

Policy and Resources Committee Meeting	
Meeting Date	7 th February 2024
Report Title	2024/25 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	<p>That Policy & Resources Recommends to Council:</p> <ol style="list-style-type: none"> 1. To approve the Administration' s2024/25 revenue budget proposals. 2. To approve the proposed Council Tax Band D increase for 2024/25 to £200.70, or to the maximum allowed should the cash limit be increased. 3. To approve the levy of 100% Long Term Empty Premium for properties that had been empty for more than one year from 1 April 2024 and to levy a 100 per cent Second Home Premium for properties from 1 April 2025. 4. To approve the Medium Term Financial Plan. 5. To approve the Capital Strategy. 6. To approve the capital programme proposals. 7. To note the additional amount of Council Tax for Parish Precepts. 8. To approve the minimum revenue provision statement. 9. 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 and where legislation changes are made to centrally set charges in year. 10. To approve the use of reserves statement as detailed in appendix VI as to ensure reserves are valid and support the assumptions in the MTFS.

1 Purpose of Report and Executive Summary

- 1.1 This report sets out the Council's Revenue and Capital budget proposals for 2024/25, the Medium Term Financial Plan (MTFP) and the Capital Strategy.
- 1.2 Policy and Resources committee received a budget report on 29 November 2023 prior to the provisional local authority grant settlement announced on 18 December 2023. 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 21 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 18 December announced another rollover settlement. New Homes Bonus will continue to be paid, although this will be the final payment. Services Grant has been drastically cut, but the Funding Guaranteed Grant will be paid again in 2024/25, now providing a 3% increase in core spending power before any decisions on Council Tax levels.
- 2.3 The main changes to the draft budget, arising from the provisional settlement are shown in the table below:

Funding source	Amount £'000 () = increase in grant	Comments
Revenue Support Grant	(21)	Inflationary increase
New Homes Bonus	429	Reduction based on activity
Services Grant	147	Reduction in grant
Funding Guarantee	(603)	Increased due to reductions in other grants
Total	(48)	

- 2.4 There was an announcement on 24 January of further funding for local government, including increasing the Funding Guarantee Grant to ensure a 4% increase in core spending power. However, the details of this will not be known until the final settlement is released.
- 2.5 New Homes Bonus and the Funding Guarantee Grant are not guaranteed beyond 2024/25. Central government have made it clear that this will be the final round of New Homes Bonus payments, and the Funding Guarantee Grant was never intended to be long term. As yet, there has been no information in relation to

what funding may replace these significant funding streams, increasing risk in future years.

- 2.6 As part of the funding settlement for 2023/24 the government announced a new funding stream, subject to the successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme. However, this has met with delays, so will not come into effect in the 2024/25 financial year, so we are reliant on existing income streams for waste collection being maintained.
- 2.7 When the funding comes online, 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.

Staff Pay

- 2.8 The budget assumes a 5% increase in staff pay as well as increments that are due and the increase in the real living wage.

Capital Strategy

- 2.9 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 how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services.
- 2.10 The proposed Treasury Management Strategy was reported to the Audit Committee on 24 January 2024 and is also reported separately to this meeting. The proposed Capital Programme and its funding are detailed in Appendix V to this report.
- 2.11 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.

2.12 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.

2.13 Council also agreed that in future specific capital projects will have a borrowing limit associated. This limit can be varied by Policy & Resources Committee.

2.14 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.

2.15 Looking ahead to 2024/25 there will be three major capital projects which are reflected in the draft Capital Budget:

2.15.1 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. 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.

2.15.2 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, with 2024/25 being the second year. The funding for this project will be a reallocation of temporary accommodation spend to cover the capital financing costs.

2.15.3 Levelling Up Scheme – the council was 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. Due to delays in announcing the award of funding, there may be a need to reprofile the budget into early 2025/26, but it is currently too early to commit to that course of action.

2.16 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources

(revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The funding of the capital programme is also included in Appendix V.

- 2.17 Debt is only a temporary source of finance, since loans and leases 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.
- 2.18 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing. 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 £19.6m in the 6 months to 30 September 2023. 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 Financial Strategy is attached in Appendix I, and the detailed revenue budget proposal is attached in Appendix II.

Balanced Budget Proposals

- 3.2 The 29 November Policy and Resources report showed a balanced position with £1.360m being used from reserves within 2024/25 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 29 November report. These changes have had a positive impact on the budget of £811k, the most significant change is the proposed use of the business rate growth to support the base budget. This growth is forecast to be available annually until the business rate reset is actioned by central government. The reset has been continually delayed and it is currently

not thought that this will occur before 2026/27. The budget remains balanced by using reserves to the extent of £549k.

- 3.4 The table below shows a summary of all changes to the revenue budget as reported to Policy and Resources committee on 29 November 2023:

Budget heading	Amount £'000 () = improved position
Grant funding (per table in 2.3)	(48)
Drainage levy increase	1
Changes to the tax base	(40)
Growth in business rates	(1,000)
Changes to inflation assumptions	13
Public convenience contract extension	70
Temporary accommodation demand increase	165
Operational changes	28
Total	(811)

- 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 £5.76 (2.95%) in the Band D Council Tax to £200.70, or up to £204.93 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 50,367.85 by the Director of Resources.

- 3.10 Parish precepts are shown in Appendix IV.

- 3.11 The Levelling-Up and Regeneration Bill received Royal Assent in October 2023, and is now the Levelling-Up and Regeneration Act ('the Act'). In respect of Council Tax, the Act introduces, amongst other things, two important changes, 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 Act shortens 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 Act allows the councils to 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 The change to long term empty premiums can be implemented from 1 April 2024, however the change to second home premiums requires at least 12 months notice before the implementation date and were therefore it is proposed that this be applied from 1 April 2025.

Fees and Charges

3.13 Proposed fees and charges were set out as part of the draft budget report on 29 November 2023, and these are set out in Appendix X.

3.14 Delegated authority is sought for the Director of Resources to adjust charge out rates to ensure full cost recovery.

Capital Programme

3.15 The capital budget is attached in Appendix V.

3.16 There has been one amendment to the budget previously presented. This is the inclusion of necessary upgrades to finance and payment systems. The upgrades will be fully funded by a reserve set aside for this purpose, so will have nil effect on the revenue budget.

Reserves

3.17 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.

3.18 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.

3.19 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.

- 3.20 The Council currently hold a balance of £3.1m as its General Fund balance. Whilst this is currently considered to be appropriate, this does need to increase over time to a target of £4m, representing two months spend. 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 2024/25. 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 2025/26 onwards. Earmarked reserves have been rationalised to transfer uncommitted balances to the budget contingency reserve to support a balanced budget position for future years, alongside a deliverable savings programme.
- 3.21 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 2024/25 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.
- 3.22 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 2023/24 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 29th of November 2023.
- 5.2 An online budget consultation exercise took place from 30th November 2023 to 3rd January 2024, and the results are summarised in Appendix IX.

6 Implications

Issue	Implications
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 2024/25 – 2027/28
- Appendix VII: Minimum Revenue Provision Statement
- Appendix VIII: Budget Risks
- Appendix IX: Budget Consultation
- Appendix X: Fees and Charges
- Appendix XI: Proposed Changes Schedule

8 Background Papers

Policy and Resources papers 29 November 2023.