

Report to: **Budget Advisory Committee**

Date: **11 January 2024**

Title: **Draft Revenue and Capital Budget Proposals for 2024/25**

Portfolio Area: **Cllr J Brazil – Budget Setting Process**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Lisa Buckle** Role: **Corporate Director for Strategic Finance**

Contact: Email: [lisa.buckle@swdevon.gov.uk](mailto:lisa.buckle@swdevon.gov.uk)

---

## **RECOMMENDATIONS**

- 1. That the views of the Budget Advisory Committee are sought on the content of the Draft Revenue and Capital Budget Proposals for 2024/25.**

**Views are sought in particular on:-**

- i) Modelling an increase in Council Tax for 2024/25 of 2.99% (This would increase a Band D council tax for 24/25 from £185.42 to £190.96 – an increase of £5.54 per year or under 11pence per week);**
- ii) The financial pressures shown in Appendix A of £2,846,000;**
- iii) The savings/additional income of £(1,460,000) as shown in Appendix A; and**
- iv) The net contributions to/(from) Earmarked Reserves of £60,427 as shown in Appendix D, including the proposed use of £704,173 of New Homes Bonus funding to fund the 2024/25 Revenue Budget as set out in 3.20 of the report and £400,000 from the Business Rates Retention Earmarked Reserve as set out in 3.13 of the report;**

**v) The Capital Bid for £90,000 to renew and upgrade the Council's bank reconciliation software and to fund this from the annual revenue contribution of £181,600 into the Capital Programme, as set out in 8.4.**

**1. Executive summary**

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling three year timeframe to 2026/27. The Executive considered the MTFS at its meeting on 21 September 2023.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding. Between 2009/10 and 2020/21, the Council's Core Government funding has reduced by £4 million. The Council now receives minimal Government Grant (Revenue Support Grant) of £147,100 to fund its services and the Council must be self-sufficient.
- 1.3 The Council has continued to work in partnership with West Devon Borough Council which has allowed South Hams to achieve annual savings of £3.9 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million per annum. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.
- 1.4 It is important to note that the MTFS sets out the budget strategy for the Council for the next three years, with regular reviews (at least annually) and updates when items are further known or are announced by the Government.
- 1.5 Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response. Key to the authority's financial resilience are our reserves, which are at a prudent level.
- 1.6 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2026/27 although this has not been confirmed by the Government so the MTFS and Budget Proposals for 2024/25 assumes that these changes will happen in 2026/27.

1.7 The key assumptions within the Budget Proposals for 2024/25 are as below. Each of these is described in more detail in Section 3.

- The business rates baseline reset will be deferred until 2026/27 at the earliest (with no negative Revenue Support Grant in 2024/25 or 2025/26)
- There will be a phasing in of negative Revenue Support Grant as part of the business rates baseline reset (predicted to be in 2026/27) with a transition period, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £450,000 in 2026/27. Some of the negative RSG could be offset by growth.
- It is assumed Council Tax limits for District Councils will remain at the higher of 2.99% or £5 for the next three years.
- 2024/25 is another roll over settlement, which will give an amount of £704,173 of New Homes Bonus funding that it is proposed is used to fund the 2024/25 revenue base budget.
- A business rates pooling gain of £400,000 has been modelled for 2024/25 and 2025/26, with no further gains for 2026/27 onwards.
- A council tax surplus of £59,000 for 24/25 has been assumed, with a council tax collection rate of 98.25% built into the 24/25 TaxBase calculation (98.55% was achieved in 2022/23)
- Rural Services Delivery Grant will continue annually at the same level for 24/25 (£478,583)
- A 4% pay increase has been modelled from 2024/25 onwards (4% equates to £456,000 on total pay of £11.4m). The pay assumption has been reduced to 3% in 2025/26 and 2026/27

1.8 The report sets out proposals for the Council to achieve a balanced budget for 2024/25, as shown in **Appendix B**. The Council is currently forecasting a £345,560 budget gap by the following year, 2025/26. The cumulative aggregated Budget Gap by 2026/27 is £2.1 million, if no action has been taken in each individual year to close the budget gap annually.

<b>Budget Gaps</b>	<b>2024/25 £</b>	<b>2025/26 £</b>	<b>2026/27 £</b>	<b>Total Aggregated Budget Gap £</b>
'New' Budget Gap each year	Nil – Balance budget proposed	345,560	1,394,479	1,740,039
*Cumulative Budget Gap	Nil – Balance budget proposed	345,560	1,740,039	2,085,599

\* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

1.9 The budget gap for 2025/26 of £345,560 is very much in line with the level expected at this point in the financial planning cycle. In the year after, the budget gap is £1.39million, due to the local government reforms that are expected (see 3.14). These are the reset of the business rates baseline, the fair funding review and the impact of negative RSG (Revenue Support Grant), coupled with the loss of the business rates pooling gain.

1.10 Below shows the summary of proposed changes to the Budget report for 2024/25, following the announcement of the Draft Local Government Finance Settlement. Proposals for a balanced budget are shown below:

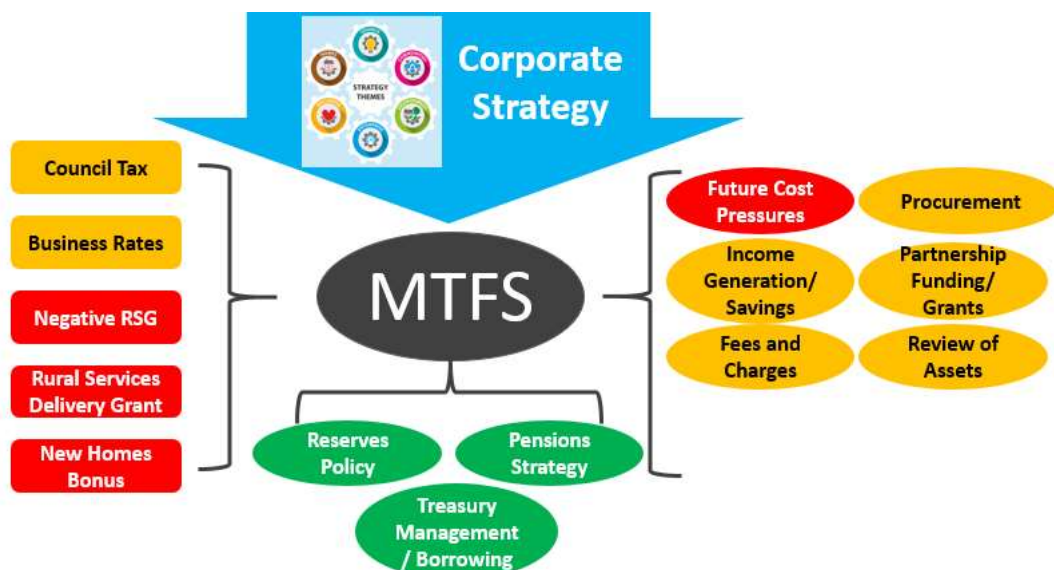
	£
<b><i>Budget gap for 24/25 reported in the Executive Budget report on 30<sup>th</sup> November 2023</i></b>	<b>146,185</b>
<b>Additional cost pressures identified £90,000</b>	
Cost pressure for business continuity and cyber security (This is 50% of the total cost – WDBC will also pay 50%)	75,000
Additional costs associated with supporting the new Community Development service – as per the Executive report on 30 November 2023	15,000
<b>Changes to Financing of the Base Budget £113,815</b>	
Increase the amount of New Homes Bonus used to fund the Base Budget from £700,000 to £704,173 (see section 3.19 to 3.20 of the report)	(4,173)
Change the council tax income to model a council tax increase of 2.99% in 2024/25 instead of a £5 increase (This would increase a Band D council tax for 24/25 from £185.42 to £190.96 – an increase of £5.54 per year or under 11pence per week)	(21,886)
The 2024/25 Council Tax Base has increased to 40,528.94 Band D equivalent properties (which is higher than the estimate at November 23 of 40,449). This difference in the modelling generates extra council tax income of £15,221.	(15,221)
Extra Revenue Support Grant (Actual amount is £147,100 which is £1,100 higher than the previous estimate of £146,000)	(1,100)
Less funding from Funding Guarantee (3% increase in Core Spending Power) - Actual amount is £614,068 which is £97,932 less than the previous estimate of £712,000. This is based on a complicated formula that takes into account other Government grants such as New Homes Bonus (which has increased for 24/25).	97,932
Less funding from Services Grant – Actual amount is £12,271 which is £52,729 less than the previous estimate of £65,000	52,729
Reduce the amount of funding from business rates income from £3,200,000 to £3,194,466	5,534

<b>Additional income/savings identified (£350,000)</b>	
Introduce a vacancy saving target on salaries – equates to around 1.5% of salaries (total pay of £11.4m)	(170,000)
Increase the car parking income from extra usage from £200,000 to £250,000	(50,000)
Increase the Dartmouth Lower Ferry income from extra usage and a review of charges for 2023 from £50,000 to £100,000	(50,000)
Environmental Health fees and charges – increase in line with inflation	(30,000)
Additional income from Follaton House rental income	(50,000)
<b><i>Revised Budget gap for 2024/25 as set out in this report (as at January 2024) - (A balanced budget position is presented for Members' consideration)</i></b>	<b>Nil (Balanced Budget)</b>

## 2 COMPONENTS OF THE MEDIUM TERM FINANCIAL STRATEGY

2.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Items in Green denote those elements where the Council has a large degree of control over the setting of policies and strategies. Items in Amber denote those components of the MTFS where the Council has a degree of control. Red items signal components where the Council has hardly any control over funding allocations which are decided by the Government and future cost pressures which can largely be outside of the Council's control or influence.

### 2023/24 Net Budget £11.74 million



2.2 The key assumptions within the Budget Proposals are set out in Section 3.

## OVERALL POSITION – BUDGET GAP

- 2.3 Financial modelling has been undertaken for the next three years to predict the Council's financial situation for the short and medium term.
- 2.4 **Appendix A** to the Budget report sets out the Budget Pressures forecast for the next three years and the additional savings and income forecast. **Appendix B** illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £11.74 million in 2023/24.
- 2.5 A Summary forecast is shown below of the potential budget situation if all the budget pressures and the savings and income generation in Appendix A were approved. It also shows the situation if the Council Tax is increased by 2.99% per annum (shown in Appendix B).
- 2.6 The report sets out proposals for the Council to achieve a balanced budget for 2024/25, as shown in Appendix B. The Council is currently forecasting a £345,560 budget gap by the following year, 2025/26. The cumulative aggregated Budget Gap by 2026/27 is £2.1million, if no action has been taken in each individual year to close the budget gap annually.

<b>Budget Gaps</b>	<b>2024/25 £</b>	<b>2025/26 £</b>	<b>2026/27 £</b>	<b>Total Aggregated Budget Gap £</b>
'New' Budget Gap each year	Nil – Balance budget proposed	345,560	1,394,479	1,740,039
*Cumulative Budget Gap	Nil – Balance budget proposed	345,560	1,740,039	2,085,599

\* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

- 2.7 The Council will continue to assess various options for closing the budget gap for 2025/26 onwards, and in the longer term, to achieve long term financial sustainability and further reports will be presented to Members.

## 3 LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2024/25

- 3.1 On 18<sup>th</sup> December 2023, the Government published for statutory consultation, the provisional local government finance settlement for 2024/25. This followed a policy statement published on 5<sup>th</sup> December.
- 3.2 The provisional settlement is once again a holding position, designed for stability and certainty for planning purposes for 2024/25. The broad approach is based on a uniform roll-over of the core elements of the settlement. No announcements were made regarding funding reform and this has been deferred.

- 3.3 Detailed numbers are only available for 2024/25 in the Finance Settlement and there remains significant uncertainties for 2025/26, particularly for District Councils. These include the future of the New Homes Bonus Scheme, which is now simply a one-year retrospective payment.
- 3.4 The 'Core Spending Power' is a headline figure used by the Department for Levelling-Up, Housing and Communities (DLUHC) to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax, as below. The Council now receives minimal Government grant (Revenue Support Grant of £147,100 for 2024/25 (see 1.2).
- 3.5 ***Core Spending Power for South Hams (which is a measure of how much extra funding a Council has received for next year) increased by 4.9% for 2024/25 from £11.594m to £12.166m as shown below.***
- 3.6 Core Spending Power (CSP) is the term the Government use to say how much money Councils have to run their services. CSP includes Business rates, Council Tax, NHB and the various different Grants. On average nationally Core Spending Power is increasing by 6.5% for 2024/25. The average for Shire Districts is a Core Spending Power increase of 4.9%. Shire Counties are increasing by 6.7% in their CSP. A large part of the increase in CSP is an assumed increase in Council Tax, which the Government build into the CSP calculation, as shown below.

Table 1 - Core Spending Power (CSP), £m

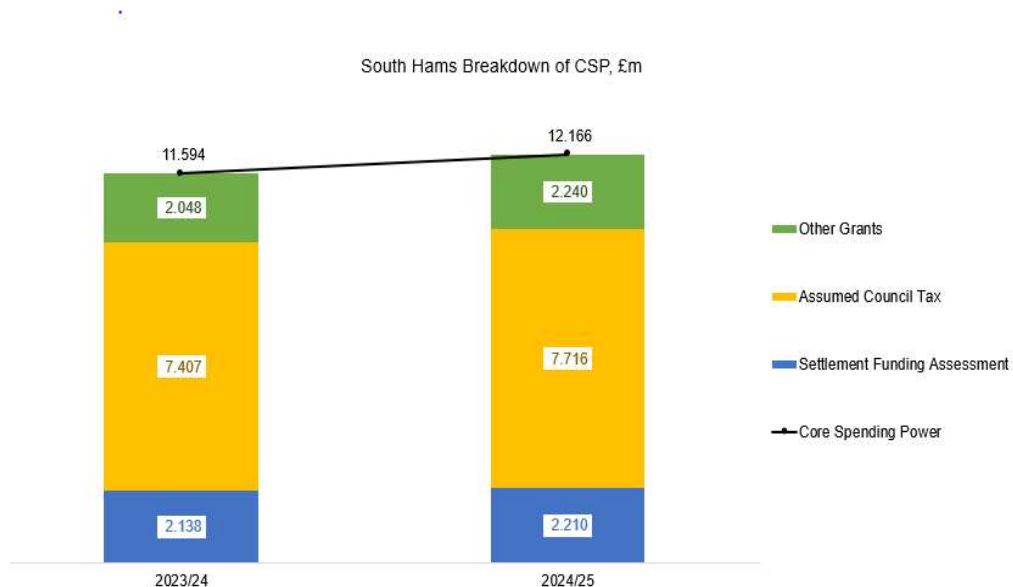
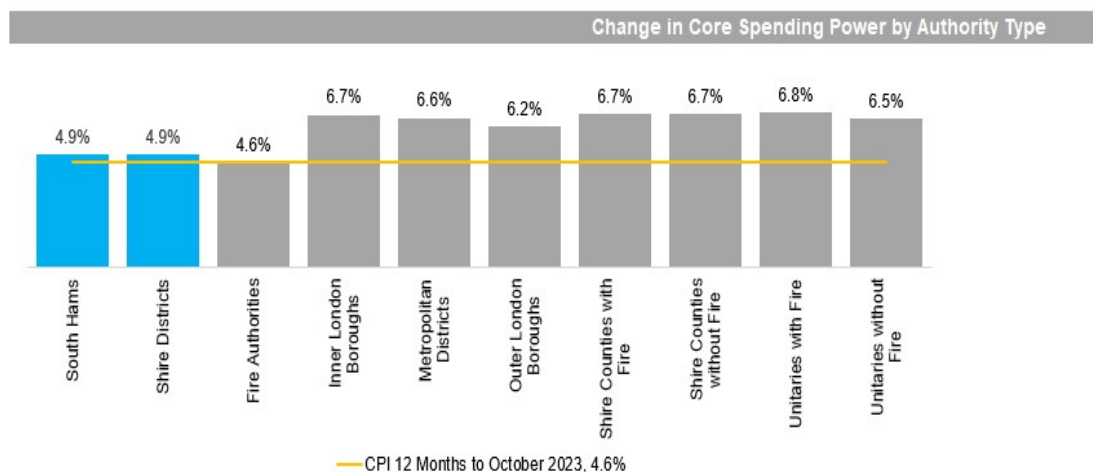


Table 2 – Analysis of Core Spending Power % increases by Authority Type



### Council Tax

- 3.7 The Council Tax Referendum limits for District Councils for 2024/25 is the higher of 2.99% or £5. A 2.99% increase is higher for South Hams District Council as this equates to an increase of £5.54 on a Band D property.

*An increase in council tax of 2.99% for the next three years has been modelled for council tax purposes in the budget report. This would equate to a Band D council tax for the District Council of £190.96 in 2024/25 as shown in Appendix B (an increase of £5.54 for the year or under 11 pence per week), which equates to a 2.99% increase. The Council's share of the council tax for 2024/25, will be set at the Council meeting on 15th February 2024.*

(A 1% increase in council tax generates £75,000 of extra council tax income). A 2.99% increase in council tax generates extra council tax income of £0.225m.

Council Tax legislation sets out that Council Tax is partly a form of general taxation on a property and partly a tax on the people living in a property. Council Tax funds essential services in an area and the cost of public services is spread across all taxpayers in the same way, regardless of which services residents use or receive. Council Tax is a form of general taxation rather than a service charge.



3.8 The table below shows how an average Band D council bill is made up for South Hams District Council for 2023/24, compared to 2022/23. Of an average Band D Council Tax within the District of £2,261.19, **an amount of £185.42 is the element of a council tax bill set by South Hams District Council**. Therefore 8pence of every £1 paid (8%) in council tax is received by South Hams District Council to pay for our services. The rest of the council tax bill is set by Devon County Council, the Fire, the Police and Town and Parish Councils to fund the services they provide. In 2023/24, the council tax for an average Band D property in South Hams increased by £105.89 per annum (4.91% as shown below).

<b>Precepting Authority</b>	<b>Band D 2022/23</b>	<b>Band D 2023/24</b>	<b>£ Increase</b>	<b>% Increase</b>
<b>South Hams District Council</b>	<b>£180.42</b>	<b>£185.42</b>	<b>£5.00</b>	<b>2.77%</b>
Devon County Council Precept	£1,372.59	£1,419.21	£46.62	4.99%
Adult Social Care Precept *	£183.87	£214.92	£31.05	
Devon & Cornwall Police & Crime Commissioner	£246.56	£261.56	£15.00	6.08%
Devon & Somerset Fire & Rescue	£91.79	£96.79	£5.00	5.45%
Average Parishes/Towns	£80.07	£83.29	£3.22	4.02%
<b>TOTAL</b>	<b>£2,155.30</b>	<b>£2,261.19</b>	<b>£105.89</b>	<b>4.91%</b>

Town and Parish Precepts for 2023/24 are shown in Appendix E. The largest Parish Precepts are Totnes (£205.23), Dartmouth (£182.95) and Ivybridge (£141.57), with the smallest Precept being Woodleigh (£5.04) for a Band D property.

- 3.9 The Council Tax Referendum Limits that will apply for 2024/25 are as follows:
- Shire Districts – 2.99% limit or £5, whichever is the higher
  - Police - £13 referendum limit.
  - Fire – 2.99% limit
  - Upper Tier – 4.99%
  - No referendum limits will be set for Town and Parish Councils for 2024/25

- 3.10 A council tax collection rate of 98.25% has been assumed for 2024/25 within the TaxBase calculation. **The Council collected 98.55% in council tax in 2022/23 which was in the top quartile of all Councils nationally.** It has been assumed that the number of properties within the District will increase by 500 per annum from 2024/25 onwards.

### **Business Rates and Negative Revenue Support Grant (RSG)**

- 3.11 It has been assumed that the Business Rates Reset will be delayed to 2026/27. Whilst this change is not confirmed by the Government, a reset based on the current taxbase would appear very unlikely.
- 3.12 Estimates have been made of the business rates baseline funding levels for 2024/25 onwards and the relative deductions for negative RSG in 2026/27. For example in 2024/25, the £3.45m is the amount the Council is projected to retain from its business rates income collected of around £25 million (this equates to around 14p in every £1 collected of business rates). The 2022/23 collection rate for South Hams for business rates was 97.95%, which was in the second quartile of all Councils nationally. It was announced, as part of the Autumn Statement 2023, that the small business rates multiplier for 2023/24 will remain frozen at 49.9p and there will be an increase to the standard rate multiplier of 6.7% (from 51.2p to 54.6p).
- 3.13 It is recommended to take £400,000 funding from the business rates retention on an annual basis to fund the base budget. This would reduce the business rates retention reserve by £1.2m over the next 3 years to smooth the impact of the business rates baseline reset and the future loss of pooling gains. There will also be £2m coming out of this business rates retention reserve in 2023/24, for the transitional cost of the waste and recycling service coming back in house in October 2022 and the delay to the full roll out of the Devon Aligned service to 20<sup>th</sup> November 2023. This reserve is predicted to have more business rates income being set aside into the reserve in 23/24, due to the way that business rates income flows through the collection fund over a period of years.

- 3.14 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2026/27 although this has not been confirmed by the Government so the MTFs assumes that these changes could happen in 2026/27. The 2025/26 finance settlement will be the first year of a new spending review period.

The table below shows the modelling of business rates income over the next three financial years.

<b>Business Rates Income</b>	<b>2024/25 (£m)</b>	<b>2025/26 (£m)</b>	<b>2026/27 (£m)</b>
			<b>Potential Baseline Reset</b>
Business Rates Income	3.444	3.000	3.050
Less: Negative Revenue Support Grant (RSG) due to the Baseline reset	-	-	(0.45)
Anticipated Pooling Gain (Nil in 26/27 due to the baseline reset)	0.400	0.400	Nil
Funding proposed to be taken from the Business Rates Retention Reserve to smooth the volatility in business rates income	0.400	0.400	0.400
<b>Total Business Rates Income</b>	<b>4.244</b>	<b>3.800</b>	<b>3.000</b>

*It is this significant reduction in Business rates income predicted in 2026/27 which is significantly increasing the budget gap in 2026/27 to £1.394million. A large part of the 26/27 budget gap is caused by the predicted drop in business rates income of around £800,000. This is due to the potential business rates baseline reset and the loss of the pooling gain from being in a Devon business rates pool at the same time. It is very uncertain as to when the baseline reset will happen. This has been anticipated for a number of years but the timetable has continually been put back. This modelling assumes it will happen in 2026/27 but there has been no firm timescale announced by the Government.*

- 3.15 The MTFs assumes that the full range of changes from the Fair Funding Review will be implemented based on the proposals in the December 2018 consultation paper, plus the latest population estimates (2022) and the latest council tax data. It is assumed that the business rates baseline reset will happen in 2026/27.
- 3.16 This means the Council wouldn't have to forego some of its business rates income (£450,000) by paying some of it back to Government in the form of 'negative government grant' in 24/25. Negative RSG is effectively the Council's further predicted funding cuts. The modelling assumes negative RSG of £450,000 in 2026/27. Some of the negative RSG could be offset by growth. The Government consultation paper on the Finance Settlement for 2024/25 states (under para 1.3.1) that: "We are confirming that we have no plans to introduce negative Revenue Support Grant".

### **Devon Business Rates Pool**

- 3.17 South Hams District Council has elected to remain part of the Devon-wide Business Rates Pool for 2024/25. The latest modelling shows that a pooling gain in the region of £9.7million is forecast for 2024/25, with the Council's share of the pooling gain being in the region of £400,000.

### **Rural Services Delivery Grant**

- 3.18 Rural Services Delivery Grant will continue for 2024/25 at previous levels (SHDC share of £478,583) and the methodology for distribution is assumed to remain unchanged from 2023/24. This is Government grant to recognise the additional cost of delivering services in rural areas.

### **New Homes Bonus (NHB)**

- 3.19 NHB has been 'rolled over' for another year, with no legacy payments being paid. The Council's provisional allocation is **£704,173 for 2024-25** (higher than the amount estimated in the previous budget report of £700,000).
- 3.20 This is based on a property increase of 595 properties. (The amount received is 595 less the baseline of 0.4% (188 properties) at 80% of £2,065 which is an average national council tax). It is modelled that all of the 24/25 NHB payment of £704,173 will be used to fund the revenue base budget in 2024/25.

### **Other Government Grants**

- 3.21 The 'Funding Guarantee' has been continued, which ensures every Authority has at least a 3% increase in Core Spending Power. A Funding Guarantee grant of £614,068 has been announced for 2024-25 for South Hams (this is lower by £97,932 than the previous budget report which estimated £712,000). This is based on a complicated formula that takes into account other Government grants such as New Homes Bonus (which has increased for 24/25).
- 3.22 Revenue Support Grant (RSG) will be £147,100 for 2024/25. The Council now receives minimal main Government Grant in the form of RSG. See 1.2 of the report.

### **Other Budget Items**

- 3.23 The Consumer Price Index (CPI) was 4.6% (October 2023 CPI), which is down from 6.7% in September. Inflation over the past 18 months has been at a 40 year high. An extra £450,000 cost pressure for inflation on goods and services and increases in utility costs has been included within the cost pressures in Appendix A. The previous minutes from the meeting of the Monetary Policy Committee (MPC) state that it is expected that inflation will drop further by the end of 2023, accounted for by lower energy, and to a lesser degree, food and core goods price inflation. At present, there is no indication from Government of any additional funding to meet inflationary cost pressures.

- 3.24 A provision for the 2024/25 pay award has been modelled in the MTFs at 4% (£456,000), with total pay being £11.4million. This has been reduced to 3% in 2025/26 and 2026/27. The Medium-Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council. The Council is particularly affected by inflation in terms of the Local Government Pay Award as staffing forms a significant proportion of the Council's budget.
- 3.25 The pay award for 2023-24 has now been agreed. This is for £1,925 per Scale Point or a 3.88% increase for Scale Point 44 upwards. This would cost an extra £550,000 and this amount also needs to be built into the Base Budget for 2024-25 as a 'catch up' as the budget for 23/24 has already been set.
- 3.26 The current Bank Base Rate will increase the Council's income from treasury management investments and additional income of £800,000 has been built into the Budget for 2024/25. This would set an income target of £1.6million for 2024/25 for treasury management income and it is proposed to reduce the target to £1.2million for 2025/26. It is predicted that bank base rate will remain at 5.25% until September 2024 when it is predicted to reduce to 5%, with a predicted reduction to 4.5% by December 2024 and 4% by March 2025.
- 3.27 As per the report to Council on 13 April 2023, an extra £270,000 per annum needs to be built into the base budget for the waste collection, recycling and cleansing service. A breakdown of the £270,000 is shown in the Waste Memorandum note in Appendix A.
- 3.28 Cost pressures for insurance (£130,000) and IT inflation cost pressures for increases in prices and additional software and security (£150,000) have been built into the Budget Proposals for 2024/25. A cost pressure of £75,000 has also been built in for business continuity and cyber security.

### **COUNCIL PLAN**

- 3.29 At the Executive meeting on 25 January 2024, the Executive will consider the Council Plan 2024-2028 and the Year 1 (2024/25) delivery plan. Proposals will be recommended to Full Council to adopt 'The Council Plan' and delivery plan at its meeting on 15 February 2024. The Council Plan and delivery plans have been refined following a ten-week consultation and engagement period with the public and partners.
- 3.30 Once adopted, the strategy will be the Council's overarching strategic document setting out our ambitions and priorities for the District.

### **Climate and Biodiversity**

- 3.31 The Council's annual delivery plan on 'Adapting and mitigating climate change and increasing biodiversity' sets out the Council's action plan for addressing climate change and the carbon/biodiversity impact. The financial commitment for Climate and Biodiversity will be set out in detail in the report to the Executive on 25 January 2024 as part of the Annual Delivery Plan for 2024/25.

### **Second homeowners council tax premium**

- 3.32 The Levelling Up and Regeneration Act 2023 allows Billing Authorities the discretion to charge second homeowners a council tax premium of 100% (so a second home dwelling would pay double the council tax charge). The Act requires Billing Authorities to have a minimum period of 12 months between making its first determination and the financial year in which it takes effect. That means the earliest that Councils can introduce it is for the start of the 2025-26 financial year, i.e. 1 April 2025. At Council on 16 February 2023, Council approved charging up to an extra 100% council tax in second homes.
- 3.33 Now that the legislation has been passed, it is recommended to Council to adopt a further resolution to charge a council tax premium on second homes from 1 April 2025. This will be a separate report to the Executive in January 2024 and a recommendation to Council in February 2024. The estimated additional yield from council tax would be £9m of which the Council's share would be approximately £0.7m (8%) – see Memorandum Note in Appendix A.
- 3.34 The key impact of second homes is to remove a significant number of homes from the local housing market, with properties that would otherwise be available to provide permanent homes for local people being used as holiday homes by people whose primary residency is outside the district. For this reason, the Council believes that the additional money raised by the second homes premium should be invested back into housing. South Hams is working with other councils across Devon to make the case that all the additional tax raised should be ringfenced to address housing challenges, including to acquire existing properties to provide temporary accommodation, to support people with complex needs and the provision of specialist accommodation with supported facilities for care leavers.

## **4. Treasury Management and Borrowing Strategy**

- 4.1 The Council has previously taken external treasury management advice on the Council's overall borrowing levels and debt levels. The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million in 2019 and it is not proposed to change this limit at present.

- 4.2 In 2022/23 the long term borrowing of the Council decreased from £14,284,000 (21/22) to £13,825,000. Short term borrowing increased from £96,000 to £459,000. This is due to the profiling of the debt repayments where long term borrowing has moved to short term borrowing. No further external borrowing took place during 2022/23.
- 4.3 Council has also approved future borrowing of up to £5.5million for the Plymouth and South Devon Freeport (Council report 30<sup>th</sup> March 2023, Council Minute CM 77/22). The borrowing will be paid for from the business rates income generated by the Freeport and therefore it will be self-financing.

## **5 FEES AND CHARGES**

- 5.1 As part of the budget process, fees and charges will be reviewed. A delegation is in place to enable service managers to increase fees and charges by inflation where these are not material changes or increases. An inflationary increase in Environmental Health fees and charges has been built into the 2024/25 Budget proposals and this equates to £30,000.
- 5.2 DEFRA has confirmed that the implementation of the Extended Producer Responsibility (EPR) will be deferred from October 2024 to October 2025.
- 5.3 As referenced in the report to Council on 13<sup>th</sup> April 2023, the setting of fees and charges for the waste and recycling service is delegated to the Director of Customer Service and Delivery, in consultation with the Leader of the Council, the lead Executive Members for waste and recycling and the Section 151 Officer (Minute reference CM 84/22).

## **6 BUDGET FOR 2025/26 AND TIMESCALES**

- 6.1 The Council will continue to assess various options for closing the budget gap for 2025/26 onwards, and in the longer term, to achieve long term financial sustainability and further options will be presented to Members in further budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.
- 6.2 Making the best use of our resources and setting a balanced budget annually is within the Council's Delivery Plan.
- 6.3 **Budget Monitoring** - The revenue budget monitoring report to the Executive on 21 September shows an overall projected surplus of £79,000 for the 2023/24 financial year. This is 0.7% of the overall net budget set of £11.738million. A further report will be considered by the Executive in January 2024.

## **7 Earmarked and Unearmarked Reserves Policy**

- 7.1 Unearmarked Reserves total £2.113 million at 31 March 2023. There was a surplus of £57,000 on the outturn position for 2022/23 (0.5% of the net budget of £10.464m) as shown in the Draft Statement of Accounts for 2022/23 published by the end of June 2023. In accordance with normal accounting practice, this underspend has gone into Unearmarked Reserves.
- 7.2 **Earmarked Reserves** have reduced by £5.415m in 2022/23 moving from £20.839m on 1 April 2022 to **£15.424m at 31 March 2023**. This follows the application of £3.066 million of the S31 Business Rates compensation grant received in 2020/21 and 2021/22 which was held in the S31 Compensation Grant Business Rates Reserve. This is a technical adjustment as part of the Collection Fund. In addition, the Business Rates Retention Earmarked Reserve has reduced by £2.570 million in 2022/23 partly due to supporting the costs of bringing the Waste and Recycling Service back in house from October 2022 (£1.448 million) and partly to support the Business Rates Collection Fund deficit in 2022/23 (£0.785 million).
- 7.3 There was a separate report on the Executive agenda of 21<sup>st</sup> September 2023, regarding a review of Earmarked Reserves and the Capital Programme. The Appendix on the review of Earmarked Reserves is attached at Appendix C of this report. This report identified £1.541m of Earmarked Reserves which are potentially available to support the delivery of the emerging Council Plan and £1.013m of capital resources. These are one-off amounts, so £2.554million in total. This was subsequently approved at Council on 28 September 2023 (Minute CM 30).
- 7.4 The proposed contributions to/from Earmarked Reserves for 2024/25 are shown in Appendix D. It is recommended to make an annual contribution of £75,000 to a JLP reserve, to commence the JLP review.
- 7.5 Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves, their unallocated balance and the contributions to/from Earmarked Reserves for 2024/25 and future years also. This will be further set out in the Budget report to the Executive in January 2024.
- 7.6 At Council on 16<sup>th</sup> February 2023, Members set a minimum balance for Unearmarked Reserves of £1.5million, with an operating level of a minimum of £2million (Minute reference CM 59/22). This was based on a risk assessment basis and a sensitivity analysis. Therefore the current level of £2.113million at 31 March 2023 is still above these levels which are set annually. An updated risk assessment and sensitivity analysis will be presented to Council in February 2024.



- 7.7 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 Officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances (this was recommended at £1.5million being the minimum level in February 2023, with an operating level of £2million). Section 25 of the Local Government Act 2003 requires the Section 151 officer to report on the adequacy of the Council's financial resources on an annual basis.
- 7.8 The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
- 7.9 As highlighted above there is a high degree of uncertainty about future levels of funding for local government. However, the Section 151 Officer is keeping a close watch on developments and planning for this longer-term uncertainty to secure financial stability.

## **8 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING**

- 8.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.
- 8.2 Capital projects will be scored on the following criteria:
- Health and Safety compliance
  - Essential to keep operational assets open
  - Fit with the Council's Delivery Plans for the new emerging Council Plan
  - To rationalise service delivery or service improvement
  - To generate income, capital value or to reduce revenue costs
- 8.3 It is important that future bids for capital are aligned with the review of the new emerging Council Plan. At the Executive meeting on 25 January 2024, the Executive will consider the Council Plan 2024-2028 and the Year 1 (2024/25) delivery plan. Proposals will be recommended to Full Council to adopt 'The Council Plan' and delivery plan at its meeting on 15 February 2024. See section 7.3 regarding funding.
- 8.4 There is a capital bid for 2024/25 (£90,000) that it is recommended forms part of the Capital Budget Proposals for 2024/25 and be funded from the annual revenue contribution of £181,600 into the Capital Programme (see Appendix D). This is detailed below: -
- £90,000 – to renew and upgrade the Councils' bank reconciliation software (This is 50% of the projected cost, which is shared with WDBC)

This will be a recommendation as part of the Budget Proposals report to Council in February 2024.

- 8.5 The Council's Asset Base is £108.2 million at 31 March 2023. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

## **9 FINANCIAL SUSTAINABILITY AND TIMESCALES**

- 9.1 The MTFs is the starting point for developing a meaningful three year strategy that sets out the strategic intention for different strands of funding available to the Council (Executive 21st September 2023).
- 9.2 The Council's budget is essentially fixed in cash terms and its ability to raise income is limited as there are national controls in place around council tax and business rates.
- 9.3 The Council will continue to assess various options for closing the budget gap for 2025/26 onwards, and in the longer term, to achieve long term financial sustainability and further reports will be presented to Members.
- 9.4 On 14<sup>th</sup> December 2023, the Audit and Governance Committee considered an interim Auditor's Annual Report from the Council's external auditors, Grant Thornton. This gave commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (see Section 10 of this report). It also gave commentary on financial sustainability.
- 9.5 Under the category of 'Financial sustainability', the report stated: that 'South Hams District Council (the Council) continues to perform well with regard to financial sustainability, with a record of stable financial and budgetary management. Despite the challenging environment in which it continued to operate in during 2021/22 and 2022/23, the Council has achieved a balanced budget. Our work has not identified any significant weaknesses in arrangements to secure financial stability.'
- 9.6 An All Member Briefing on the Draft Budget Proposals for 2024/25 will take place on **Tuesday 9<sup>th</sup> January 2024**.

9.7 The table below shows the budget timetable for the 2024/25 Budget process.

21st September 2023	Executive – To consider the three year MTFS (Medium Term Financial Strategy) for 2024/25 to 2026/27
30 <sup>th</sup> November 2023	Executive – To consider draft proposals for the Revenue and Capital Budget for 2024/25
Tuesday 9 <sup>th</sup> January 2024 (4pm)	All Member Briefing on the Draft Budget for 2024/25
11th January 2024	Budget Advisory Committee - To seek the Committee’s view on the content of the Draft Revenue and Capital Budget Proposals for 2024/25
25th January 2024	Executive – To recommend Final Budget Proposals to Council for 2024/25
<b>12th February 2024 (9am)</b>	<b>Date which Council Procedure Rule 16 applies</b>
15th February 2024	Full Council – To approve Final Budget Proposals for 2024/25 and set the SHDC share of the Council Tax
22 February 2024	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2024/25 (This is SHDC share plus all other precepting authorities share).

**Note 1-** Council Procedure Rule 16 states that ‘Where a member intends to move a motion or amendment in relation to the Budget, the text of that motion or amendment must be put in writing and submitted to the Head of Paid Service by 9am on the third working day before the meeting, in order that officers may have sufficient time to consider and advise the Council of the financial implications of any such motion or amendment’. As per the timetable above, this would need to be submitted by 9am on Monday 12th February 2024.

## 10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Executive is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council on an annual basis. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget report is evidence of whether the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p>
Financial implications to include reference to value for money		<p>The report sets out proposals for the Council to achieve a balanced budget for 2024/25, as shown in Appendix B. The Council is currently forecasting a £345,560 budget gap by the following year, 2025/26. The cumulative aggregated Budget Gap by 2026/27 is £2.1million, if no action has been taken in each individual year to close the budget gap annually.</p> <p>On 14 December, the Audit and Governance Committee considered an interim Auditor's Annual Report from the Council's external auditors, Grant Thornton. This gave commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>The report stated that 'The Council has demonstrated an appropriate understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Our work has not identified any significant weaknesses in arrangements.'</p>
Risk		<p>Each of the budget options taken forward by Members will consider the risks of the option.</p>

Supporting Council Plan		<p>At the Executive meeting on 25 January 2024, the Executive will consider the Council Plan 2024-2028 and the Year 1 (2024/25) delivery plan. Proposals will be recommended to Full Council to adopt 'The Council Plan' and delivery plan at its meeting on 15 February 2024. The Council Plan and delivery plans have been refined following a ten-week consultation and engagement period with the public and partners.</p> <p>Once adopted, the strategy will be the Council's overarching strategic document setting out our ambitions and priorities for the District.</p>
Climate Change - Carbon / Biodiversity Impact		<p>The Council declared a Climate Change and Biodiversity Emergency on 25 July 2019 and the potential for this to have significant financial implications for the Council was highlighted.</p> <p>Through the Budget Setting Processes of 2020/21 and 2021/22, the Council has already committed £600,000 to Climate Change (£400,000 in 2020/21 with a further £200,000 in 2021/22)</p> <p>The Council's annual delivery plan on 'Adapting and mitigating climate change and increasing biodiversity' sets out the Council's action plan for addressing climate change and the carbon/biodiversity impact. <i>The financial commitment for Climate and Biodiversity will be set out in detail in the report to the Executive on 25 January 2024 as part of the Annual Delivery Plan for 2024/25.</i></p>
Comprehensive Impact Assessment Implications		
Consultation and Engagement Strategy		<p>External consultation and engagement has not been undertaken with regard to this report.</p> <p>The Council Plan and delivery plans have been refined following a ten-week consultation and engagement period with the public and partners.</p>
Equality and Diversity		Equality Impact Assessments are completed for the budget proposals.
Safeguarding		None directly arising from this report.

Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

### **Supporting Information**

#### **Appendices:**

Appendix A – Budget pressures and savings

Appendix B – Modelling of the Budget Position

Appendix C – Schedule of Earmarked Reserves – Executive report of 21<sup>st</sup> September 2023

Appendix D – Contribution to/from Earmarked Reserves

Appendix E – Town and Parish Precepts for 2023/24