Subject:	**COUNCIL BUDGET 2022/23 AND MEDIUM-TERM FINANCIAL PLAN 2022/23–2025/26**
Meeting and Date:	**Cabinet – 7 February 2022** **Overview and Scrutiny Committee – 21 February 2022**
Report of:	**Helen Lamb, Head of Finance and Investment**
Portfolio Holder:	**Councillor Chris Vinson, Portfolio Holder for Finance, Governance, Digital and Climate Change**
Decision Type:	**Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To progress approval of the 2022/23 budget and the Medium-Term Financial Plan (MTFP) for 2022/23–2025/26.
Recommendation:	It is recommended that Cabinet: • Considers the draft General Fund Revenue Budget, the Capital and Special Projects Programmes, the Housing Revenue Account budget and the content of the Medium-Term Financial Plan (MTFP) as proposed in Appendix 1, and advises the Strategic Director (Corporate Resources) of any changes they require to be incorporated in the final version; • Agrees that the draft budget is placed on the Council's website, to be available for comments; • Notes that the remaining Annexes, including the Council Tax Resolution and Treasury Management, Investment and Capital Strategies will be added to the MTFP, and other minor adjustments made, before being presented to Council in March.

1. Summary

1.1 The budget faces a range of immediate uncertainties due to the pandemic, the economic recovery and the Council's greatly expanded Port Health Authority role[1] as a result of the exit from the EU. The Council also faces longer term uncertainties from the future of local authority funding including the Fair Funding review, New Homes Bonus, Business Rates Retention and Levelling Up.

1.2 This report sets out the broad areas of pressure and uncertainty and the strategy adopted to deal with them.

1.3 In summary the position is:

1. The General Fund budget for 2021/22 forecasts a deficit of c.£40k;

[1] The Port of Dover is the busiest "Roll-on roll-off" port in Europe and a high percentage of the UK's imported food arrives through the port. As Port Health Authority Dover District Council is responsible for the inspection regime for EU sourced Products of Animal Origin (PAO), Rest of World (RoW) products and high risk foods not of animal origin. Inspection of PAO is on a percentage basis of the estimated 900k – 1m PAO consignments coming into the port every year. There is expected to be an increase in staffing of anything up to 240 FTE to manage this greatly increased service.

2. The Housing Revenue Account has a deficit of £2m due to the restorative works programme, to be funded from the Housing Initiatives Reserve;
3. The Capital Programme is fully funded.

1.4 The forecasts contain a significant margin of uncertainty. As a result, there is a risk that measures to produce a balanced budget may be too severe, or insufficient. To mitigate this risk and the volatility of the budget process the strategy will therefore incorporate a £4m smoothing reserve to enable the council to take a measured approach to the forecast pressures.

2. Overview

2.1 The budget for 2022/23 and the Medium-Term Financial Plan (MTFP) for 2022 – 2026 have been produced in circumstances that remain unusual and volatile because of the continuing Covid pandemic and the winding down of central government support for Covid related pressures and consequences, the implementation of EU exit and the unpredictable economic recovery.

2.2 The EU Transition has led to the requirement on DDC to create an expanded Dover Port Health Function which, when fully staffed, is expected to have up to 240 additional staff operating within a new Border Control Post (BCP) facility at Whitfield provided by DEFRA.

2.3 These events have led to significant uncertainties at the time of writing, impacting (mainly) the 2022/23 revenue budget, including:

- 2021/22
  - The final value of government support to local authorities
  - The 2021/22 outturn and the reserves and balances to be carried forwards.

- 2022/23
  - The duration / renewal of lockdown and / or restrictions
  - The speed of economic recovery
  - The net cost to DDC of the expanded Port Health Function
  - Expenditure for the year
  - Income for the year
  - Council Tax income
  - Business Rates income
  - The government settlement for local authorities.

- 2023 – 2026
  - 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

2.4 It should be noted that the Covid support from government led 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 impacts and recovery from Covid may, of course, last into 2022/23 and beyond.

3. General Fund Budget Strategy

3.1 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.

3.2 Although the standard strategy has served the council well and remains part of the process, in the current circumstances we need to do more. Therefore, to mitigate this risk and the volatility of the budget process the strategy includes a £4m smoothing reserve to enable the council to take a measured approach to the forecast pressures. This will involve:

1. Creating a General Fund Revenue Budget Smoothing Reserve of £4m by taking £1.3m from GF balances (reducing them to £1.5m as an “absolute last resource” balance for major overspends only), £1.4m from retained Covid grants and £1.3m from unallocated revenue reserves.
2. The projections for future revenue budgets will then generally be based on “mid case” assumptions.
3. Produce a balanced budget on the basis set out above and maintain the existing budget management disciplines.
4. If there is a subsequent overspend, or late and unexpected adverse changes, these will generally be met from the Smoothing Reserve and remedial action (including rebuilding of the Smoothing Reserve) will be planned for the following year.

3.3 It is important to note that the smoothing reserve will not be available for capital or other projects. It is there to support the General Fund revenue budget. It is not planned to use it when preparing the budget – it is there to cope with any unexpected pressures in the outturn and any last-minute significant changes such as the government settlement. If it is called upon, it will be necessary to restore the reserve.

4. Government Support to Local Authorities for Covid

4.1 Support for local authorities has now largely wound down with the few remaining streams such as the Contain Outbreak Management Fund (COMF) needing to be fully spent by 31/3/22.

4.2 Government still requires extensive returns on expenditure and impacts, with data requests running at 5+ per week, and this does place pressure on limited resources, but it is hoped that this will also wind down.

4.3 The particular issues and challenges have been:

- The multiplicity of funding streams (some 35+) across local government.
- 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 high complexity and demands created to implement welcome government support to businesses, families and the community.
- The number of government departments involved and their different approaches.

- The significant volume and frequency of data returns required by government.

4.4 The various Covid support funding streams were set out in more detail in the 2020/21 budget.

5. **Dover Port Health Function**

5.1 The Port Health service covers a range of activities including inspection of food imports, ship inspections and infectious diseases. Prior to leaving the EU, imported food controls amounted to approximately 1,000 per annum, which were conducted by just 1.5 FTE.

5.2 As a result of leaving the EU additional controls will be required on imported products from the EU and Rest of World (RoW) Products of Animal Origin (PAO) and RoW high risk foods not of animal origin.

5.3 The Council estimates that there are some 900,000 consignments of PAO per annum (in the extreme, a single lorry can contain up to 150 individual consignments), with 100% (based on the current government implementation plans) requiring documentary checks, of which 1.5% will also require physical inspection. These estimates cannot be precise at this time as there is insufficient data since it was not required or collected when the UK was in the EU. However, they are regarded as a reasonable indication of the overall quantum. The build up of the service and staffing will be phased so that it can be adjusted as actual volumes are more accurately known.

5.4 There is also expected to be a significant (but currently unquantified) increase in the number of checks on RoW products, organic products and fish. Therefore, to meet these additional requirements, a 24-hour, 7 day a week service with up to 240 additional DDC staff will be needed. Fees on all consignments are intended to make this service self-financing and so there is not expected to be any net cost to DDC from operating this service. The facilities to operate the service will be provided and managed by Defra.

5.5 The income and expenditure and fees for the service are expected to be managed in accordance with the current regulations. The fees are expected to be phased in, starting in July 2022 and to be fully implemented by the end of 2022.

5.6 An initial operating reserve has also been established to deal with any unexpected short-term issues or with the impacts should there be a reduction in the scale of the service at a later date due, for example, to changes in the border arrangements with the EU in the future. The size of the reserve will be re-evaluated as more is known about volumes etc.

5.7 In the meantime, DEFRA have funded the service to March 2022 and have committed to cover any financial shortfall in the early period when the service is operational but may be operating at a deficit pending the full implementation of fees.

5.8 The service is expected to operate from a bespoke re-modelled facility at Whitfield, which is called Dover SPS BCP. This facility, vehicle marshalling, unloading and reloading of lorries, driver welfare etc. will all be provided and managed by DEFRA and so DDC's role is purely to manage the imported food regime on site.

5.9 The expansion of the Dover port health function will add major value to the council, the community and the local economy. Employment opportunities include the creation of up to 240 jobs and thereby a significant boost to the local economy.

6. **Wider Local Government Finance Picture**

6.1 There is a pressing need for reform to local government finance.

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

Levelling Up

6.3 The levelling-up strategy may result in changes to the structure and funding of local government. At this stage no formal proposals have been shared by government and so the comments below are made in the context of the existing structure and financing model.

Core Spending Power

6.4 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.

Fair Funding Review

6.5 Fair Funding Review (FFR) was scheduled for 2022/23, but it has been postponed. 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.

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

Council Tax Reform

6.7 The Government is placing an increasing burden for funding local services onto the local taxpayer. Overall, approximately 82% of the increase in Core Spending Power (CSP) in 2021-22 came from council tax increases.

6.8 Council tax increases for shire districts will be limited to 2% or £5, whichever is the greater. This maintains the existing inequity between low and higher taxing districts. DDC is a low tax district.

Business Rates Retention

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

6.10 An increase from 50% to 75% has been proposed but is now expected to be postponed or rejected. Regardless of the retention percentage, the existing system of tariffs and top-ups (or a similar / equivalent system) will be required for resource equalisation between the high resource / low need councils and those with low resource and high need.

6.11 A baseline re-set is also overdue. At present Councils still work to the baseline that was 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.

6.12 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

6.13 The approach taken in 2020-21 and 2021-22 was 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.

6.14 NHB is important and we need certainty about the future (even if it means we get less funding from NHB’s replacement).

6.15 The main concern with 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 surplus to fund the other grants that have been announced in the settlement (Rural Services Delivery Grant, Lower Tier Services Grant, Social Care Grant, Revenue Support Grant).

6.16 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.

7. Housing Revenue Account (HRA)

7.1 The HRA budget has been set following the successful transfer of the service back in-house from 1st October 2020. Rent levels will be set in line with government guidance and a significant increase in planned revenue and capital works for the restorative works programme has been built into the forecast. This results in a forecast deficit for the HRA of £2m for 2022/23. This will be funded in-year from a contribution of £2m from the Housing Initiatives Reserve, maintaining the HRA balance at £1m for the planning period.

7.2 The HRA is viable now and in the longer term, even with the underlying pressure to borrow, but this relies on rigorous financial discipline to ensure that the current investment programme is managed within existing and forecast resources.

8. Capital and Revenue Projects Programmes

8.1 The Council holds limited capital resources (other than the capacity to borrow[2]), 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. Resources for new projects not currently included in the proposed programme are expected to be significantly limited.

9. Identification of Options

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

9.1 It is a statutory duty to set a budget and approve a Council Tax level. This report seeks Cabinet's approval to consider the proposed budget and associated content in the MTFP. Therefore, there are two options:

9.2 Option 1 - Approve the proposed budget to be progressed for final review by Cabinet and approval by Council; or

9.3 Option 2 – Propose changes to the proposed budget to be presented to Council.

10. Evaluation of Options

Option 1 - Approve the proposed budget to be progressed

10.1 The proposed budget recognises that there is a wide range of unknowns in the expenditure, income and financing of the Council for 2022/23 and that, as in 2021/22, the Council needs the ability to be able to react to changing circumstances and demands in a timely manner.

10.2 The budget therefore proposes to address this by continuing to provide the Strategic Director (Corporate Resources) with delegated authority (in consultation with the Leader and the Portfolio Holder for Finance, Governance and Digital) to draw on reserves to meet unexpected costs or lost income, should that be necessary without recourse to Council for a revised budget. For these reasons, this is the recommended option.

Option 2 – Propose changes to the proposed budget to be presented to Council.

10.3 There are two ways to approach this. First, the option to flex the budget in year could be rejected in favour of a more rigid budget envelope. Second, within the proposed envelope, resources could be moved between areas of service.

10.4 Fixing the budget envelope at the current time, with the range of uncertainties set out in this report, would inhibit the Council's ability to react to changing circumstances. The allocation of resources between services reflects the existing level of service provision and the current service pressures. For these reasons this is not the recommended option.

11. Resource Implications

11.1 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.

12. Climate Change and Environmental Implications

12.1 One constant during these uncertain times is the risk of Climate Change. Recovery plans, strategies and projects should all consider the impacts on Climate change on a case by case basis, and what could be done within the Council's resources to reduce emissions to support delivery of DDC's Climate Emergency ambitions.

13. Corporate Implications

13.1 Comment from the Strategic Director (Corporate Resources): No further comments to add.

13.2 Comment from the Head of Governance & HR: The Head of Governance & HR has been consulted during the preparation of this report and has no further comment to make

13.3 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

14. Appendices

Appendix 1 – Draft Budget 2022/23 and Medium Term Financial Plan 2022/23 – 2025/26

15. Background Papers

2022/23 Budget Working Papers

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