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| Subject: | COUNCIL BUDGET 2023/24 AND MEDIUM-TERM FINANCIAL PLAN 2023/24–2026/27 |
| Meeting and Date: | Cabinet – 6 February 2023 Overview and Scrutiny Committee – 20 February 2022 |
| Report of: | Mike Davis, Strategic Director (Finance and Housing) |
| 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 2023/24 budget and the Medium-Term Financial Plan (MTFP) for 2023/24–2026/27

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 (Finance and Housing) of any changes they require to be incorporated in the final version;
- Approves the increase in social and shared ownership rents.
- Agrees that the draft budget is placed on the Council’s website, to be available for comments;
- Notes that the impact of the 2023 Business Rates revaluation of the General Fund funding is still being finalised. Any changes will be reflected in adjustments to the use of the smoothing reserve in the final budget.
- Note 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 macro-economic position, the on-going impact of the exit from the EU and the on-going recovery from the pandemic. 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:

- i) The General Fund budget for 2023/24 forecasts a deficit of c.£1m, to be funded from the Smoothing Reserve approved in the 2022/23 budget process;
- ii) Proposed DDC Council Tax increase of £6.03 (3%) for a Band D property, maintaining the lowest Council Tax in East Kent;
- iii) The Housing Revenue Account has a deficit of £2.4m due to the restorative works programme, to be funded from the Housing Initiatives Reserve;
- iv) The Capital Programme is fully funded but resources for future projects are limited.

1.4 The forecasts contain a significant margin of uncertainty and pressures from inflation and the macro-economic position. As a result, there is a risk that measures to produce a balanced budget may be too severe, or insufficient. To mitigate this risk the budget includes significant savings and income generation leaving a forecast deficit of £1m, to be funded from the Smoothing reserve and to be addressed in 2024/25.

1.5 This approach enables the total forecast pressures over the financial planning period to be balanced by savings and income over the full period whilst assessment of the on-going impact of pressures is undertaken and reviewed.

2. Overview

2.1 The budget for 2023/24 and the Medium-Term Financial Plan (MTFP) for 2023–2027 have been produced in circumstances that remain unusual and volatile because of the macro-economic position, inflation levels, the implementation of EU exit and the unpredictable economic recovery.

2.2 These events have led to significant uncertainties at the time of writing, impacting (mainly) the revenue budgets, including:

- 2022/23
 - The 2022/23 outturn and the reserves and balances to be carried forwards.
- 2023/24
 - The on-going macro-economic position
 - Expenditure for the year
 - Income for the year
 - Council Tax income
 - Business Rates income
- 2024 – 2027
 - The net cost to DDC of the future Port Health Function
 - The continuing impacts of the macro-economic position 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. Report Pursuant to Section 25 of Local Government Act 2003

3.1 It is the view of the Strategic Director (Finance and Housing) (Section 151 Officer) that, having due regard to the circumstances and the range of uncertainties, the budget has

been prepared in an appropriate and prudent manner. 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 Council's financial reserves are adequate for its spending plans in 2023/24.

- 3.2 It should be noted that the Council cannot use reserves to balance the revenue budget on an on-going basis and so the Council needs to continue to deliver the savings and increased income assumed in the 2023/24 budget and is expected to have to make further savings and increases in income in 2024/25.
- 3.3 It should also be noted that the Council's capital resources are significantly depleted.
- 3.4 The Council's actuaries have agreed a reduction in payments to the pension fund to clear the Council's deficit over eleven years rather than eight. This is not ideal, but is entirely reasonable in the circumstances and reduces the annual payment by circa £500k.
- 3.5 Section 25(3) of the Act requires the Council to "have regard to the report when making decisions about the calculations in connection with which it is made".

4. General Fund Budget Strategy

- 4.1 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 2022/23 process it was recognised that we need to do more. Therefore, to mitigate this risk and the volatility of the budget process the strategy included a £4m smoothing reserve to enable the Council to take a measured approach to the forecast pressures.
- 4.3 For the 2023/24 budget process the Smoothing Reserve has been applied to balance the budget enabling a measured approach to be taken to the unprecedented impact of the macro-economic position, pressures from inflation, the Local Government settlement and on-going service requirements.
- 4.4 Although significant savings are included in the 2023/24 budget, application of the Smoothing Reserve to finance the forecast 2023/24 residual deficit of £1m has enabled consideration of further options for savings and income generation to be taken in 2024/25 and the rest of the planning period as a fuller understanding of the likely outturns and funding is developed. Replenishment of the reserve will need to be considered as part of future budgets.

5. Dover Port Health Function

- 5.1 Government is still working on the operating model for the Dover Port Health function. The current proposed service is significantly reduced compared to that anticipated for the 2022/23 budget process. Government is currently meeting all on-going costs of the proposed operation, and this has been included in the 2023/24 budget accordingly.

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

- 6.7 The Government is placing an increasing burden for funding local services onto the local taxpayer. Overall, approximately 57% of Core Spending Power (CSP) across England in 2023-24 is forecast to be funded from Council Tax.
- 6.8 Council tax increases for shire districts is proposed, in the settlement consultation, to be limited to 2.99% or £5, whichever is the greater. This maintains the existing inequity between low and higher taxing districts. DDC is a low tax district. Representation in response to the consultation has been made by District Councils to increase the limit to 2.99% or £10 to help address this inequity, if the final settlement includes the higher limit the budget papers will be updated to reflect the change.

Business Rates Retention

- 6.9 There are several potential changes to the Business Rates Retention (BRR) scheme.
- 6.10 A baseline re-set is 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.
- 6.11 A revaluation is to be implemented from April 2023, 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. However, the BRR is

complex and there is no certainty that all revaluation changes will be neutral for Councils.

New Homes Bonus

- 6.12 The recent approach taken has been 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.
- 6.13 NHB is important and we need certainty about the future (even if it means we get less funding from NHB’s replacement).
- 6.14 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 and the new funding guarantee).
- 6.15 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.

Funding Guarantee

- 6.16 This new grant is intended to provide a funding floor for all local authorities, so that no local authority would see an increase in core spending power that is lower than 3% - before taking into account council tax level decisions.

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 outcome of the Social housing rents consultation from the Department for Levelling Up, Housing & Communities (as updated on 14th December 2022) reports that as per Paragraph 64 that ‘Having carefully considered the responses to the consultation, the government has decided that a 7% ceiling would strike an appropriate balance between protecting social tenants from high rent increases and ensuring that Registered Providers are able to invest in new and existing social housing and provide decent homes and services to tenant.’ [Social housing rents: government response to the consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/social-housing-rents-gov-uk)
- 7.3 DDC’s Tenancy Strategy 2021-2026 states that the Council’s view is that wherever possible affordable rent levels should not exceed Local Housing Allowance (LHA) rates, these have not increased for 2023/24 so therefore affordable rents will not be increasing. However, if properties were not at the LHA rate, then these would be increased by no more than 7% or the LHA rate, whichever is the lower.

7.4 The shared ownership properties have also been capped at a 7% increase in weekly rents to enable these to remain affordable for the homeowners even though this was not part of the consultation as mentioned in paragraph 7.2.

7.5 The HRA is viable now and in the medium 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 borrow¹), but within these resources it has discretion over which projects to support. In setting the project programmes for the future it is important to note that:

- Capital resources are virtually exhausted if all current commitments are met;
- The capital and GF revenue budgets are interdependent and pressure on one can lead to pressure on the other;
- The ability of the revenue budget to contribute to capital resources in the future is very limited; and
- Assets for sale to gain future receipts are limited.

8.2 The proposed project programmes show that these limited resources have been applied to prioritise 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.

8.3 However, the Council was awarded £18.1m from round two of the Levelling Up Fund and this is included in the capital programme.

9. Identification of Options

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 and approve the increase to social and shared ownership rents; or

9.3 Option 2 – Propose changes to the proposed budget to be presented to Council and propose changes to the proposed rent levels.

10. Evaluation of Options

10.1 Option 1 - Approve the proposed budget to be progressed.

10.2 The proposed budget recognises that there is a wide range of unknowns in the expenditure, income and financing of the Council for 2023/24 and that, as in 2022/23, the Council needs the ability to be able to react to changing circumstances and demands in a timely manner.

10.3 The budget therefore proposes to address this by continuing to provide the Strategic Director (Finance & Housing) with delegated authority (in consultation with the Leader

¹ Borrowing can be undertaken for capital projects but revenue budgets have to finance the interest and repayment costs. This makes it more difficult for projects to be viable.

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.

- 10.4 Option 2 – Propose changes to the proposed budget to be presented to Council and propose changes to the proposed rent levels.
- 10.5 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.
- 10.6 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.
- 10.7 The rent increases proposed are in line with the outcome of the social housing rents consultation from DLUHC and so cannot be increased further, the shared ownership rents are not capped and could be increased but this could impact affordability for the homeowners. A lower increase could be implemented for both rent types, but this would create further pressure on the future viability of the HRA.
- 10.8 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 (Finance & Housing): 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 relating to the Council Budget 2023/24 and Medium-Term Financial Plan 2023/24-2026-27 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 2023/24 and Medium-Term Financial Plan 2023/24–2026/27

15. **Background Papers**

2023/24 Budget Working Papers

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