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| **Subject:** | **COUNCIL BUDGET 2024/25, MEDIUM-TERM FINANCIAL PLAN 2024/25–2027/28 AND 2024/25 COUNCIL TAX SETTING** |
| **Meeting and Date:** | **Cabinet – 4 March 2024**<br>**Council – 6 March 2024** |
| **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** |
| **Classification:** | **Unrestricted** |
| **Purpose of the report:** | To seek approval for the 2024/25 budget and the Medium-Term Financial Plan (MTFP) for 2024/25–2027/28.<br>To set the Council Tax for 2024/2025. |
| **Recommendation:** | It is recommended that Cabinet:<br>• Approves the grants to other organisations as set out in Annex 9, subject to Council approving the 2024/25 budget; and<br>• 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.<br><br>It is recommended that Cabinet recommends to Council:<br>• 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.<br>• That the Strategic Director (Finance and Housing), in consultation with the Portfolio Holder for Finance, Governance, Climate Change and Environment, be authorised to draw on the Earmarked Smoothing Reserve to meet in-year variations in the budget.<br>• That a Council Tax increase of 2.98% for DDC purposes be approved, resulting in an increase on Band D properties of £6.21 per year and an annual DDC Council Tax of £214.38.<br>• To note that it is the opinion of the Section 151 Officer that the Council's budget has been prepared on a rigorous and robust basis and the Council's reserves are sufficient for its immediate needs. However, it is also the opinion of the Section 151 Officer that there are two significant factors that can undermine the budget over the next year or two because of the actions of the Department for Environment Food and Rural Affairs (DEFRA) and the Department for Levelling Up, Housing and Communities (DLUHC). Members are referred to the Section 25 Report included separately on the agenda for further information.<br>• 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. |

**<u>Members are advised that Section 106 of the Local Government Finance Act 1972 applies to this item.</u>**
**Accordingly, if any sum of council tax becomes 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 2024/25 budget and the MTFP for 2024/25–2027/28. 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 (Finance and Housing), 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 Section 25 report included separately on the agenda.

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

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:
   (1) £2k surplus from business as usual; and
   (2) £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. **Changes to the Budget and MTFP**

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

- GF budget amended to include:

    - Revised projected outturn as at 31st December 2023, reducing the forecast 2023/24 deficit from £1.1m to £0.9m.
    - 2024/25 budget (excluding Port Health) now forecasting £2k surplus (previously £20k deficit) due to:
        - £125k reduction in projected Business Rates funding following the completion of the NDR1 return to DLUHC.
        - £146k increased funding as confirmed in the final local government finance settlement for 2024-25.
- HRA budget amended to include:
    - Revised projected outturn as at 31st December 2023, increasing the forecast 2023/24 deficit from £3m to £3.3m.
    - Updated 4-year forecast to reflect further detailed work undertaken.
- All precepts have now been received and the 2024/25 Council Tax Resolution and associated annexes have been completed and included.
- The Capital, Treasury Management and Investment Strategies have been completed and included.

## 3. Introduction and Background

3.1 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.

3.2 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.

4. **Report Pursuant to Section 25 of the Local Government Finance Act 2003**

4.1 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.

5. **General Fund Budget Strategy**

5.1 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.

5.2 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.£0.9m will be applied from the Smoothing Reserve in 2023/24, leaving £3.1m for future requirements.

5.3 The 2024/25 budget is currently forecast to have a small surplus of £2k, 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.

6. **Dover Port Health Function**

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

7. **Wider Local Government Finance Picture**

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

7.2 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.

<u>Levelling Up</u>

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.

<u>Core Spending Power</u>

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 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.

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

7.7 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.

7.8 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

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

7.10 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.

7.11 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

7.12 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.

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

7.14 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).

7.15 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.

<u>Funding Guarantee</u>

7.16 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.

## 8. Housing Revenue Account (HRA)

8.1 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.

8.2 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.

8.3 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.

8.4 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.

## 9. Capital and Revenue Projects Programmes

9.1 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. 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.
- Assets for sale to gain future receipts are limited.

[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.

9.2 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.

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

## 10. Budget Consultation

10.1 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.

10.2 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:

(a) 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.

(b) 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.

(c) Withdrawing services was the least preferred option to help us balance our budget (63% of respondents).

(d) 63% of respondents were satisfied or very satisfied with the local area as a place to live.

(e) Over 75% of respondents prefer to contact the Council by email or online via the website.

10.3 Initial results from the budget allocation exercise indicates that residents would allocate additional resources to Community Safety & CCTV, Environmental Crime, Public Conveniences and Climate Change Initiatives. They would then apply the necessary budget reductions across the other areas.

10.4 The responses received were all anonymous and are available to Councillors on request.

## 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 £6.21 (2.98%) 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 2024/25 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. **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 & Housing): No further comments to add (MD).

14.2 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.

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

16. **Background Papers**

Draft Budget 2024/25 and Medium-Term Financial Plan 2024/25-2027/28 (Cabinet 5th Feb 2024)

Contact Officer: Helen Lamb, Head of Finance & Investment