

8.2 It is not possible to set out in detail all the variables and potential outcomes. The notes below provide the headlines.

<u>Core Spending Power</u>

8.3 Core spending power is a measure used by central government to demonstrate the resources available to local authorities and includes council tax as well as Revenue Support Grant, Business Rates etc. The measure has its flaws, but it does demonstrate an overall trend and shire districts have generally seen the largest reduction, or smallest increase, in core spending power.

<u>Budget 3rd March 2021</u>

8.4 This is a significant budget since the Chancellor is likely to start making decisions about the route to re-balance public finances over time. This will have an impact upon the size of the overall government cake, the slice given to MHCLG, and the share each council will receive. This is inextricably linked with Council Tax reform and Business Rates Retention (see below).

<u>Fair Funding Review</u>

8.5 Fair Funding Review (FFR) has been scheduled for 2022/23, but it has been postponed before. It is an essential first step in determining the base resource requirements for councils and how they will be achieved. From the FFR will flow the Business Rates Retention (BRR) baseline.

8.6 It will also have to incorporate a significant element of resource redistribution, since greatest need is often aligned with lowest resource.

<u>Council Tax Reform</u>

8.7 At the macro level, the Government is now placing an increasing burden for funding local services onto the local taxpayer. Approximately 82% of the increase in Core Spending Power (CSP) in 2021-22 will come from council tax increases. The increase in funding from Government is only £150m. Between 2010-11 and 2014-15, Government policy was to minimise (or even freeze) council tax increases; but since then, the burden on the local taxpayer has increased markedly. There may be a limit to future Band D increases within a largely unreformed council tax system, where Band D levels are so different.

8.8 There is now speculation that Council Tax could be replaced by an alternative system such as a national property tax.

Business Rates Retention

8.9 There are several potential changes to the Business Rates Retention (BRR) scheme.

8.10 An increase from 50% to 75% has been proposed and may be implemented from 2022/23. However, the existing system of tariffs and top-ups (or a similar system) will still be required for resource equalisation.

8.11 A baseline re-set is also overdue. At present Council's still work to the baseline set when the system was introduced. A reset will remove some, or all, of the retained Business Rates arising from growth. This will feed resources back into the system, but without some form of damping the impacts on "growth" councils could be significant and appear to be penal to councils delivering the government's agenda.

8.12 Finally, a revaluation is also overdue, the last being in 2017, with an intended three yearly cycle. Revaluations are intended to be fiscally neutral, and if baselines are properly adjusted, should not impact on BRR.

New Homes Bonus

8.13 The approach taken in 2020-21 and 2021-22 is an interim measure until New Homes Bonus (NHB) can be replaced and "losses" can be supported by a damping regime across councils to flatten the impact on winners and losers.

8.14 The sector needs more certainty about the future of NHB. A consultation paper is promised for Spring, and it is important that this timetable does not slip. NHB is important and we need certainty about the future (even if it means we get less funding from NHB's replacement).

8.15 The main criticism of the Government's treatment of NHB in the settlement is that the "surplus" has not been returned to local government in the way that has been promised. NHB has been part-funded by a top-slice from Revenue Support Grant (since 2013-14), and it has always been intended that any unused amounts will be returned pro rata to the original top-slice. However, the Government has used the £278m surplus to fund the other grants that have been announced in the settlement (£4m Rural Services Delivery Grant, £111m Lower Tier Services Grant, £150m social care grant, £13m Revenue Support Grant).

8.16 This makes financial planning difficult because the Government is not maintaining established principles about how any surplus will be used, and it distorts the stated increase in grant funding for local government. Local government has received only £150m in new money, with all the other increases in grant being funded from within local government's existing resources.

9. **Housing Revenue Account (HRA)**

9.1 The HRA budget has been set following the successful transfer of the service back in-house from 1st October 2020. The HRA forecasts a balanced position for 2021/22 and maintains the HRA balance at £1m for the planning period. This includes rent levels to be set in live with government guidance and an increase in planned revenue and capital works over the period to be financed from the Housing Initiatives reserve.

10. Capital and Revenue Projects Programmes

10.1 The Council holds limited capital resources (other than the capacity to borrow[1]), but within these resources it has discretion over which projects to support. The Medium Term Capital Programme shows that resources have been applied to the regeneration projects in support of the Council's corporate objectives.

10.2 The programmes were reviewed in detail in 2020/21 and presented to Council for approval in October 2020. The main changes to the programmes included in the MTFP are:

- Dover Town Regeneration – addition of £1.2m business rates pilot retained income to the programme to support the Town Centre Regeneration project. This project is already included in the level of reserve use assumed in the latest papers presented to Members for the budget process.
- Refurbishment of Public Conveniences – budget of £50k to enable works and enhancements as appropriate.
- Kearsney Café CCTV – budget of £45k to supply and install CCTV cameras within the park and café to improve safety, protection of property and reduce risk of additional repair costs through vandalism & damage.

10.3 The following amendments have been made to the capital programme since presentation to Cabinet in February:

- Future High Street project match funding reduced from £2.5m to £1.7m to reflect level of grant awarded. Saving allocated to:
  - Discovery Centre District Archive project increased from £250k to £700k;
  - Additional £350k Town Centre Regeneration Fund;
- Addition of £4.5m for Refuse & Recycling vehicle purchases, funded by borrowing. The revenue costs of the borrowing will be offset by a reduction in the contract charges, delivering a net saving for the Council.

11. Refuse & Recycling Vehicle Purchase Project

11.1 It is also recommended that, subject to approval by Council of the capital programme, Cabinet approve the payment to Veolia of a capital grant to finance the purchase of the Refuse & Recycling vehicles, in accordance with the contract proposals agreed with Veolia Environmental Services.

11.2 The financing by DDC of the vehicles required to deliver the service will result in a reduction in the contract charges for the revenue service. These savings will be sufficient to finance the cost of borrowing to finance the capital expenditure and deliver a saving of c.£80k per annum for the Council.

[1] Borrowing can be undertaken for capital projects but revenue budgets have to finance the interest and repayment costs.

12. **Changes to the Budget and MTFP**

12.1 Since presentation to Cabinet the following changes have been made to the draft budget and MTFP to reflect information that has subsequently become available:

- General Fund:
  - Business rates income updated to reflect the completion of the 2021/22 NDR1 Return, submitted on 29th January 2021;
  - These changes are included in Annexes 1 to 4 and the associated changes to the introduction and General Fund sections.
- Precepts have been received and the 2021/22 Council Tax Resolution and associated annexes have been completed and included;
- Changes to the capital programme as detailed in para 10.3 above.
- Capital, Treasury Management and Investment Strategies have been included.

13. **Identification of Options**

13.1 The Council is required to set a budget, and so declining to do so is not an option. Members could choose to change the allocation of resources between services, and that option remains open during the financial year.

13.2 The Council is also required to approve the Council Tax level for the following year. The budget proposes a Council Tax increase of £4.95 for Band D properties. This maintains the lowest District Council Tax in East Kent. Members could decide to set a different Council Tax level. However consideration should be given to the risk and impact of triggering a Council Tax Referendum if a higher level of Council Tax was proposed, or how any proposals to reduce the level would be financed in 2021/22 and future years, while ensuring the budget remains robust and reserves sufficient.

14. **Resource Implications**

14.1 The revenue budgets and capital plans determine the level of Council Tax and the utilisation of resources for the next year. The MTFP is a key element in the prudent use of resources over the medium term.

15. **Corporate Implications**

15.1 Comment from the Section 151 Officer: No further comments to add.

15.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

15.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications, however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15/section/149

16. **Appendices**

Appendix 1 – Budget 2021/22 and Medium Term Financial Plan 2021/22-2024/25

Appendix 2 – General Government Funding for Local Authorities

Appendix 3 – Funding from MHCLG for Inland Ports

17. **Background Papers**

Draft Budget 2021/22 and Medium Term Financial Plan 2021/22-2024/25 (Cabinet 1st Feb 2021)

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