

Policy and Resources Committee Meeting	
Meeting Date	8 th February 2023
Report Title	2023/24 Budget and Medium Term Financial Plan and Capital Strategy
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Claire Stanbury, Head of Finance and Procurement
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. To approve the 2023/24 revenue budget proposals. 2. To approve the proposed Council Tax Band D increase for 2023/24 to £194.94, or £199.26 should legislation allow districts to increase by £10.00. 3. To note the Medium Term Financial Plan. 4. To approve the Capital Strategy. 5. To approve the capital programme proposals. 6. To note the additional amount of Council Tax for Parish Precepts. 7. To approve the minimum revenue provision statement. 8. To delegate authority to the Director of Resources to adjust charge out rates within fees and charges as appropriate, where they are based on costs incurred. 9. To approve the use of reserves statement as detailed in appendix VI as to ensure reserves are valid and support the assumptions in the MTFP.

1 Purpose of Report and Executive Summary

- 1.1 This report sets out the Council's Revenue and Capital budget proposals for 2023/24, the Medium Term Financial Plan (MTFP) and the Capital Strategy.
- 1.2 Policy and Resources committee received a budget report on 30 November 2022 prior to the provisional local authority grant settlement announced on 19 December 2022. This report reflects the implications of the settlement, along with any other changes identified since the committee meeting.

- 1.3 This report, if agreed by Policy and Resources committee, will then go forward to Council on 22 February.

2 Background

Provisional Local Government Finance Settlement 2023/24

- 2.1 Despite previous indications coming from central government, the settlement is once again for one year only for district councils such as Swale.
- 2.2 The draft settlement published on 19 December announced some additional grant funding and a further year's allocation of New Homes Bonus. Some funding has also been rolled up into a single grant from 2023/24.
- 2.3 A new grant (one-off) was introduced, to ensure that local authorities received a 3% increase in core spending power before any increase in Council Tax levels. However, the 3% increase is predicated on councils increasing council tax by the maximum allowed under the referendum principles.
- 2.4 The main changes to the draft budget, arising from the settlement are shown in the table below:

Funding source	Amount £'000 () = increase in grant	Comments
Revenue Support Grant	(197)	Local Council Tax Support rolled into RSG
Local Council Tax Support	169	Rolled into RSG
Family Annex Grant	16	Rolled into RSG
Lower Tier Services Grant	195	Grant removed
New Homes Bonus	36	Allocation lower than anticipated
Services Grant	129	Reduced by more than anticipated
Funding Guarantee	(504)	New grant
Total	(156)	

- 2.5 Revenue Support Grant will remain into 2024/25, however no other grants are guaranteed beyond 2023/24. The government have announced that it will review New Homes Bonus ahead of the 2024/25 settlement to help council's plan for the future.
- 2.6 As part of the provisional funding settlement the government have announced a significant new funding stream from 2024/25, subject to the successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme. As a result government assume that local authorities can expect to receive additional income from the scheme whilst being asked to submit data relevant to their waste collection services. Alongside His Majesty's Treasury and the Department for

Environment, Food and Rural Affairs DLUHC will be assessing the impact of additional pEPR income on the relative needs and resources of individual local authorities in the coming year.

Staff Pay

- 2.7 The budget assumes no increase in staff pay other than increments that are due and the increase in the real living wage. This is on the basis of moving to a reduced number of hours as our standard contract, to 34 hours per week.

Capital Strategy

- 2.8 The Capital Strategy sets out the Council's approach and process to the deployment of capital resources in meeting the Council's overall aims and objectives. It also provides a strategic framework for the effective management and monitoring of the capital programme. It provides a high-level overview of capital expenditure, capital financing and treasury management activity contribute to the provision of local public services.
- 2.9 The proposed Treasury Management Strategy was reported to the Audit Committee on 30 January 2023 and is also reported separately to this meeting. The proposed Capital Programme and its funding are detailed in Appendix V to this report.
- 2.10 Councils are required to balance their revenue budget annually and cannot borrow to achieve a balanced position. However, they have very far reaching powers to borrow to fund capital expenditure. This has historically been funded from borrowing from the Public Works Loan Board (PWLB), which is part of the Debt Management Office which is part of the Treasury. Borrowing can be for up to 50 years at rates which are below commercial rates. The decision to borrow externally is ultimately a treasury one, and is made closer to the time when expenditure is actually incurred, taking into account available cash balances, the opportunity cost of investments and the exposure to interest rate and credit risks.
- 2.11 Council in February 2020 agreed the following principles:
- Investing in sustainable, affordable and social housing to increase overall supply,
 - Using the ability to borrow at lower rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value, and
 - Ensuring that the costs of borrowing are manageable long term within the Revenue budget.
- 2.12 Council also agreed that in future specific capital projects will have a borrowing limit associated. This limit can be varied by Policy & Resources Committee.

- 2.13 The Council has not made and will not make any direct commercial investments outside of the Borough. Capital funds will be used for the benefit of local residents.
- 2.14 Looking ahead to 2023/24 there will be four major capital projects which are reflected in the draft Capital Budget:
- 2.14.1 Housing company - in October 2020 Cabinet agreed to establish Swale Rainbow Homes Ltd. The outline business case envisaged the Council providing up to £23m of funding through loans to support the delivery of new homes. The exact arrangements for the drawdown of this funding will follow the detailed planning and procurement phases. The cost of the borrowing will be wholly met by the company. Because the company is a wholly owned by the Council its accounts will need to be incorporated into those of the Council requiring the company to have the same financial year as the Council. The spend on this project has been profiled so that spend is spread across a number of years to more accurately represent the likely spend pattern.
 - 2.14.2 Purchase of temporary accommodation – the Housing and Health Committee on 17 January 2023 agreed a budget of £11m to purchase up to 50 properties within the borough to accommodate households in need of housing. The purchase of properties will happen over time, as properties become available, so the spend has been profiled over two years. The funding for this project will be a reallocation of temporary accommodation spend to cover the capital financing costs.
 - 2.14.3 Levelling Up Scheme – the council has been successful in its bid for funding from the Levelling Up scheme. This project will use funding to improve health, education, leisure and employment opportunities in Sheerness through the Sheerness Revival project. This is expected to be a two year capital project, with the spend profiled across 2023/24 and 2024/25.
 - 2.14.4 Purchase of waste vehicle fleet – as agreed by Council on 4 January 2023, £7m of council funding will be used to purchase a fleet of vehicles for the new waste collection and street cleansing contract. This is the most economically advantageous method for securing the vehicles, and provides resilience in the delivery of the contract.
- 2.15 Debt is only a temporary source of finance, since loans must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). MRP is a charge to the revenue budget which then accrues on the Balance Sheet; it is not an external payment. Alternatively, capital receipts may be used to replace debt finance. The Council's policy on MRP is set out in Appendix VII.

- 2.16 There are a number of sources of funding available to the Council for capital schemes (capital grants/contributions, capital receipts, borrowing etc). Revenue funding is also available however it should be noted that the scope for using revenue resources for capital purposes is limited.
- 2.17 The current Capital Programme is funded from grants and contributions, capital receipts from the disposal of assets and from the Council's own reserves, internal and external borrowing. Whilst capital funding is available to invest in new assets or in improving existing assets, the impact on the revenue account due to the loss of investment income is always a key consideration.
- 2.18 All organisations need to manage their cash flow. For most Councils their cash flow level is much larger than their reserves as they take in funds through sources such as Business Rates and Council Tax which they hold before making payments to other bodies such as Kent County Council (KCC). The Council's daily cash balances averaged £28.2m in the 6 months to 30 September 2022. Where a Council is investing in a capital project, it can fund this capital investment from cash flow and this is known as internal borrowing. Internal borrowing defers the financial commitment to external borrowing. MRP still has to be made. The Finance Department closely monitors cash flow to ensure that there is no adverse impact.
- 2.19 For any significant investment the Council will supplement the expertise of Members and Officers with appropriate external specialist advice to ensure that proposals are fully tested and risks considered.
- 2.20 The Director of Resources believes that the Capital Strategy and Capital Programme proposed are sustainable.

3 Proposals

Medium Term Financial Plan

- 3.1 The updated Medium Term Finance Plan is attached in Appendix I.

Balanced Budget Proposals

- 3.2 The 30 November Policy and Resources report showed a balanced position with £2.045m being used from reserves within 2023/24 to achieve that position.
- 3.3 Along with the changes from the local government settlement, there have been a number of other variations since the 30 November report. These changes are neutral overall, so the budget remains balanced whilst still using reserves to the extent of £2.045m.
- 3.4 The table below shows a summary of all changes to the revenue budget as reported to Policy and Resources committee on 30 November 2022:

Budget heading	Amount £'000 () = improved position
Grant funding (per table in 2.4)	(156)
Drainage levy increase	14
Council Tax collection fund deficit	45
Insurance contract estimated increase	47
Increase in NNDR on council buildings	50
Total	0

3.5 Detailed revenue budget proposals are attached in Appendix II.

3.6 An analysis of the budget risks is detailed in Appendix VIII.

Council Tax

3.7 The proposals assume an increase of £5.67 in the Band D Council Tax to £194.94, or £199.26 should legislation allow districts to increase by £10.00.

3.8 The Collection Fund and Council Tax base are set out in Appendix III.

3.9 The Council Tax base was set at 49,673.46 by the Director of Resources.

3.10 Parish precepts are shown in Appendix IV.

3.11 The Regeneration & Levelling-Up Bill ('the Bill') is currently passing through Parliament and the Department for Levelling Up, Housing, and Communities (DLUHC) is aiming for Royal Assent in Spring 2023. The Bill proposes, amongst other things, two important changes to council tax, as follows:

- A change in the application of a council tax premium on 'long term empty' properties. Currently, if a property has been unoccupied and unfurnished for 2 years but less than 5 years, then a 100% council tax premium can be applied to the property (Swale Borough Council currently applies this premium in line with the relevant regulations). The Bill is proposing to shorten that 2-year period to 1 year. 'Long term empty' premiums are applied to encourage owners to bring properties back into use so they are not left empty for extended periods.
- The implementation of a council tax premium on 'second homes'. 'Second homes' are properties which are unoccupied but furnished. For some years now local councils have been able to apply a full council tax charge to second homes. This charge is applied in Swale. The Bill proposes the councils may apply a 100% council tax premium on second homes (this

would mean an owner of a second home in the borough would pay double the normal council tax charge).

- 3.12 Both of these changes can only come into effect if the Bill receives Royal Assent, and even then, the earliest that both of these changes can come into effect is 1 April 2024 if the assent is granted by 31 March 2023.
- 3.13 The Bill states that to apply these changes approval to do so must be given at least 12 months before the implementation date. Therefore, this report is notice that, should the Bill receive Royal Assent we have the required 12 months lead-in period, in order to apply the premiums from 1 April 2024 should the decision be taken to do so.

Fees and Charges

- 3.14 Proposed fees and charges were set out as part of the draft budget report on 30 November 2022, and these are set out in Appendix X.
- 3.15 Fees and charges have been updated to reflect the increase in Legal recharge rates and an information line regarding the recharge of kennel costs for dogs returned to owners where a kennel stay has been necessary. Delegated authority is sought for the Director of Resources to adjust charge out rates to ensure full cost recovery.

Capital Programme

- 3.16 The capital budget is attached in Appendix V.
- 3.17 There have been some amendments to the budget previously presented. These are the inclusion of the purchase of the waste fleet at £7.035m as agreed by Council on 4 January, the addition of £11m to purchase Temporary Accommodation and the Local Authority Housing Fund bridging allocation of £464k as recommended to the Housing and Health Committee on 17 January,
- 3.18 The Temporary accommodation project is an invest to save project to purchase up to 50 properties within the borough to accommodate households in council owned properties rather than in private provision. This would enable savings to be made in the cost of nightly lets, and these savings would be used to cover the costs of financing the capital spend. This would therefore be cost neutral to the revenue budget.
- 3.19 The table below illustrates the level of investment required to purchase 50 properties, based upon 20 1 bed properties and 30 2 bed properties. The table also outlines the revenue income and costs the Council can expect from the investment, as well as the level of costs the Council will avoid by not having to place the households in privately provided TA. The Council would also own the Capital asset and therefore hold the value of the asset.

Table 1 – Summary of TA purchase model

Item	Annual Summary		25-year Profile	
Rent	-£	348,267	-£	8,706,677
Expenditure	£	1,108,419	£	29,484,608
Net Cost	£	739,352	£	20,257,932
Cost of NL TA	£	832,200	£	26,655,615
Net Saving	-£	72,048	-£	5,877,684

Main Assumptions

1. Based upon a portfolio of 20 x 1 bed and 30 x 2 bed properties
2. Average purchase price @£200k across the whole portfolio
3. Stamp Duty @ 6%
4. Annual Interest @ 4.8%
5. LHA Rate claimed @ 90%
6. Voids @ 6%
7. Individual allowances made for maintenance, management, and repairs in the model.

- 3.20 The Rural England Prosperity Fund revenue and capital split is still being worked on, and at this point has been included in the capital programme in full. Amendments will be made to the reporting of this grant through regular budget monitoring reporting.

Reserves

- 3.21 The estimated use of reserves is shown in Appendix VI which shows the budget forecast, but all in-year changes will be reflected in closedown and in the Council's financial accounts.
- 3.22 The key principles for the management of reserves moving forward are:
- Maintain reserves to support the Council's budget position and to deal with unexpected one-off events;
 - Funding the Council's strategic priorities; and
 - Fund one-off items of expenditure to support service delivery.
- 3.23 When the Council is considering its budget requirement, it is the Director of Resources' due under S25 of the Local Government Act 2003 to report on the adequacy of reserves. These have been reviewed in line with guidance from the Chartered Institute of Public Finance and Accountancy.

- 3.24 The Council seeks to maintain a minimum of £1.5m as its General Fund balance and this position will be reviewed in 2023/24. The balance at 1 April 2022 was £3.073m. The Council holds earmarked reserves for specific purposes and the remaining unallocated funds form the General Reserve. The Director of Resources' view is that the level of reserves and balances held by the Council are at a reasonable level overall, and will remain so throughout 2023/24. However, a robust savings plan will need to be established to ensure that the council continues to be able to deliver a sustainable balanced budget from 2024/25 onwards. Earmarked reserves are proposed to be rationalised to transfer uncommitted balances to the budget contingency reserve to support a balanced budget position for future years, alongside a deliverable savings programme.
- 3.25 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget. The Council's Section 151 Officer (Director of Resources), in accordance with the Local Government Act 2003, has hereby confirmed her opinion that the 2023/24 budget is robust, and the reserves are reasonable for the coming financial year. However, the medium term savings requirement will need to be addressed in future budget rounds, as based on the information included in the MTFP, the reserves will not be sufficient to support the council's financial position.
- 3.26 Reserve balances have been reviewed as part of this budget round with some earmarked reserves now rationalised and uncommitted balances transferred to the budget contingency reserve to support the assumptions in the Medium Term Financial Strategy. Where 2022/23 expenditure is committed but remains unspent at the end of the financial year, the committed amounts will be allowed to slip into future years.

4 Alternative Options Considered and Rejected

- 4.1 Do nothing – this is not recommended as the Council is legally required to set a balanced budget.

5 Consultation Undertaken or Proposed

- 5.1 The budget proposals were reported to Policy and Resources Committee on the 30th of November 2022.
- 5.2 An online budget consultation exercise took place from 2nd December 2022 to 13th January 2023, and the results are summarised in Appendix IX.

6 Implications

Issue	Implications
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Corporate Plan	The budget proposals support the achievement of the Council's corporate priorities.
Financial, Resource and Property	The report sets out the Council's resourcing position.
Legal, Statutory and Procurement	The Council is required to set a Council Tax and a balanced budget.
Crime and Disorder	Any potential implications will be addressed by service managers in their budget proposals.
Environment and Climate/Ecological Emergency	The proposals support the Climate Change and Ecological motion previously agreed.
Health and Wellbeing	Any potential implications will be addressed by service managers in their budget proposals.
Safeguarding of Children, Young People and Vulnerable Adults	Any potential implications will be addressed by service managers in their budget proposals.
Risk Management and Health and Safety	Any potential implications will be addressed by service managers in their budget proposals.
Equality and Diversity	Any potential implications will be addressed by service managers in their budget proposals.
Privacy and Data Protection	Any potential implications will be addressed by service managers in their budget proposals.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Medium Term Financial Plan
- Appendix II: Detailed Revenue Budget Proposals
- Appendix III: Collection Fund and Council Tax Base
- Appendix IV: Parish Precepts
- Appendix V: Capital Programme and Funding
- Appendix VI: Estimated Use of Revenue Reserves 2023/24 – 2025/26
- Appendix VII: Minimum Revenue Provision Statement
- Appendix VIII: Budget Risks
- Appendix IX: Budget Consultation
- Appendix X: Fees and Charges
- Appendix XI: Proposed Savings Schedule

8 Background Papers

Policy and Resources papers 30 November 2022.