
Subject: COUNCIL BUDGET 2022/23, MEDIUM-TERM FINANCIAL PLAN 2022/23–2025/26 AND 2022/23 COUNCIL TAX SETTING

Meeting and Date: Cabinet – 28 February 2022

Council – 2 March 2022

Report of: Mike Davis, Strategic Director (Corporate Resources)

Portfolio Holder: Councillor Chris Vinson, Portfolio Holder for Finance, Governance, Digital and Climate Change

Decision Type: Key

Classification: Unrestricted

Purpose of the report: To seek approval for the 2022/23 budget and the Medium-Term Financial Plan (MTFP) for 2022/23–2025/26.
To set the Council Tax for 2022/2023.

Recommendation: It is recommended that Cabinet:

- Approves the grants to other organisations as set out in Annex 9 subject to Council approving the 2021/22 budget; and
- Approves 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 Portfolio Holder for Finance, Governance, Digital and Climate Change, be authorised to draw on the Earmarked Smoothing Reserve to meet in year variations in the budget.
 - That a Council Tax increase of 2.6% for Dover District Council purposes be approved, resulting in an increase on Band D properties of £4.95 per year and an annual DDC Council Tax of £202.14.
 - To note that it is the view of the Strategic Director (Corporate Resources) and 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 2022/23;
 - 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.
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Members are advised that Section 106 of the Local Government Finance Act 1972 applies to this item.

Accordingly, if any sum of Council Tax became 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 2022/23 budget and the MTFP for 2022/23 – 2025/26. 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 immediate uncertainties due to the pandemic, the economic recovery and the Council's greatly expanded Port Health Authority role¹ 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.
- 2.2 This report sets out the broad areas of pressure and uncertainty and the strategy adopted to deal with them.
- 2.3 In summary the position is:
- (a) The General Fund budget for 2022/23 forecasts a deficit of c.£40k;
 - (b) The Housing Revenue Account has a deficit of £2m due to the restorative works programme, to be funded from the Housing Initiatives Reserve;
 - (c) The Capital Programme is fully funded.
- 2.4 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. This is set out in more detail in the General Fund Budget Strategy below.

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.

3. **Overview**

3.1 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.

3.2 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.

3.3 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

3.4 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.

4. **General Fund Budget Strategy**

4.1 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.

- 4.2 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.
- 4.3 This will involve:
- (a) 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.
 - (b) The projections for future revenue budgets will then generally be based on “mid case” assumptions.
 - (c) Produce a balanced budget on the basis set out above and maintain the existing budget management disciplines.
 - (d) 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(s).
- 4.4 The smoothing reserve has been created following a review of the Council’s earmarked reserves to identify existing reserves that are no longer required. The Councils reserves are reported in detail to Members in every budget and outturn report.
- 4.5 The purpose of the reserve is to support the General Fund revenue budget and to enable the Council to cope with significant financial shocks, such as the Covid lockdown, without the need to immediately recast the budget, and also to cope with late financial pressures during the budget process without requiring major changes.
- 4.6 As the reserve is not replenished from the revenue budget it is not intended to be used for planned on-going baseline expenditure or for one-off service initiatives or for capital or other projects. By setting up the reserve the Council has the capacity to avoid basing its budget on worst case assumptions which could lead to undue reductions in service, where a mid-case forecast would be a reasonable and sustainable basis.
- 4.7 It is important to note that the smoothing reserve will not be available for capital or other projects and the budget should not plan to use it – it is there to cope with any unexpected pressures in the outturn and any last-minute significant changes such as the government settlement.
- 4.8 If the reserve is used to meet any pressures, it will be replenished at the end of the financial year or in the successive year(s), and on-going baseline adjustments will be made as required to absorb the pressures in the future.

5. **Government Support to Local Authorities for Covid**

- 5.1 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.
- 5.2 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.
- 5.3 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.

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

6. **Dover Port Health Function**

6.1 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.

6.2 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.

6.3 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.

6.4 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.

6.5 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.

6.6 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.

6.7 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.

- 6.8 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.
- 6.9 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.

7. **Wider Local Government Finance Picture**

- 7.1 There is a pressing need for reform to local government finance.
- 7.2 It is not possible to set out in detail all the variables and potential outcomes. The notes below provide the headlines.

Levelling Up

- 7.3 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

- 7.4 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

- 7.5 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.
- 7.6 It will also have to incorporate a significant element of resource redistribution, since greatest need is often aligned with lowest resource.

Council Tax Reform

- 7.7 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.
- 7.8 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. Council Tax increases above this level can only be made if supported by a Council Tax Referendum.

Business Rates Retention

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

- 7.10 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.
- 7.11 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.
- 7.12 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

- 7.13 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.
- 7.14 NHB is important and we need certainty about the future (even if it means we get less funding from NHB’s replacement).
- 7.15 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).
- 7.16 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.

8. Housing Revenue Account (HRA)

- 8.1 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.
- 8.2 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.

9. Capital and Revenue Projects Programmes

9.1 The Council holds limited capital resources (other than the capacity to borrow²), 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.

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

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

- Precepts have been received and the 2022/23 Council Tax Resolution and associated annexes have been completed and included;
- Capital, Treasury Management and Investment Strategies have been included.

11. **Identification of Options**

11.1 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.

11.2 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 2022/23 and future years, while ensuring the budget remains robust and reserves sufficient.

12. **Resource Implications**

12.1 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.

13. **Corporate Implications**

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

13.2 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.

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 – Budget 2022/23 and Medium-Term Financial Plan 2022/23-2025/26

15. **Background Papers**

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

Draft Budget 2022/23 and Medium-Term Financial Plan 2022/23-2025/26 (Cabinet 7th Feb 2022)

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