
Subject:	COUNCIL BUDGET 2024/25 AND MEDIUM-TERM FINANCIAL PLAN 2024/25–2027/28
Meeting and Date:	Cabinet – 5 February 2024 Overview and Scrutiny Committee – 19 February 2023
Report of:	Mike Davis, Strategic Director (Finance and Housing)
Portfolio Holder:	Councillor Sue Beer, Portfolio Holder for Finance, Governance, Climate Change and Environment
Decision Type:	Key Decision
Classification:	Unrestricted

Purpose of the report: To progress approval of the 2024/25 budget and the Medium-Term Financial Plan (MTFP) for 2024/25–2027/28.

Recommendation: It is recommended that Cabinet:

- Considers the draft General Fund Revenue Budget, the Project 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 it requires to be incorporated into the final version;
- Approves the increase in social, affordable and shared ownership rents.
- Note that the calculation of the 2024/25 Business Rates impact on 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 Cabinet and Council in March.

1. Summary

- 1.1 This report should be read in conjunction with the Chief Finance Officer’s Section 25 report included separately on this agenda.
- 1.2 The budget faces a range of immediate uncertainties due to the macroeconomic position, the on-going challenges with the local government funding model and the impact of working with DEFRA (Department for Environment, Food and Rural Affairs) and being a Port Health Authority (PHA).
- 1.3 This report sets out the broad areas of pressure and uncertainty and the strategy adopted to deal with them.

1.4 In summary the position is:

- i) The General Fund budget for 2024/25 forecasts a deficit of c.£2.8m, made up of:
 - £20k deficit from business as usual; and
 - £2.8m pressure to maintain the current level of Port Health activities with reduced DEFRA funding, to be funded from the earmarked reserves.
- ii) Proposed DDC Council Tax increase of £6.21 (2.98%) per annum (12p per week) for a Band D property, maintaining the lowest Council Tax in East Kent.
- iii) There are no major reductions in services proposed within the budget.
- iv) Housing rents will increase by 7.7%. The typical weekly rent on a 3-bedroom house will be £113.86, and is much lower than the private sector equivalent.
- v) The Housing Revenue Account forecasts a deficit of £1m due to ongoing commitments to repairs and maintenance, to be funded from the Housing Initiatives Reserve, but remains financially viable.
- vi) The Capital Programme is fully funded but resources for future projects are limited.

1.5 The forecasts contain a significant margin of uncertainty and pressures from inflation, service proposals and the macroeconomic 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 Council has a £3m Smoothing reserve which can be utilised to deal with any unforeseen pressures faced in 2024/25.

1.6 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 2024/25 and the Medium-Term Financial Plan (MTFP) for 2024 – 2028 have been produced in circumstances that remain unusual and volatile because of the macroeconomic position, inflation levels, impact of working with DEFRA and being a Port Health Authority (PHA) and the unpredictable economic environment.

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

- 2023/24
 - The final 2023/24 outturn and the reserves and balances to be carried forward.
 - The impact of delays in the local audit sector which cause uncertainty regarding reserves and balances due to possible changes in the accounting treatments that the auditors may require.
- 2024/25
 - The on-going macroeconomic position
 - Business Rates income
 - The costs to DDC of the PHA
 - Funding decisions by DLUHC
- 2025 – 2028
 - The net cost to DDC of the future Port Health Function
 - The continuing impacts of the macroeconomic 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 replacement (if any)
 - The future of Services and Funding Guarantee grants
 - The reform of the Business Rates Retention model
 - Business Rates revaluations and re-sets
 - Future Council Tax capping levels.

3. Report Pursuant to Section 25 Local Government Act 2003

3.1 Section 25(2) of the Local Government Finance Act requires the Council to have regard to the S25 report when making decisions about the calculations in connection with which it is made. The Strategic Director (Finance and Housing) (Section 151 Officer) has produced a separate report on this agenda to be considered alongside the budget and MTFP.

4. General Fund Budget Strategy

4.1 In the 2022/23 budget process it was recognised that to mitigate the risk and volatility associated with the budget process a £4m smoothing reserve should be created to enable the council to take a measured approach to the forecast pressures.

4.2 Significant savings were included in the 2023/24 budget, alongside application of the Smoothing Reserve to finance the forecast 2023/24 residual deficit of £1m. This 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. Based on current forecasts it is expected that c.£1.1m will be applied from the Smoothing Reserve in 2023/24, leaving £2.9m for future requirements.

4.3 The 2024/25 budget is currently forecast to have a small deficit of £20k, before the £2.8m impact of the DEFRA decision to withdraw funding for the PHA. The cost to DDC of maintaining the current PHA service will need to be financed from other earmarked reserves in 2024/25 to protect the purpose for which the Smoothing reserve was established.

5. Dover Port Health Function

5.1 See the Section 25 report included separately on the agenda for detailed information of the port health function.

6. Wider Local Government Finance Picture

6.1 This section supplements the issues raised in the Section 25 report.

6.2 There is a pressing need for reform to local government finance. 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 The 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 56% of Core Spending Power (CSP) across England in 2024-25 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 DLUHC have declined to base our 2024/25 settlement on the latest business rates data, despite this being submitted by DDC in good time. This has cost DDC £300k per annum. DLUHC have advised that they may review this for the 2025/26 settlement but have not guaranteed that this will be undertaken.

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. Despite promises to the contrary, New Homes Bonus has proven to be an unstable source of income for Councils.

Originally new homes generated a 6-year legacy payment upon which Councils could rely. This was trimmed to 4 years, and then a minimum growth threshold was required, then legacy payments were abandoned and NHB is now set for one year at a time. It is currently expected that 2024/25 will be the last year of the scheme, no replacement scheme has yet been announced.

- 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 latest mistreatment 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. However, this calculation ignores Business Rates growth so the real value of the guarantee is not always clear.

7. Housing Revenue Account (HRA)

- 7.1 The HRA budget has been set based on the current anticipated level of costs of running the service. Rent levels will be set in line with government guidance of CPI + 1% (equating to 7.7% for 2024/25). After a period of increases relating to the restorative works programme budget levels for planned revenue and capital works have returned to previous levels. This results in a forecast deficit for the HRA of £1m for 2024/25. This will be funded in-year from a contribution of £1m from the Housing Initiatives Reserve, maintaining the HRA balance at £1m for the planning period.
- 7.2 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, the LHA rates are increasing for 2024/25 so therefore affordable rents will be increasing to the same levels.
- 7.3 The shared ownership properties increase as per the lease which states RPI + 0.5% which for 2024/25 is a 9.4% increase in weekly rents.
- 7.4 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 and any grants (often match funded) that the Council is awarded), 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. **Budget Consultation**

- 9.1 The Council undertook an online consultation requesting resident feedback on the budgets for Council's services, value for money, and savings options. It included a budget reduction exercise where residents were asked to allocate revised budgets to services based on achieving a 10% reduction in costs.
- 9.2 The consultation was available on the website from 21st December to 8th January (with paper copies available on request). In total there were 370 responses to the consultation, of which 244 completed the budget reduction exercise. The main themes from the responses include:
- Over 56% of respondents agree that we should increase Council Tax by 3% for 2024/25 to maintain as much as possible the services we provide.
 - Increasing Council Tax by 3% was the most preferred option (43% of respondents) to help us balance our budget and meet the needs of our community.
 - Withdrawing services was the least preferred option to help us balance our budget (63% of respondents).
 - 63% of respondents were satisfied or very satisfied with the local area as a place to live.
 - Over 75% of respondents prefer to contact the Council by email or online via the website.
- 9.3 Initial results from the budget allocation exercise indicates that residents would allocate additional resources to Community Safety & CCTV, Environmental Crime, Public

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.

Conveniences and Climate Change Initiatives. They would then apply the necessary budget reductions across the other areas.

- 9.4 Analysis of the responses will continue and further information included in the second circulation of the budget. The responses received were all anonymous and are available to Councillors on request.

10. Identification of Options

- 10.1 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:

10.2 Option 1 - Approve the proposed budget to be progressed for final review by Cabinet and approval by Council and approve the increase to social, affordable and shared ownership rents; or

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

11. Evaluation of Options

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

11.2 The proposed budget recognises that there is a wide range of unknowns in the expenditure, income and financing of the Council for 2024/25 and that, as in 2023/24, the Council needs the ability to be able to react to changing circumstances and demands in a timely manner.

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

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

11.5 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.

11.6 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.

11.7 Members could also choose to apply more reserves to balance the budget and set a lower Council tax. This would have implications for the Council's ability to maintain services in the future.

11.8 The social rent increases proposed are in line with government policy of CPI + 1% and so cannot be increased further, the shared ownership rents are restricted to RPI + 0.5% which is stated in the shared ownership leases. Affordable rents are increasing as DDC policy is that affordable rents are kept at the same level as Local Housing

Allowance (LHA). The LHA rates have been increased to the 30th percentile of local market rates by the Valuation Office Agency (VOA). A lower increase could be implemented for all rent types, but this would create further pressure on the future viability of the HRA.

11.9 For these reasons this is not the recommended option.

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. **Climate Change and Environmental Implications**

13.1 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.

14. **Corporate Implications**

14.1 Comment from the Strategic Director (Finance and Housing): No further comments to add (MD).

14.2 Comment from the Solicitor to the Council: The Strategic Director (Corporate and Regulatory) (Solicitor) has been consulted during the preparation of this report and has no further comment to make.

14.3 Comment from the Equalities Officer: This report relating to the Council Budget 2024/25 and Medium-Term Financial Plan 2024/25–2027/28 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>

15. **Appendices**

Appendix 1 – Draft Budget 2024/25 and Medium-Term Financial Plan 2024/25–2027/28

16. **Background Papers**

2024/25 Budget Working Papers

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