

Cabinet Advisory Committee 13 July 2021

Briefing Note

2022/23 Budget and Medium Term Financial Plan

Introduction

1. This paper is intended to brief on the 2022/23 budget process and outline options for balancing the budget moving forward.
2. The Council is still in the midst of a highly complex situation arising from the Covid pandemic; very significant additional costs, significant loss of income and additional Government funding (both general and specific grants). The Council weathered the Covid financial pressures well but in a way the very large amounts of additional funding received should not detract from the very serious underlying financial issues.
3. The administration's approach to managing the Council's finances and achieving priorities are:
 - Revenue budget is highly constrained.
 - Use one-off monies to fund administration priorities.
 - Approach using one-off monies has been successful- Special Projects Fund/Improvement and Resilience Funds/ Town Centre funds.

2021/22 Outturn

4. The revenue outturn budget variances for 2020/21 are summarised below:

Budget Heading	Covid Related	Non Covid Related	Total
	£'000	£'000	£'000
Net Revenue Service Expenditure	3,893	(980)	2,913
Coronavirus General Government Grants including sales, fees and charges	(4,234)	0	(4,234)
Total Net Revenue Expenditure	(341)	(980)	(1,321)

5. The additional costs/loss of income from Covid of £3,393,000 were pretty much in line with Officers original estimate of £4.1m.
6. What had not been forecast was a £9,000 underspend on non-Covid related budget headings. This is an increase of £489k from the third quarter monitoring. The variances are fully set out in the 14 July Cabinet report which will go to Scrutiny Committee on 21 July.
7. I am proposing that apart from a small number of roll-over requests the balance of the underspend around £1m will go in to a Covid Recovery Fund controlled by the Chief Executive and myself to deal with Covid related pressures this financial year.

Reserves

8. As at 31 March 2021 the Reserves were £25.5m up from £23.5m the previous year. Again these are detailed in the Cabinet report. I need to make it clear that these reserves are predominantly earmarked for particular functions and the “free” reserves whilst maintaining the General Fund at £1.5m are £3m.

Medium Term Financial Plan

9. The main costs and income for the 2021/22 Budget are shown below:

2021/22 Revenue Budget	£'000
Staff costs	10,329
Staff costs – pensions	3,120
Staff costs – national insurance	1,129
Cost of buildings	1,687
Transport costs	258
Contracts	7,178
Lower Medway Internal Drainage Board (LMIDB)	876
Homelessness (net)	1,523
Shared services (excluding MKS Legal)	1,820
Minimum Revenue Provision (cost of capital borrowing)	1,029
Grant income	(2,051)

2021/22 Revenue Budget	£'000
Other income	(10,480)
Net other	5,375
Revenue Expenditure Before Funding	21,793
Net contribution from reserves	(1,775)
Council tax	(8,855)
Business rates	(8,642)
Revenue Support Grant	(116)
Other Government grants	(2,405)
Net Revenue Expenditure	0

10. The Medium Term Financial Plan is attached as an Appendix. The 2022/23 year is as forecast in the February Council report and the 2023/24 figures are updated for a 6 month effect of a forecast increase in the cost of the waste collection/street cleaning contract.
11. The forecast shortfall in 2023/24 is £3,261,000. This shortfall arises primarily from a reduction in Government funding forecast at £2.15m (elimination of Revenue Support Grant, reduced New Homes Bonus income and no Covid grant or Lower Tier Grant). Options around Government grants will be considered below.
12. The budget shortfall for 2023/24 is £4,273,000, the additional £1,012,000 consists primarily of £399,000 on the waste contract and £292,000 for staff pay awards.
13. These projections make no allowance for new cost pressures or further loss of income. At this point the clearest of these is the long term impact from reduced car parking income in-particular from reduced commuting. The current estimate for the impact in this financial year is £400k. So further cost pressures or loss of income will increase the budget shortfalls shown above.

Council Tax

14. Swale has the third lowest council tax out of all Kent districts. The table below shows what the 2021/22 Band D council tax is for other Kent districts and the increase or reduction on income if their tax is applied to Swale. A 1% increase in Band D Council tax for Swale would result in an additional £88k council tax income.

Authority	2021/22 Band D Council Tax £	C Tax Income if Applied to Swale £'000	Difference to Swale 21/22 Council Tax Income £'000
Ashford	172.50	8,287	(568)
Dartford	181.35	8,712	(143)
Swale	184.32	8,855	0
Tunbridge Wells	188.75	9,068	213
Dover	197.19	9,473	618
Gravesham	213.03	10,234	1,379
Tonbridge & Malling	219.50	10,545	1,690
Canterbury	221.22	10,627	1,772
Sevenoaks	224.91	10,805	1,950
Thanet	243.13	11,680	2,825
Maidstone	270.90	13,014	4,159
Folkestone & Hythe	273.72	13,150	4,295

Options to balance the budget

Members are asked to consider and discuss the following options for achieving a balanced budget position.

15. Council tax- the Medium Term Financial Plan assumes a £5 increase in Council tax. There is no feasible option for Council tax to close the budget gap.

16. Government grants- the Council benefitted not only from general Covid grants but from an allocation mechanism based upon need. Government also introduced a Lower Tier Grant to protect from reduction in Council spending power (as calculated by Government). The key unknown is whether in a public spending round where the huge costs of dealing with Covid have to be addressed Government will be able to support local authorities as they have in 2021/22. At this stage that is totally unknown. At one level Government does not want to see widespread distress in Council funding and more examples of financial collapse such as Northamptonshire County Council or the London Borough of Croydon, but will they have the fiscal strength to prioritise local government? It is also unclear whether or not the many times put off reforms to

Council funding will once again be put back. The budget could assume additional Government grant funding continuing.

17. Income generation- for the last 3-4 years many Councils have looked to income generation from commercial property investing to close generate new income streams. This is highly controversial and Government no longer allows Councils to borrow long term from the Public Works Loan Board for commercial property investment. The Sittingbourne Town Centre project has always been defined as a Regeneration project for accounting purposes. Income from tenants has been delayed and reduced by Covid and the achievement of anticipated levels of income remains to be seen.
18. Reserves- reserves can be used to balance the budget but as this is the use of one off money it still leaves an underlying issue. Nonetheless Government will expect reserves to be utilised and have been critical of the level of reserves held by Councils. Reserves will be an essential part of balancing the Swale budget.
19. Spending reductions- in the last two years there have been very few spending reductions and in fact there has been significant growth, largely funded from one off monies. From the MTFP the current cost base is clearly not sustainable, but it is also questionable how viable services can still be provided if spending reductions are made. After 12 years of funding reductions where significant spending reductions have been made this may not be fruitful.

Recommendations

20. Members are asked to:

(1) Note the forecast financial position of the Council.

(2) Discuss the options for balancing the budget set out in the paper.

Roger Truelove

Leader and Cabinet Member for Finance

2021/22 Medium Term Financial Plan (MTFP)				
	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Base Budget	19,395	19,395	19,395	19,395
Forecast Budget Changes	0	2,041	2,401	2,684
Salary Related (2% pay award plus other changes)	0	341	655	947
Service savings	0	(449)	(476)	(456)
Resisting pressures from December Cabinet report	0	(411)	(411)	(411)
New Refuse Contract	0	0	0	399
Lower Medway Internal Drainage Board (assumes 3.42% annual increase)	847	876	906	937
Revenue Expenditure Before Funding	20,242	21,793	22,470	23,495
Contribution to reserves	93	93	93	93
Contribution from reserves	(1,229)	(662)	0	0
Contribution from reserves in Resisting Pressures		(726)	(726)	(726)
Contribution from reserves in Forecast Budget Changes		(233)	(171)	(171)
Contribution from reserves in addition to Budget		(247)	(161)	(161)
Funding from Reserves Sub Total	(1,136)	(1,775)	(965)	(965)
Revenue Support Grant	(115)	(116)	0	0
New Homes Bonus	(1,633)	(1,028)	(371)	0
Other Government Grants	0	(1,377)	0	0
Business Rates (no assumption for Fair Funding Review, baseline reset or changes to calculation)	(8,750)	(8,642)	(8,690)	(8,739)
Council Tax (assumes increase to cap)	(8,623)	(8,855)	(9,183)	(9,518)
Net Revenue (Surplus)/ Deficit	(15)	0	3,261	4,273
Budget gap to be met	0	0	(3,261)	(4,273)
Contribution (to) from General Fund	(15)	0	0	0

