

Report to: **Executive**

Date: **26 January 2023**

Title: **Draft Revenue and Capital Budget Proposals for 2023/24**

Portfolio Area: **Cllr J Pearce – 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

RECOMMENDATIONS

- 1. That the Executive resolves to RECOMMEND to Council:-**
 - i) To increase Council Tax for 2023/24 by £5 (Band D of £185.42 for 2023/24 – an increase of less than 10 pence per week or £5 per year – equates to a 2.77% increase);**
 - ii) The financial pressures shown in Appendix A of £4,107,700;**
 - iii) The net contributions to/(from) Earmarked Reserves of £(412,000) as shown in Appendix D, including the proposed use of £500,000 of New Homes Bonus funding to fund the 2023/24 Revenue Budget as set out in 3.23 of the report and £400,000 from the Business Rates Retention Earmarked Reserve as set out in 3.17 of the report;**
 - iv) The savings/additional income of £2,422,000 as shown in Appendix A; and**
 - v) The recommendation of the s151 Officer to agree to take up the ‘stepped pension contribution rates’ being offered by the actuaries of the Devon Pension Fund, following the results of the Triennial Pension Revaluation (as per 3.24).**

- vi) **That the Council should set its total net expenditure for 2023/24 as shown in Appendix B as £11,738,067.**
- vii) **The proposed Capital Programme Proposals for 2023/24 of £2,035,000 and the proposed financing of the Capital Programme as set out in Appendix E.**
- viii) **That Unearmarked Reserves should continue to have a minimum level of £1.5million (as set in the Medium Term Financial Strategy in September 2022), but an operating level of a minimum of £2million.**
- ix) **That the level of reserves as set out within this report and the assessment of their adequacy and the robustness of budget estimates are noted. This is a requirement of Part 2 of the Local Government Act 2003.**

2. To note that as part of the February 2023 Council report, a further formal Council resolution will be voted on by Members, regarding taking a formal resolution on charging second homeowners a 100% premium on council tax when the Levelling Up and Regeneration Bill becomes law.

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 2025/26. The Council adopted a three year timeframe for its MTFS in 2021, as this dovetailed to the timescales of the Corporate Strategy, 'Better Lives for All'.
- 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 Revenue Support Grant (main Government Grant) of £138,000.
- 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 Medium Term Financial Strategy (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 This is the starting point for developing a meaningful three year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions. 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 2025/26.
- 1.7 The key assumptions within the Budget Proposals are as below. Each of these is described in more detail in Section 3.
- The business rates baseline reset will be deferred until 2025/26 (with no negative Revenue Support Grant in 2023/24)
 - There will be a phasing in of negative Revenue Support Grant as part of the business rates baseline reset (predicted to be in 2025/26 at the earliest) with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £450,000 in 2025/26. Some of the negative RSG could be offset by growth.
 - A Council Tax increase of £5 has been modelled in Appendix B.
 - One more year of NHB has been announced for 2023/24
 - A business rates pooling gain of £300,000 has been modelled for 2023/24
 - A council tax surplus of £332,000 for 23/24 has been assumed, with a council tax collection rate of 98% (98.34% was achieved in 2021/22)
 - A 3% pay increase has been modelled from 2023/24 onwards (3% equates to £280,000 on total pay of £9.5m, prior to the waste service being brought back in-house. The waste service is shown separately.)
- 1.8 The report sets out proposals for the Council to achieve a balanced budget for 2023/24, as shown in Appendix B. The Council is currently forecasting a £299,562 budget gap by the following year, 2024/25. The cumulative aggregated Budget Gap by 2025/26 is £1.23million, if no action has been taken in each individual year to close the budget gap annually.

Budget Gaps	2023/24 £	2024/25 £	2025/26 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	0	299,562	632,045	931,607
*Cumulative Budget Gap	0	299,562	931,607	1,231,169

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

addressed)

- 1.9 Below shows the summary of proposed changes to the Budget report for 2023/24, following the announcement of the Draft Local Government Finance Settlement. Proposals for a balanced budget are shown below:

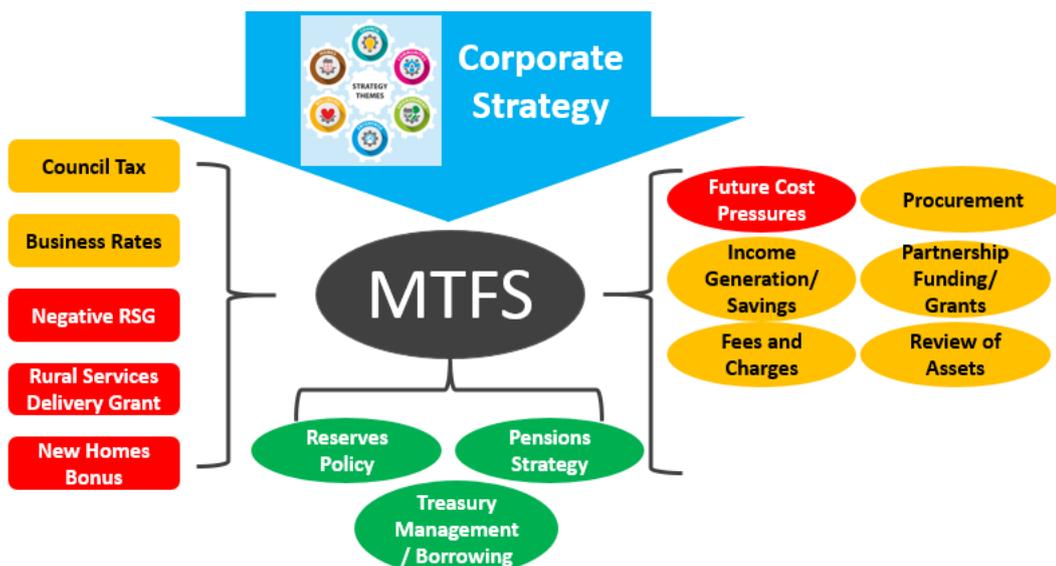
	£
<i>Budget gap for 23/24 reported in the Executive report in December 2022</i>	195,616
Additional cost pressures identified (£265,000)	
Waste collection, recycling and cleansing service – additional properties (extra properties for 23/24)	90,000
Business Rates Revaluation 2023 – increase in the Rateable Value of SHDC assets which are liable to business rates (industrial units, car parks etc.)	75,000
Actuarial Pension Revaluation – increase the cost pressure from £100,000 to £150,000 following the results of the pension actuarial revaluation – see 3.24	50,000
Increase the inflation provision on goods and services – this is all related to energy price increases	50,000
Changes to contributions to/from Earmarked Reserves	
Increase the contribution to the Elections Reserve (District Elections in May 2023)	30,000
Reduce the contribution from the Business Rates Retention Reserve (to fund the Base Budget in 23/24) from £0.5m to £0.4m – see 3.17	100,000
Changes arising out of the announcement of the Local Government Finance Settlement (£439,723 net gain)	
Funding from Funding Guarantee (3% increase in Core Spending Power) – a new Grant for 23/24	(747,929)
Reduction of New Services Grant from £182,000 to £74,907	107,093
Withdrawal of Lower Tier Services Grant from £100,000 to Nil	100,000
Reduction in the predicted amount of Rural Services Delivery Amount from £437,000 to £428,206	8,794
Homelessness Prevention Grant has been increased from £170,000 to £180,000	(10,000)
Decrease the predicted income from Business Rates from £2,550,000 to £2,447,681	102,319
Reduction in cost pressures	
National Insurance and National Living Wage – cost pressure has reduced from £150,000 to £75,000	(75,000)
Changes to income/ financing of the Revenue Budget identified	
Increase in the Taxbase for 23/24 from 39,539.70 to 39,949.00	(75,893)
<i>Revised Budget gap for 2023/24 as set out in this report (as at January 2023) - (A balanced budget position is presented for Members' consideration)</i>	Nil (Balanced Budget)

- 1.10 *The Draft Revenue Budget Proposals for 2023/24 are being considered by the Budget Advisory Committee on 19th January 2023. The recommendations from the Budget Advisory Committee and the minutes from the meeting, will be presented alongside this Executive report.*

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.

2022/23 Net Budget £10.46 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 five years to predict the Council’s financial situation for the short and medium term.
- 2.4 **Appendix A** to the Medium Term Financial Strategy sets out the Budget Pressures forecast for the next five 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 £10.46 million in 2022/23.

- 2.5 A Summary forecast is shown below of the potential budget situation if all of 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 £5 per annum (shown in Appendix B).
- 2.6 The report sets out proposals for the Council to achieve a balanced budget for 2023/24, as shown in Appendix B. The Council is currently forecasting a £299,562 budget gap by the following year, 2024/25. The cumulative aggregated Budget Gap by 2025/26 is £1.23million, if no action has been taken in each individual year to close the budget gap annually.

Budget Gaps	2023/24 £	2024/25 £	2025/26 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	0	299,562	632,045	931,607
*Cumulative Budget Gap	0	299,562	931,607	1,231,169

* (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 2024/25 onwards, and in the longer term, to achieve long term financial sustainability and further reports will be presented to Members.

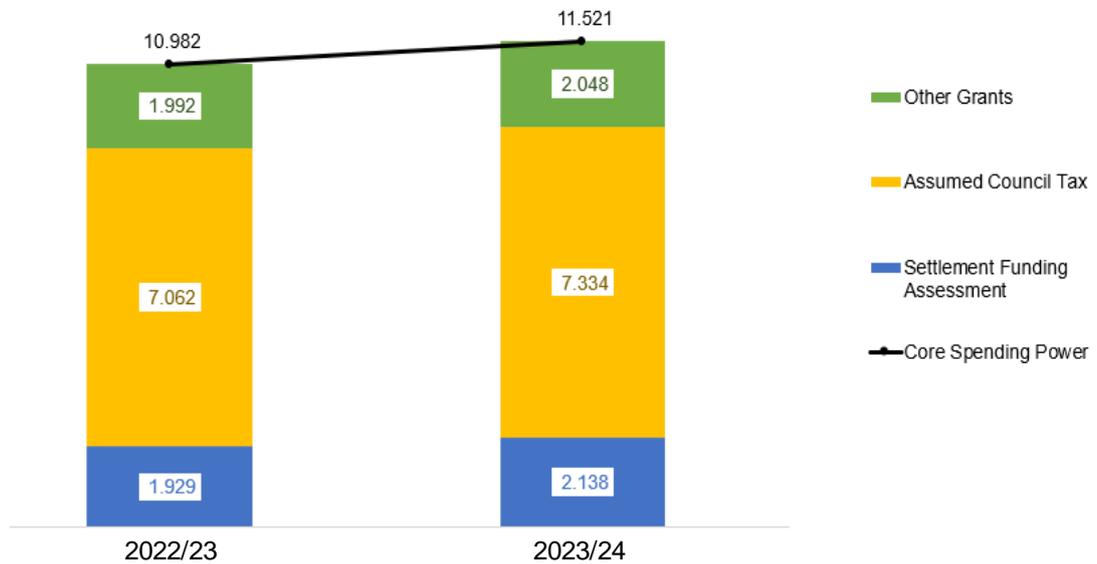
3 LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2023/24

- 3.1 On 19th December, the Government published for statutory consultation, the provisional local government finance settlement for 2023/24. This followed a policy statement published on 12 December, covering 2023/24 and 2024/25, which are the remaining years of the Spending Review 2021 period. This in turn was just after the Autumn Statement on 17 November, which set the overall level of available resources.
- 3.2 The provisional settlement is once again a holding position, designed for stability and certainty for planning purposes for 2023/24. The broad approach is based on a uniform roll-over of the core elements of the settlement. Finance reform has been deferred to at least 2025/26 and possibly later.
- 3.3 Detailed numbers are only available for 2023/24 in the Finance Settlement and there remains significant uncertainties for 2024/25, particularly for District Councils. These include the future of the New Homes Bonus Scheme, which is now simply a one-year retrospective

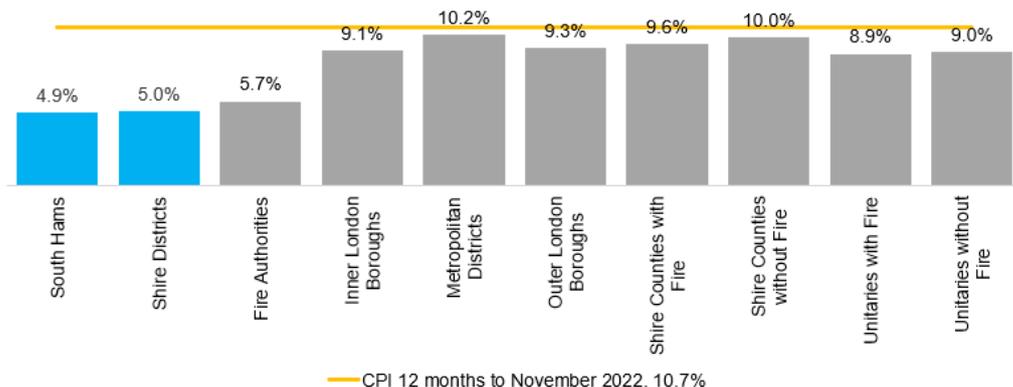
payment. There will be a future Government consultation on the New Homes Bonus scheme.

3.4 The 'Core Spending Power' is a headline figure used by MHCLG 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 no main Government grant (Revenue Support Grant).

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 2023/24.** Core Spending Power is the term the Government use to say how much money Councils have to run their services.



The table below shows the change in Core Spending Power by Authority Type. Shire Districts on average received an increase in Core Spending Power of 5%. This compares to 10.2% for Metropolitan Districts.



Council Tax

- 3.6 The Council Tax Referendum limits for District Councils for 2023/24 is the higher of 2.99% or £5. At the Council meeting on 15 December 2022, it was resolved that the strategic intention be set to raise Council Tax by £5 for a Band D property for 2023/24 (rather than the maximum allowed of 2.99% which equates to an annual increase of £5.39).

A Band D council tax for the District Council of £185.42 in 2023/24 is shown in Appendix B (an increase of £5 for the year (less than 10 pence per week) which equates to a 2.77% increase. The Council's share of the council tax for 2023/24, will be set at the Council meeting on 16th February 2023. (A 1% increase in council tax generates £71,000 of extra council tax income).

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 tax payers in the same way, regardless of which services they use or receive. Council Tax is a form of general taxation rather than a service charge.

- 3.7 The table below shows how an average Band D council bill is made up for South Hams District Council for 2022/23, compared to 2021/22. Of an average Band D Council Tax within the District of £2,155.30, an amount of £180.42 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 2022/23, the council tax for an average Band D property in South Hams increased by £64.75 per annum (3.1% as shown below).

Precepting Authority	Band D 2021/22	Band D 2022/23	£ Increase	% Increase
South Hams District Council	£175.42	£180.42	£5.00	2.85%
Devon County Council Precept	£1,342.44	£1,372.59	£30.15	2.99%
Adult Social Care Precept *	£168.84	£183.87	£15.03	
Devon & Cornwall Police & Crime Commissioner	£236.56	£246.56	£10.00	4.23%
Devon & Somerset Fire & Rescue	£90.00	£91.79	£1.79	1.99%
Average Parishes/Towns	£77.29	£80.07	£2.78	3.60%

TOTAL	£2,090.55	£2,155.30	£64.75	3.10%

Town and Parish Precepts for 2022/23 are shown in Appendix F. The largest Parish Precepts are Totnes (£186.57), Dartmouth (£182.95) and Ivybridge (£134.91), with the smallest Precept being Woodleigh (£4.94) for a Band D property.

- 3.8 The District Council is responsible for collecting all the Council Tax debt of approximately £83m as South Hams DC is the Billing Authority. After keeping 8% of the council tax collected to run the Council's services, the rest is paid over to Devon County Council, the Police, the Fire and Town and Parish Councils. The collection rate for Council Tax for South Hams was 98.34% for 2021/22. This was 2.44% higher than the national average of 95.9%.
- 3.9 A council tax collection rate of 98% has been assumed for 2023/24.
- 3.10 It has been assumed that the number of properties within the District will increase by 500 per annum from 2023/24 onwards.
- 3.11 No council tax referendum principles will apply to Town and Parish Councils for 2023/24 onwards.

Business Rates and Negative Revenue Support Grant (RSG)

- 3.12 The Business Rates Reset will be delayed to 2025/26 at the earliest.
- 3.13 Pushing these major changes back to 2025/26 means that they can be aligned with the next spending review period (the current spending review runs to 2024/25). 2025/26 now looks like it is shaping up to be a very significant financial year for local government, incorporating a new spending review, the 2021 Census and funding reforms.
- 3.14 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 2023/24 or 2024/25. Negative RSG is effectively the Council's further predicted funding cuts. The modelling assumes negative RSG of £450,000 in 2025/26. Some of the negative RSG could be offset by growth.
- 3.15 Estimates have been made of the business rates baseline funding levels for 2023/24 onwards and the relative deductions for negative RSG. For example in 2023/24, the £2.448m is the amount the Council is projected to retain from its business rates income collected of around £24 million (this equates to around 10p in every £1 collected of business rates).

- 3.16 The 2021/22 collection rate for South Hams for business rates was 98.13%. This was 2.63% higher than the national average of 95.5% for 2021/22.
- 3.17 It is recommended to take £400,000 funding from the business rates retention reserve in 23/24 to fund the base budget, with a further £400,000 in 24/25 and 25/26. The previous budget report for 2023/24 included a proposal to take £500,000 from this reserve in 23/24 to fund the base budget. It is recommended that this is reduced down to £400,000 now that the details of the Local Government Finance Settlement have been announced, in order to reduce the reliance on taking funding from reserves to fund the base budget for 2023/24.

This budget modelling 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. In addition, an amount of £3m has been approved to be utilised from the business rates retention reserve, to cover the transitional cost of the waste service coming back in-house in October 2022 onwards. 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.

Business Rates Income	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
			<i>Potential Baseline Reset</i>
Business Rates Income	2.448	2.450	2.50
Less: Negative Revenue Support Grant (RSG)			(0.45)
Anticipated Pooling Gain	0.300	-	-
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
Total Business Rates Income	3.148	2.85	2.45

- 3.18 **Business Rates Revaluation** – There will be a business rates revaluation from 1 April 2023, based on the rental market as at 1 April 2021. The purpose of a business rates revaluation is to update rateable values and therefore, business rates bills, to reflect changes. Transitional arrangements will be in place to support businesses to adjust to their new bills. The results of the Revaluation exercise have been finalised by the Valuation Office and the Council will have higher business rates bills for some of its operational assets such as industrial units, car parks and Follaton House. A cost pressure of £75,000 has been included within these budget proposals (for example the rateable value of Follaton House has increased from £305,000 RV to £375,000 RV).

Devon Business Rates Pool

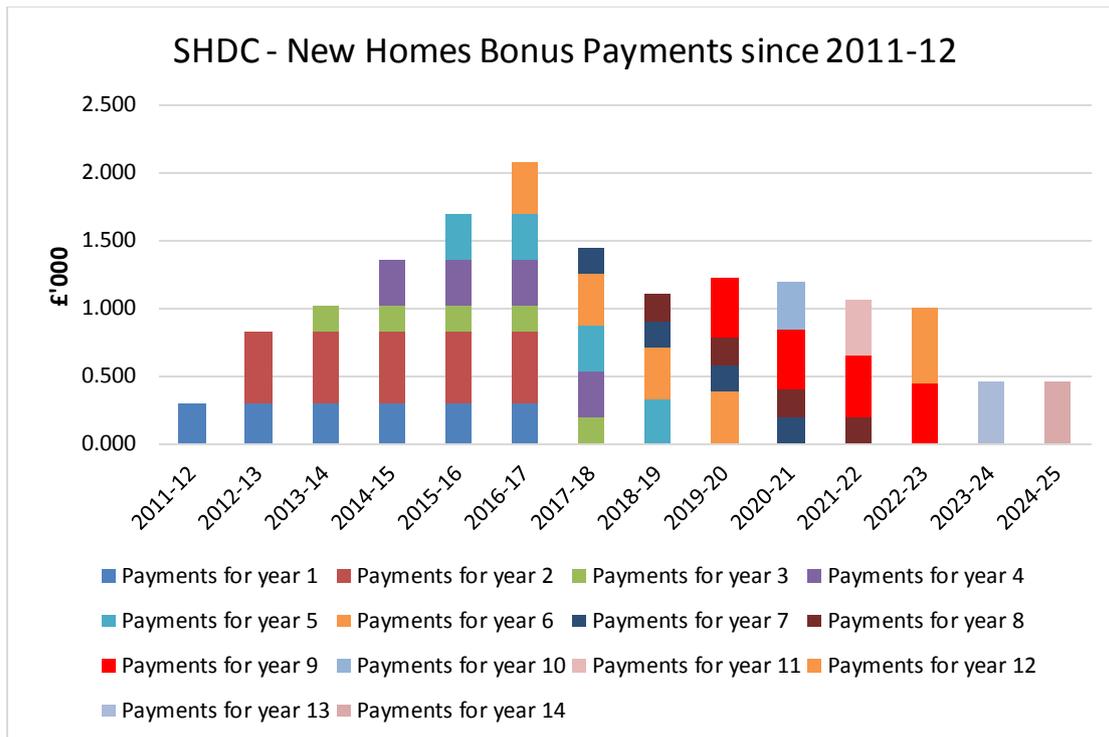
- 3.19 Council in December 2022 approved that South Hams District Council will continue to be part of a Devonwide Business Rates Pool for 2023/24. A business rates pooling gain of £300,000 has been modelled for 2023/24.

Rural Services Delivery Grant

- 3.20 Rural Services Delivery Grant will continue for 2023/24 at previous levels (£85m nationally – SHDC share of £437,000).

New Homes Bonus (NHB)

- 3.21 NHB has been 'rolled over' for another year, with no legacy payments being paid. The Council's provisional allocation is **£456,012 for 2023-24** (higher than the amount estimated in the previous budget report of £421,000). There is due to be a consultation on the future of the NHB scheme. A decision on whether NHB will continue into 2024-25 will be made before next year's finance settlement.
- 3.22 There is a net property increase of 454 properties in the 23/24 NHB calculation. When the baseline (0.4%) is deducted of 186 properties (0.4% of 46,551 overall Band D equivalent properties), this means that NHB is payable at 80% of £1,965 (national average Band D council Tax) x 268 additional Band D properties over the baseline. So for the first 186 extra properties, SHDC receives no NHB. ($268 \times £1965.71 \times 80\% = £421,000$)
- 3.23 The budget report assumes that £500,000 of NHB funding is used in 2023/24 to fund the base budget. This would be £456,012 from the 23/24 allocation and £43,988 from the NHB Earmarked Reserve.



3.24 Triennial Pension Revaluation - Every three years, there is a valuation of the Pension Fund (administered by Devon County Council) to assess the Fund’s liability to meet future benefit payments, and whether there are enough assets to meet those liabilities. The valuation as at 31 March 2022 has been undertaken by Barnett Waddingham, a firm of actuaries. They have assessed that as at 31 March 2022, the Devon Pension Fund had discounted liabilities of £5.405 billion, with assets of £5.316 billion to meet the liabilities. This means the Fund has 98% of the assets it needs to meet the accrued pension liabilities. This percentage is known as the funding level, which is now 98%.

The result is an improvement from the last Valuation in 2019 when the Fund had a 91% funding level. The improvement is largely a result of investment returns, deficit contributions paid in by employers and revised demographic assumptions. The increased funding level is good news, demonstrating good progress towards a 100% funding level.

The results for the South Hams proportion of the Devon Pension Fund are shown below. The funding level of the SHDC Pension Fund is now **107.2%**.

Pension Revaluation Position for South Hams District Council

	At 31 March 2019	At 31 March 2022
	£000	£000
Assets	97,607	111,957
Liabilities	96,570	104,450
Surplus	1,037	7,507
Funding level	101.1%	107.2%

However the primary pension contribution rates are being increased by the actuaries across the Devon Fund. The Council currently pays a primary rate (employer's pension contribution rate) of 16.8% and this is being increased to 19.6% for the next 3 years.

In light of the Council's funding level of 107.2%, the s151 Officer has requested that a 'stepped contribution' rate is introduced over a 3 year period for the Council. This has been offered by the actuaries as being the stepped rates below:-

'Stepped rates for the primary rate'

Proposed rate 2023/24 – 17.8%

Proposed rate 2024/25 – 19.3%

Proposed rate 2025/26 – 20.8%

It is recommended by the s151 Officer that the Council accepts the offer of the stepped contribution rates from the actuaries. This would give a cashflow benefit of around £0.25m over the next two years and a cash benefit of over £100,000.

Other assumptions within the Medium Term Financial Strategy (MTFS)

- 3.25 The last pay award offer for 2022/23 has recently been agreed. The pay award is an increase of £1,925 on all NJC pay points 1 and above with effect from 1 April 2022 and an extra day of annual leave entitlement with effect from 1 April 2023. All employees on a NJC pay spine receive a minimum 4.04% pay increase, with a minimum of £10.50 hourly rate of pay. (The estimate of the National Living Wage, set at two-thirds of medium earnings for those aged 21 and over in 2024 is £10.95). For example, for Level 8, this would equate to a pay increase of around 9%.
- 3.26 The amount agreed for 2022/23 (as set out above) is higher than the amount that was previously provided for of a 2% provision.
- 3.27 The budget report includes a total provision for the 2022/23 pay award of £630,000 in 23/24. This is the amount that will be needed for the £1,925 pay award, which is over and above the 2% that was provided for in the 22/23 budget. This needs to be built into the 23/24 budget as a 'catch up' for the pay award for 22/23, as the 22/23 budget has already been set.
- 3.28 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.
- 3.29 The Consumer Price Index (CPI) has reached 10.7% (November 2022 CPI), which is a 40 year high. A significant part can be attributed directly to gas/electricity price inflation.

- 3.30 An extra £450,000 cost pressure for inflation on goods and services has been included within the cost pressures in Appendix A. For electricity alone, a 280% increase has been factored in equating to over £200,000 additional cost.
- 3.31 Interest rates are increasing and the Bank Base rate is currently 3.5% (a 0.5% increase was announced by the Bank of England on 15 December 2022). It is predicted that the Council's treasury management income will increase to £800,000 in 2023/24 and an extra £677,000 has been built into the MTFs for 2023/24 (the existing base budget is £123,000).

Better Lives for all – The Council's 20 year vision

- 3.32 Better Lives for All sets out our 20-year vision for South Hams and its communities. It forms the strategy for both the Council as an organisation and the South Hams as a place. The six areas of focus are supported by detailed annual delivery plans.

<https://www.southhams.gov.uk/better-lives-for-all>

Achieving our Vision

To support us in achieving our vision, we have aligned our actions to a number of themes.

Each theme will be led by an Executive Member and supported by a senior officer.

In the following pages, we set out our Thematic Delivery Plans for each area.



Adapting & mitigating
climate change and increasing biodiversity

An environment where people and nature thrive together



Improving
homes

Better homes enabling better lives for all



Protecting, conserving & enhancing
our built and natural environment

Planning for our future, celebrating our past



Stimulating
a thriving economy

A district that attracts high quality employment opportunities and space for business to grow



Strengthening
community wellbeing

Strong and prosperous communities where residents live healthy lives and are empowered to make a positive impact



Delivering
quality Council services

Delivering quality services to our residents and communities

Climate Change

- 3.33 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.

OTHER BUDGET ITEMS

- 3.34 Waste and Recycling service – There was a separate report on the December Executive agenda on the waste and recycling service update.
- 3.35 The Levelling Up and Regeneration Bill is making its way through Parliament. The Government is aiming for Royal Assent in Spring 2023. There is a proposal within the bill to allow Billing Authorities the discretion to charge second home owners a council tax premium of 100% (so a second home dwelling would pay double the council tax charge). The Bill 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.
- 3.36 Billing Authorities may be able to charge the premium to second home owners in 2024-25, but the timing will be very tight if Authorities only get the powers in Spring 2023. A Member decision would need to be taken on this as part of the future budget setting process. Modelling shows that extra council tax income of £730,000 could be generated.
- 3.37 **At Council on 15 December 2022, a motion was passed by Council, which resolved that:**
'This Council will adopt a 100% Council Tax premium on second homes as soon as legislation allows'.
- 3.38 As part of the February 2023 Council report, a formal Council resolution will be voted on by Members, regarding taking a formal resolution on charging second homeowners a 100% premium on council tax when the Levelling Up and Regeneration Bill becomes law.

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 2021/22 the long term borrowing of the Council decreased from £14,380,000 (20/21) to £14,284,000. Short term borrowing increased from £94,000 to £96,000 due to the maturity profile of borrowing. No further external borrowing took place during 2021/22.

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.

- 5.2 During the 2021/22 Budget setting process (Development Management Committee and Overview and Scrutiny Committee on 14th January 2021), Members approved the following: 'delegated authority be given to the relevant Head of Practice, in consultation with the relevant lead Executive Member, to adjust Fees and Charges within their service area by inflation at suitable periodic intervals, with reports being presented to the Executive as appropriate'. The Head of Finance will co-ordinate this work with the relevant Heads of Service leads and the relevant Executive Members.

6 FINANCIAL SUSTAINABILITY AND TIMESCALES

- 6.1 The Council will continue to assess various options for closing the budget gap for 2024/25 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 'Delivering Quality Services' Delivery Plan of the Council's long term strategic vision, 'Better Lives for All'.

7 Earmarked and Unearmarked Reserves Policy

- 7.1 Unearmarked Reserves total £2.056 million as at 31 March 2022 (the Balance Sheet date). This position is after £280,000 has been transferred from Unearmarked Reserves to a Financial Stability Earmarked Reserve (Council 10 February 2022). This is a new reserve set up in 2021/22 as part of the 2022/23 Budget process to be available for any future financial pressures from local government funding reforms and any other budget pressures.
- 7.2 Earmarked Reserves total £20.059 million as at 31 March 2022. A full list of Reserves is shown in Appendix C. The proposed contributions to/from Earmarked Reserves are shown in Appendix D.
- 7.3 Earmarked Reserves includes £4.260m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the S31 Compensation Grant Reserve). The funding in this reserve will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore, this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.
- 7.4 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 2023/24 and future years also.

- 7.5 At Council on 10th February 2022, Members set a minimum balance for Unearmarked Reserves of £1.5million, with an operating level of a minimum of £2million. This was based on a risk assessment basis and a sensitivity analysis. This will be updated for the February 2023 Budget report. Therefore, the current level of £2.056million is still above these levels previously set.
- 7.6 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 2022, 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.
- 7.7 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.
- 7.8 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. For example, the Council has a Financial Stability earmarked reserve to help secure financial stability for the longer term (see 7.1).

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:
- 1 - Health and Safety compliance
 - 2 - Essential to keep operational assets open
 - 3 - Fit with the Council's Delivery Plans for 'Better Lives for All'
 - 4 - To rationalise service delivery or service improvement
 - 5 - 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 thematic delivery plans and aims within 'Better Lives for All'.
- 8.4 The capital bids are set out in Appendix E alongside ways the Capital Programme could be financed. The Capital Bids currently total £2,035,000. Business cases are attached in Appendices E1 to E5.
- 8.5 **Regeneration and Investment Strategy** – The Council has approved a Regeneration and Investment Strategy (Minute Reference CM 75/21,

Council 31/3/2022). To date, Investment Properties have a value of £18.61 million in aggregate as at 31.3.2022.

- 8.6 Purchases made within the strategy are capital expenditure. An income projection of £667,000 from the net ancillary income from investments in Investment property has been included within the 2022/23 Base Budget onwards.
- 8.7 The Council's Asset Base is £102.7 million as at 31 March 2022. 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 15 September 2022).
- 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 2024/25 onwards, and in the longer term, to achieve long term financial sustainability and further reports will be presented to Members.
- 9.4 Making the best use of our resources and setting a balanced budget annually is within the 'Delivering Quality Services' Delivery Plan of the Council's long term strategic vision, 'Better Lives for All'.
- 9.5 Officers will continue to work with the Executive and the results of this will be incorporated into future Budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.
- 9.6 An all Member Budget Workshop took place on Thursday 10th November.
- 9.7 The table below shows the budget timetable for the 2023/24 Budget process.

19 January 2023	Budget Advisory Committee comprising of all Non-Executive Members, to consider the 2023/24 Revenue and Capital Budget Proposals and make recommendations to the Executive on the Budget Proposals <i>NOTE: The Draft Revenue Budget Proposals for 2023/24 are being considered by the Budget</i>
--------------------	---

	<i>Advisory Committee on 19th January 2023. The recommendations from the Budget Advisory Committee and the minutes from the meeting, will be presented alongside this Executive report.</i>
26th January 2023	Executive – To recommend Final Budget Proposals to Council for 2023/24
13th February 2023 (9am)	Date which Council Procedure Rule 16 applies
16th February 2023	Full Council – To approve Final Budget Proposals for 2023/24 and set the SHDC share of the Council Tax
22 February 2023	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2023/24 (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 13th February 2023.

10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		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><i>The Draft Revenue Budget Proposals for 2023/24 are being considered by the Budget Advisory Committee on 19th January 2023. The recommendations from the Budget Advisory Committee and the minutes from the meeting, will be presented alongside this Executive report.</i></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 2023/24, as shown in Appendix B. The Council is currently forecasting a £299,562 budget gap by the following year, 2024/25. The cumulative aggregated Budget Gap by 2025/26 is £1.23million, if no action has been taken in each individual year to close the budget gap annually.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2021/2022, they will assess the arrangements the Council has in place for:-</p> <ul style="list-style-type: none"> • Improving economy, efficiency and effectiveness • Financial Sustainability • Governance <p>The outcome of Grant Thornton's work in this area will be reported to Members at the Audit Committee meeting in March 2023.</p>
Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The majority of activities set out in the Council's delivery plans can be delivered through refocusing and reprioritisation of existing resources however, in order to realise the ambition set out in the strategy, some of the activities will require additional resources.
Climate Change - Carbon / Biodiversity Impact		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>A Climate Change Action Plan was presented to Council in December 2019. Following this report, a strategy is being implemented as to how the Council can finance the items within the Action Plan, whether that is from external grant sources or some funding from the Council's own resources.</p> <p>The Council has Earmarked £400,000 in a Climate Change Earmarked Reserve as part of the 2020/21 Budget, with a further £200,000 being agreed as part of the 2021/22 Budget Process.</p> <p>Further detail is set out in the Council's 'Better Lives for All' Thematic Delivery Plan.</p>
Comprehensive Impact Assessment Implications		
Consultation and Engagement Strategy		<p>External consultation on the Council's Budget Proposals will be undertaken prior to the Budget being agreed by Council in February 2023.</p> <p>The Budget supports all of the Thematic Delivery Plans within the Council's strategic vision, 'Better Lives for all'. There was a public consultation on the Plan during the Summer 2021.</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 Reserves

Appendix D – Contribution to/from Reserves

Appendix E – Outline initial proposals for the Capital Programme for 2023/24

Appendix F – Town and Parish Precepts for 2022/23

Background Papers:

None