

*Budget 2023/2024 and Medium-Term Financial Strategy Update

For Cabinet 9 February 2023

Summary

Lead Member: Councillor Chris Hall, Finance and Performance Portfolio Holder

Lead Director: Lee Colyer, Director of Finance, Policy and Development

Head of Service: Jane Fineman, Head of Finance and Procurement

Report Author: Lee Colyer, Director of Finance, Policy and Development

Classification: Public document (non-exempt)

Wards Affected: All

Approval Timetable	Date
Management Board	11 January 2023
Portfolio Holder	9 January 2023
Finance & Governance Cabinet Advisory Board	24 January 2023
Cabinet	9 February 2023
Full Council	1 March 2023

Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That Cabinet considers the changes to the base budget along with the assumptions and approach set out throughout the report;
2. That Cabinet considers the responses to the budget consultation (when available);
3. That Cabinet proposes to Full Council the use of £943,000 from reserves to balance the revenue budget.

4. That Cabinet proposes that Full Council approves the rolling forward of the capital programme including additional gross funding of £620,000 for new schemes listed within the report; and
5. That Cabinet proposes that Full Council approves an increase in the 'Basic Amount' of Council Tax of £5.72 (2.95 per cent) for 2023/24 for a Band D property.

1. Purpose of Report and Executive Summary

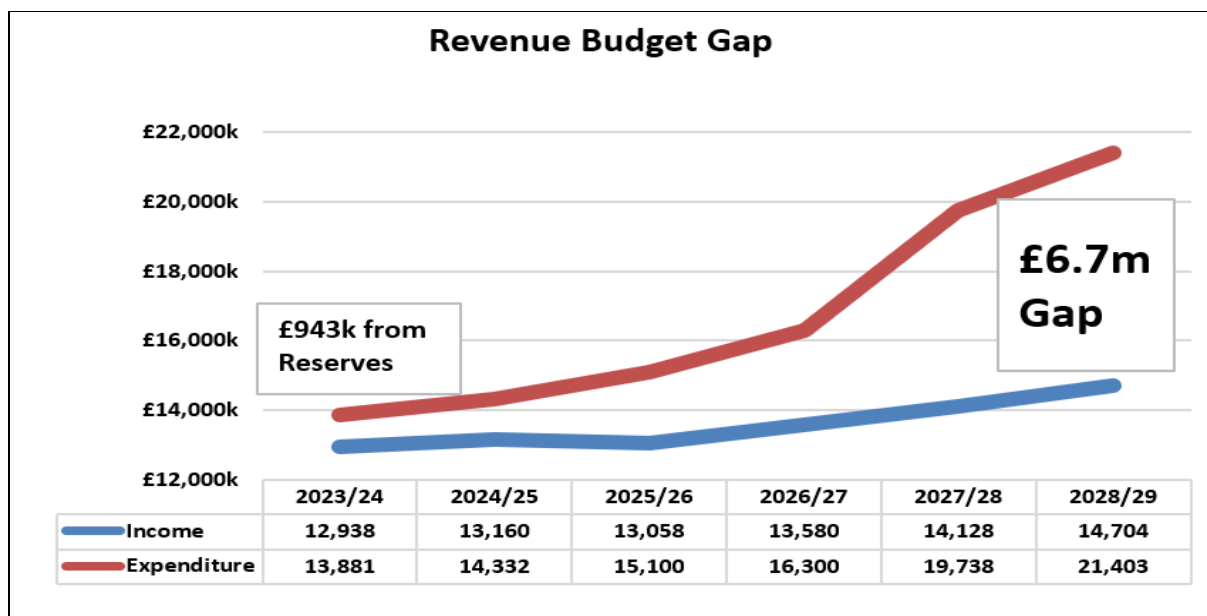
1.1 This report outlines the assumptions that have been built into the budget for 2023/24.

1.2 Cabinet is asked to recommended this budget to full Council which includes the following main headlines;

- The impact of much high levels of inflation on expenditure have offset additional income, leaving the Council still requiring £943,000 from reserves to set the Revenue Budget.
- New capital programme schemes with a gross cost of £620,000 are required.
- No major changes or cuts to services are proposed.

1.3 The draft budget was subject to six weeks of public consultation which ended on 20 January 2023 and discussions have occurred with representatives across the borough.

1.4 The views of the public should be used to inform the significant changes to the range of services that can be afforded. A savings plan is required to address the structural deficit left by the pandemic and the recurring annual shortfall as inflation on expenditure exceeds the ability to riase income.



Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to matters relating to, or which might affect, the calculation of Council Tax.

Any Member of a Local Authority, who is liable to pay Council Tax, and who has any unpaid Council Tax amount overdue for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that he/she is in arrears and must not cast their vote on anything related to the Council's Budget or Council Tax.

Members are reminded of their obligation to have regard to the Chief Financial Officer's report and the importance of the Council setting a budget as failure to do so will have legal, financial, and reputational consequences for the Council.

2. Introduction and Background

- 2.1 This is the final report in the well-rehearsed budget setting cycle that has taken place over the past year. The main reports in the budget setting process are set out below which were also considered by the Finance and Governance Cabinet Advisory Board.

- In-Year Budget Review - July
- Budget Projection and Strategy - September
- Budget Update and Financial Benchmarking – October
- Overview and Scrutiny Committee – Approach and process - November
- Draft Budget for consultation – December
- Final Budget for approval – March
- Setting of Council Tax – Discharging the statutory function as the Billing Authority - March

2.2 In addition to the above, all member briefings have taken place along with the annual offer to attend each political group meeting by the s151 Officer.

Provisional Local Government Finance Settlement

2.3 On 19 December 2022 the Government published the Provisional Local Government Finance Settlement which includes more detail on the funding available to individual councils.

2.4 The settlement is for a single year with indicative figures for 2024/25. This would indicate that the fundamental review of Local Government funding would need to be undertaken soon for implementation from 2025/26.

2.5 The main headlines for this Council are as follows:

- The Settlement Funding Assessment (SFA), minimum share of business rates is as expected £2,463,549.
- Council Tax can increase by 3.0 per cent and the Government assumes this will happen in their assessment of this council's spending power.
- The delay in replacing the New Homes Bonus (NHB) scheme has resulted in an extra year being paid and the Council will receive £768,199. Proposals on the replacement scheme will be issued shortly.
- Revenue Support Grant (RSG) £177,007 will be awarded bringing to an end five years of zero RSG. It is important to note that this is not new funding but a result of moving specific grants received for Council Tax Annexes and Council Tax Support Administration into RSG. This could also be an attempt by the Government to try to reintroduce negative RSG which would cost this council over £200,000.
- The Lower Tier Services grant has been deleted to reflect the reversal of higher employer national insurance rates and a Services Grant of £92,249 has been awarded.
- This Council will be entitled to a new one-off Funding Guarantee Grant of £622,348 to ensure that all councils receive at least a 3 per cent increase to their spending power.
- The forty per cent share of business rates growth will continue for another year and this Council will continue to be part of the Kent Business Rates Pool which has been approved for a further year.

2.6 The provisional settlement is subject to just four weeks consultation ending on 16 January 2023.

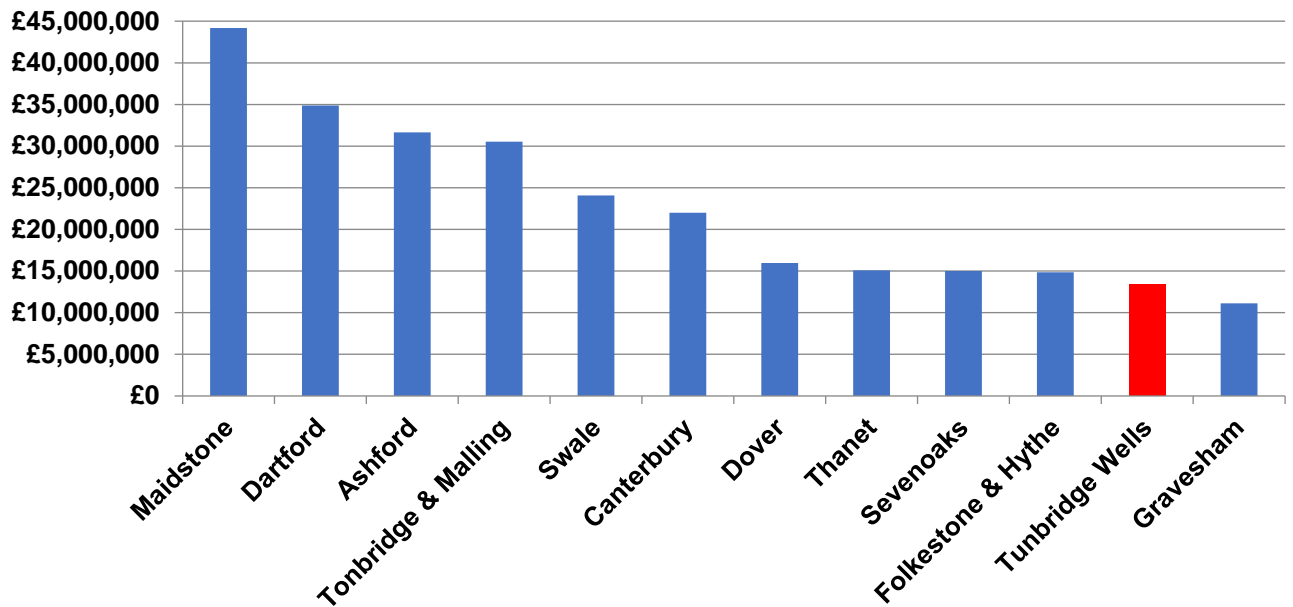
New Homes Bonus (NHB)

- 2.7 The NHB scheme was introduced by the Government in 2011 as a “powerful, predictable, permanent incentive to reward the delivery of housing growth”, funded by a £900 million top-slice of Revenue Support Grant.
- 2.8 Since 2011 various amendments have been made to dilute the financial incentive and in advance of consulting on changes the Government announced that in effect the current scheme will be phased out. The national control total has been reduced to just £291 million. Details of a replacement scheme are expected soon.
- 2.9 The lack of progress by the Government in implementing a replacement scheme has resulted in a further year of NHB of £768,199 being awarded, but without any further legacy payments. This is illustrated below:

	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Year 13 - Net								768
Year 12 - Net							924	
Year 11 - Net						454		
Year 10 - Net					571			
Year 9 - Net				222	222	222	222	
Year 8 - Net			184	184	184	184		
Year 7 - Net		183	183	183	183			
Year 6	554	554	554	554				
Year 5	135	135	135					
Year 4	96	96						
Year 3	390	390						
Year 2	339							
Year 1	259							
NHB Allocation	1,773	1,358	1,056	1,143	1,160	860	1,146	768
NHB in Budget	1,773	1,358	1,056	921			1,146	768
NHB to/(from) Reserves	0	0	0	222	1,160	860	0	0

- 2.10 Since the creation of NHB this Council has received tens of millions of pounds less funding from NHB than neighbouring councils who have delivered far greater levels of house building. This huge funding disparity is shown below.

Cumulative New Homes Bonus Payments to 2023/24 (Year 13)



Retained Business Rates

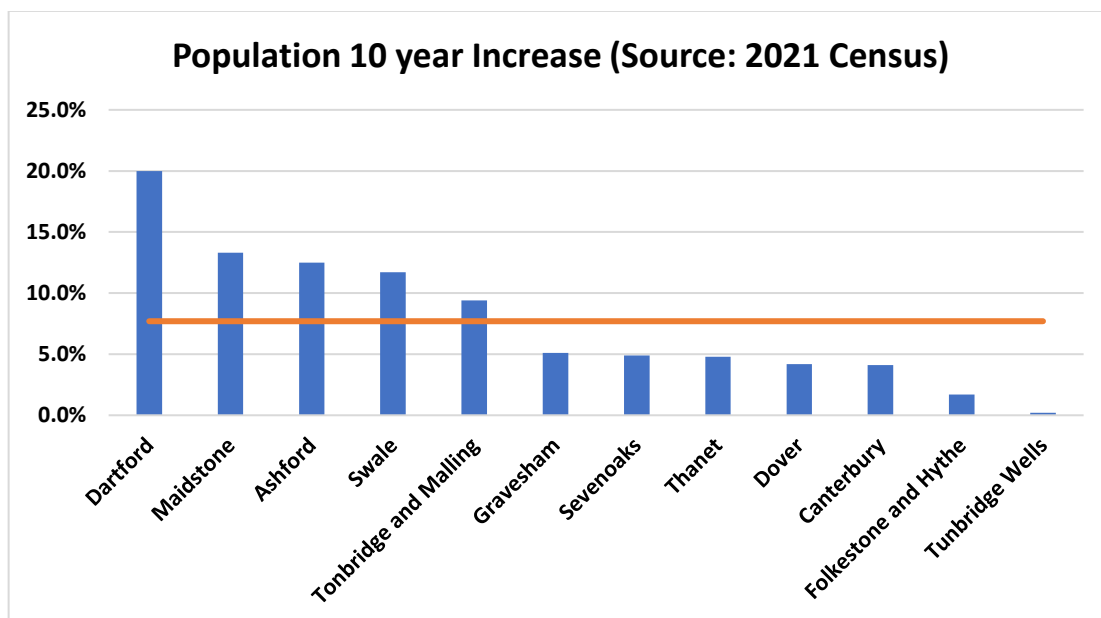
- 2.11 The draft revaluation list from April 2023 has been published by the Valuation Office Agency (VOA) which must be used by the Council to issue business rates bills and to collect payment on behalf of the Government.
- 2.12 Under the Business Rates Retention Scheme the Council is incentivised to grow the net yield from business rates within the borough. Councils were invited to make submissions for business rates pools for 2023/24 and this Council's bid as part of the Kent Business Rate pool was successful.
- 2.13 The continuation of the Kent Business Rate Pool using the existing baseline will enable this Council to continue to retain a greater share in the proceeds of business rates growth for a further year. The retained business rate growth share is shown below:

Type of Authority	Local Business Rate Growth Share
Districts	40%
Kent County Council	9%
Kent Fire & Rescue Service	1%
Total	50%
Government	50%

- 2.14 The first £500,000 of business rates proceeds is set aside to fund the capital programme. The remainder has previously not been included within the base budget and any further receipts are transferred into reserves at year end to fund any revenue budget deficit or the capital programme.

Fair Funding Review

- 2.15 The Review of Relative Needs and Resourcing (“Fair Funding Review”) and a reset of business rates growth will not be implemented in the next two years. This is a huge relief to the Council as funding distribution reviews tend to result in funding being reallocated from areas like Tunbridge Wells to other parts of the country.
- 2.16 The delay does give the Council time to plan for the significant reduction in government funding that will occur due to the stagnant population as evidenced below.

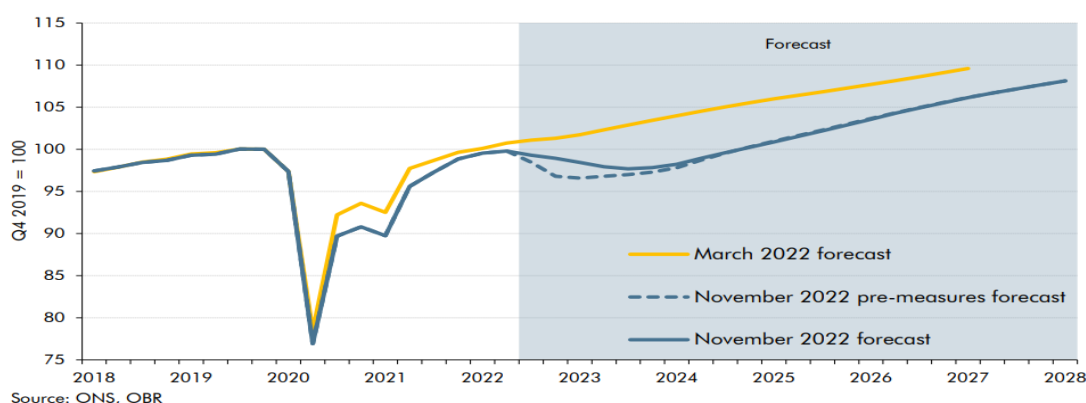


- 2.17 The lower population growth in comparison with other areas will adversely impact on funding and investment from the Government. If the Fair Funding Review was to be undertaken using the Census 2021 results, then the redistribution of current funding would see the current SFA for Tunbridge Wells of £2.4m reduced by £600,000.

National Economic Forecasts

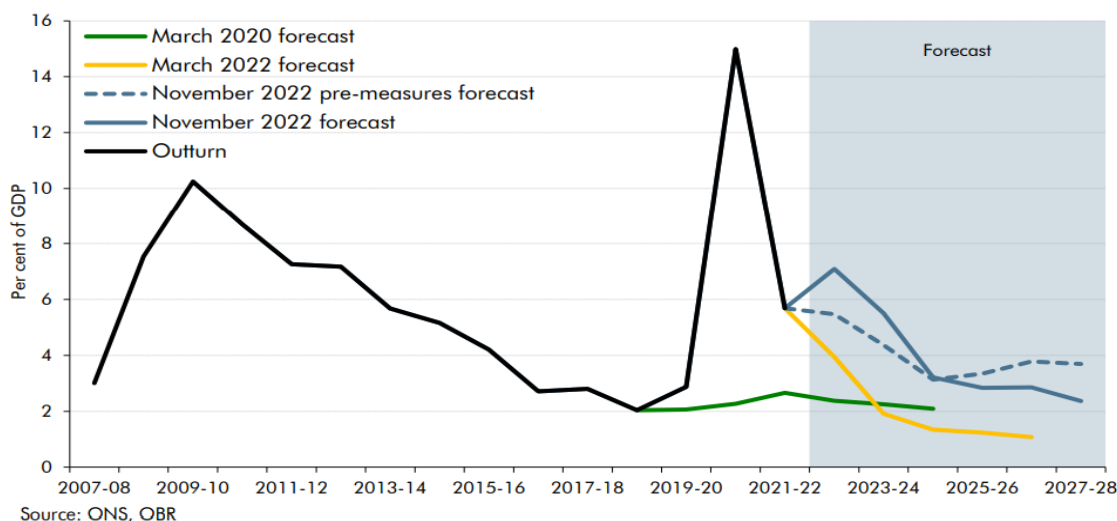
- 2.18 The Office for Budget Responsibility (OBR) published their Economic and Fiscal Outlook alongside the Autumn Statement on 17 November 2022. The OBR has said the UK is in a recession and warned that the economy will shrink even further in 2023. The lower forecast levels of Gross Domestic Product (GDP) are shown below.

Chart 1: Real GDP



- 2.19 The OBR said that the medium-term fiscal outlook has worsened since the March 2022 forecast due to a weaker economy, higher interest rates and higher inflation.
- 2.20 Unlike this Council, the Government uses borrowing to fund their revenue budget which further increase the level of external debt. Higher borrowing pushes underlying debt up sharply, from 84.3 per cent of GDP last year to a 63 year high of 97.6 per cent in 2025/26.

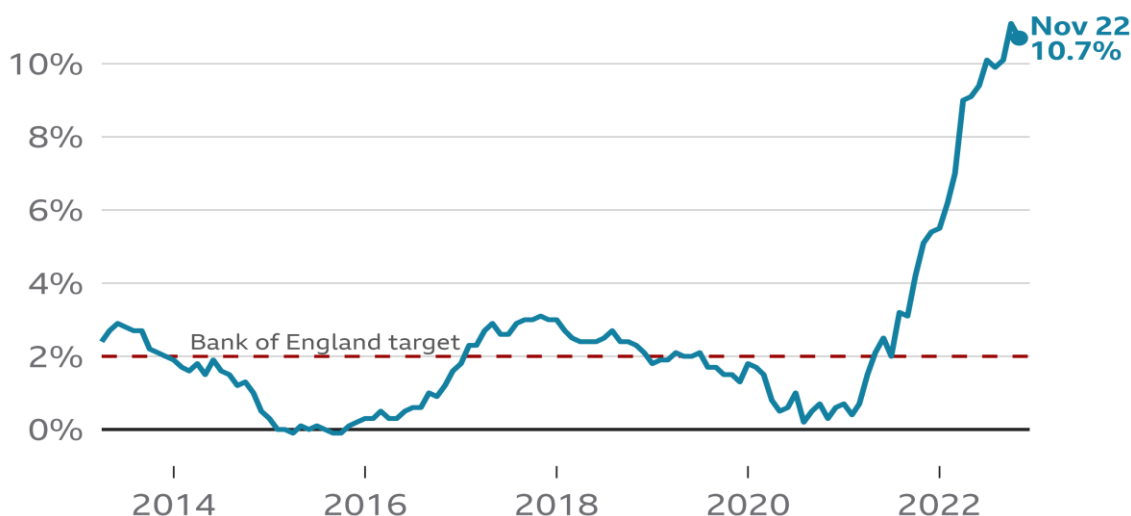
Chart 2: Public sector net borrowing



- 2.21 Inflation continues to remain at relatively high levels pushing up the cost of providing local services. The Council’s exposure to inflation is far greater than that measured by the Consumer Prices Index (CPI). The Council’s cost of energy is up 110 per cent and external contract indexation is over 16 per cent higher and whilst establishment costs are up by 6 per cent, this needs to be seen in the context of income and the 3 per cent ‘cap’ on Council Tax. The CPI compared to the Bank of England’s (BoE) target is shown below.

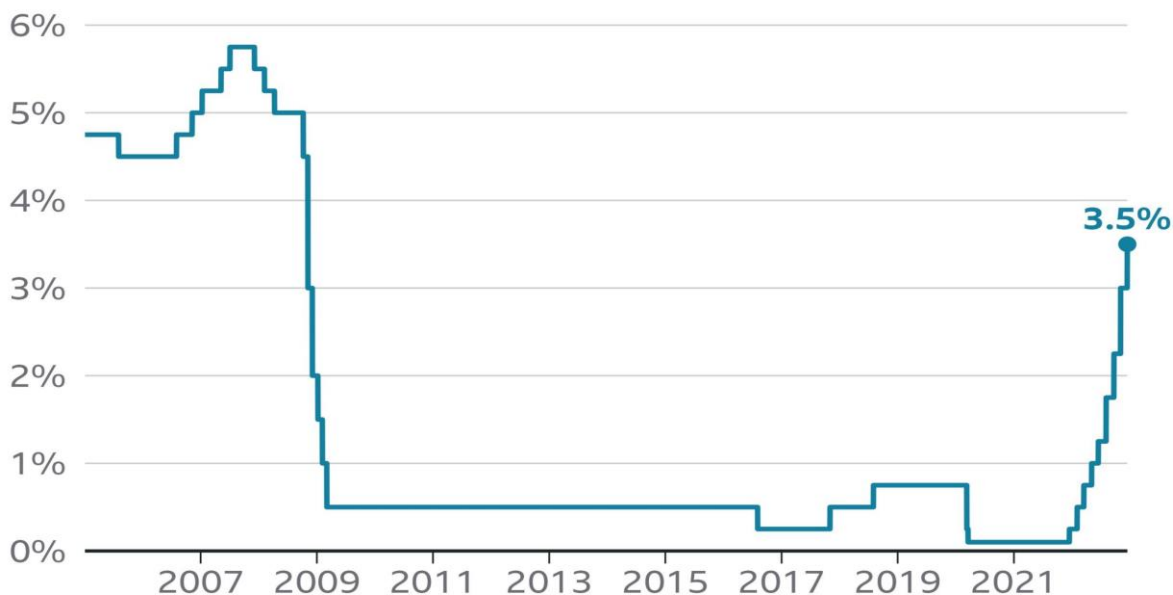
Inflation at 10.7% in November 2022

Consumer Prices Index



2.22 The Bank of England are still maintaining their position as recently as 15 December 2022 that inflation will fall back in the middle of 2023 and will be close to their 2 per cent target in two years' time. The BoE has reacted to higher inflation by increasing interest rates as shown below.

Interest rate increases to 3.5%



Source: Bank of England. Last update: 15 December 2022



2.23 The above graph illustrates that interest rates remain at a relatively low level.

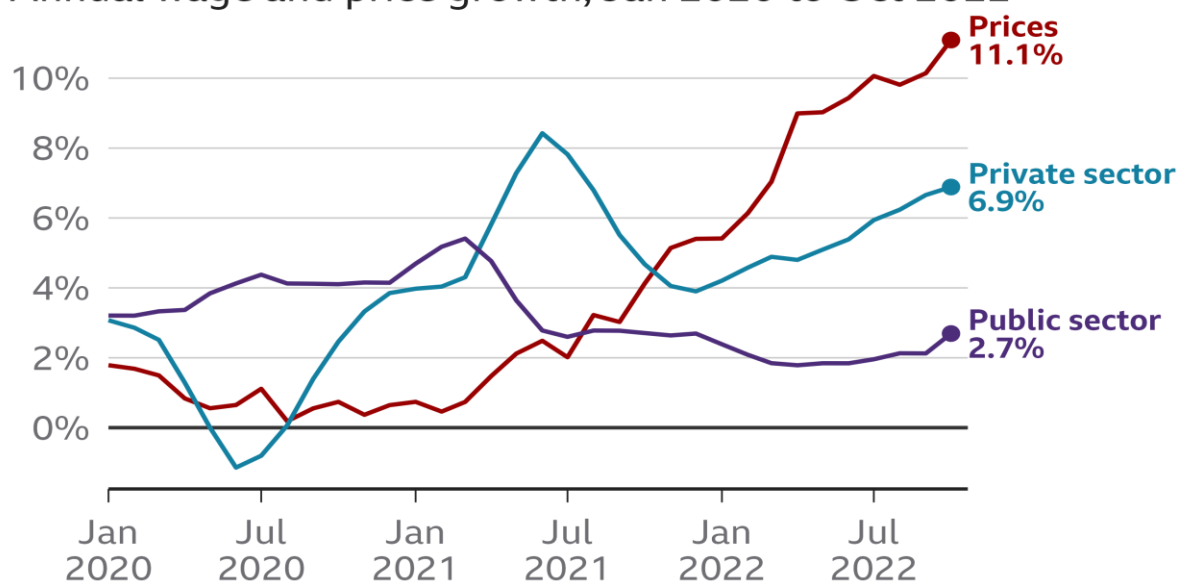
Pay and Inflation

2.24 The Council and its contractors are experiencing significant recruitment and retention issues from operating in one of the most expensive parts of the country at a time of low levels of unemployment. This has been compounded by the cost-of-living crisis which also affects staff and has led to increased levels of staff turnover and vacancies. The Council is struggling to compete with the private sector and from the proximity to London and post-Covid changes to employment, which will need to be addressed in a new People Strategy.

2.25 The culture and ethos of working for the Council had previously been sufficient to attract and retain a high calibre of staff who wanted to provide a local service to the borough. The world of work has changed along with the factors people look for when deciding who to work for and the Council needs to respond to this change if it is to function effectively. Pay is not the only factor in recruiting and retaining staff, but it is more of an issue during the current cost-of-living crisis, the divergence in public and private sector pay in relation to inflation is shown below.

Pay is not keeping up with inflation

Annual wage and price growth, Jan 2020 to Oct 2022



Source: Office for National Statistics



Local Economic Forecasts

2.26 The cost-of-living crisis combined with labour shortages and supply chain issues continues to create huge uncertainty and pressure points for residents and local businesses.

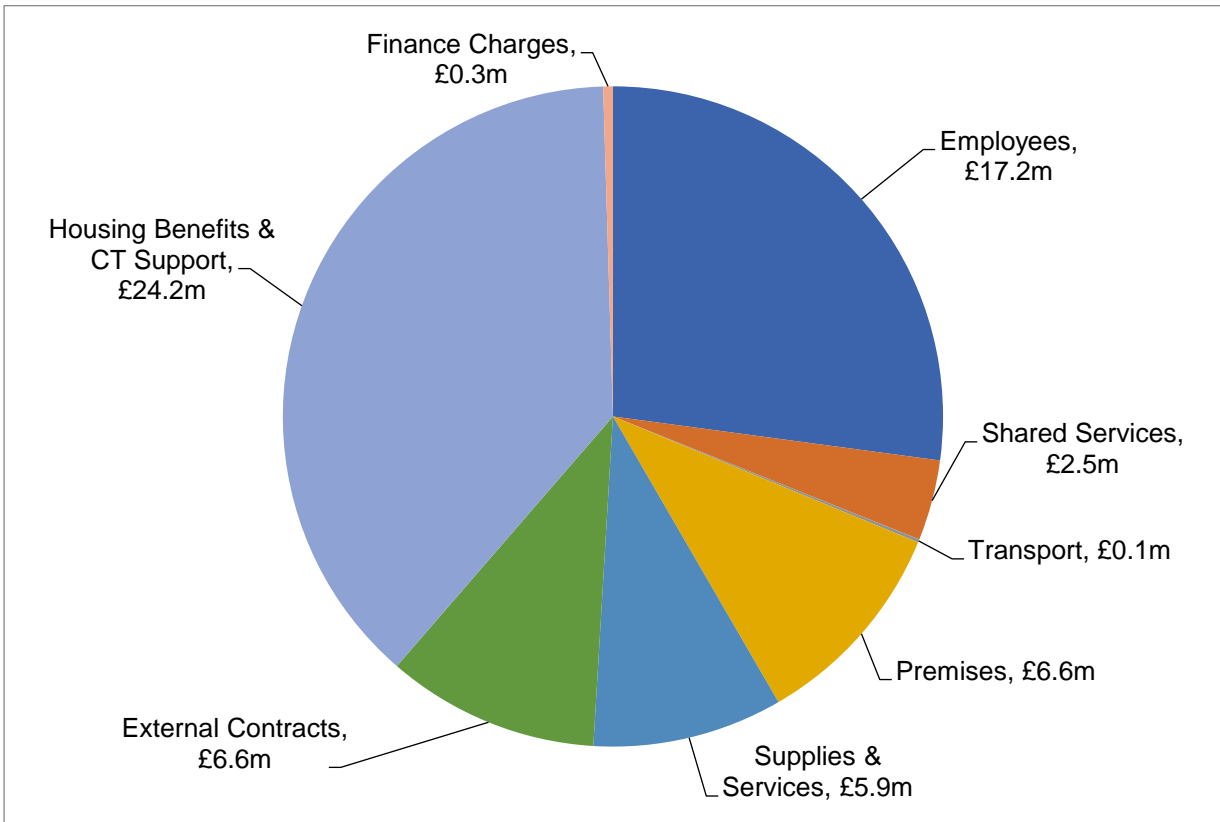
2.27 A summary of local economic data is shown below:

- Council Tax collection rates to December 2022 are down 0.38 per cent.
- Business Rates collection rates to December 2022 are up 1.6 per cent.
- Unemployment Rate for November 2022 for the borough is 2.2 per cent (1,595 claimants) and the 3rd lowest in Kent where the average is 3.2 per cent.
- Empty business properties were 353 in December 2022 compared to 314 properties pre-covid.

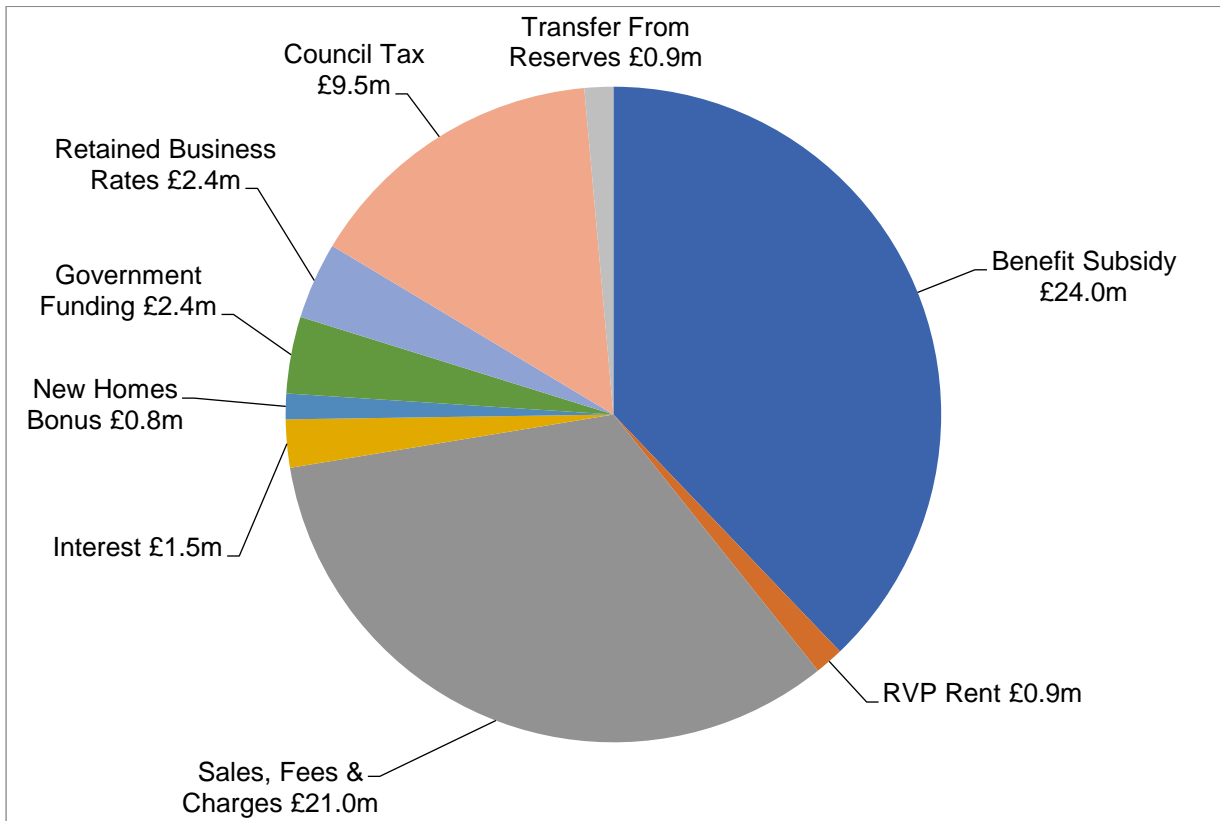
Budget Breakdown

2.28 The Council provides a diverse range of services across the Borough which is estimated to cost £63.4 million. The services are provided either by contractors, through partnership with other councils or by directly employing staff. The budget is based on an approved establishment of 332 (2022/23, 326) Full Time Equivalents (FTEs). The following pie charts show the revenue expenditure and how this is to be funded.

Pie Chart of 2023/24 Revenue Expenditure



Pie Chart of 2023/24 Revenue Income



2.29 A breakdown of the budget by service is provided in Appendix B and the split between statutory and discretionary services by portfolio in Appendix C. A subjective breakdown of the budget per cost centre is available on the Council's website.

Major Budget Variances

2.30 The current year's budget forms the base budget upon which projections are made for the medium-term to reflect the main external contract terms. The projection model has been updated to reflect expected changes at this time and is summarised in Appendix A.

2.31 The key variances over the current budget are shown below:

Budget as at March 2023	£000s
Employment Costs	835
Transport	0
Premises	875
Business Rates	130
Contracts	1,298
External Audit Fees	125
Members' Allowances	24
Fees and Charges - Crematorium	(121)
Fees and Charges - Planning	(113)
Fees and Charges - Garden Waste	(143)
Fees and Charges - Car Parking	(626)
Investment Income	(985)
Council Tax Increase	(453)
Collection Fund Surplus	(103)
Minimum Revenue Provision	(47)
Housing Grants	(529)
Baseline Funding Level	(89)
Revenue Support Grant	(12)
New Homes Bonus	377
Lower Tier Services Grant	178
Funding Guarantee Grant	(622)
Removed 2022/23 Reserve Funding	944
Budget Gap to be funded from Reserves	943

Major Contracts

2.32 The impact of soaring inflation and disruptions to the supply of labour has adversely distorted the market conditions and risk environment for external contracts. The Council has three main external contracts. The following budget assumptions have been included for modelling purposes, without prejudice to procurement decisions.

- Leisure Centre Management (expiry 31 March 2027) the budget assumes that the £290,000 Management Fee continues to be received by the Council.
- Grounds Maintenance (expired 31 March 2022 with interim arrangements to 31 March 2023) the budget for 2023/24 has been increased by £204,000 to cover

the cost of indexation and the possibility of extending the contract to 31 December 2026.

- Waste and Street Sweeping (expiry 31 March 2027) the budget for 2023/24 has been increased by £798,000 to cover the cost of indexation and the possibility of contributing towards the costs of re-fleeting.

Budget Strategy

2.33 There remains a deficit forecast for 2023/24 of £943,000 which will be funded from reserves. In normal times the use of general reserves is unsustainable over the longer-term which led Cabinet in 2012 to set a definition of a balanced budget as follows:

“Where ongoing expenditure is met from fees, charges, government grant and council tax with only the use of earmarked reserves being used to meet one-off priority expenditure.”

2.34 The Council will need to adapt to the new normal of income being insufficient to cover current expenditure and to prioritise funding for the Council’s responsibilities under the Civil Contingencies Act 2004 and the provision of statutory services.

Savings Plan

2.35 The Borough Council is a Best Value authority defined in the Local Government Act 1999. Best Value authorities are under a general Duty of Best Value to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2.36 The Borough Partnership have been working on Cabinet Member Plans to align service delivery with the ‘Focus on Five’ and to set out a credible and deliverable savings plan.

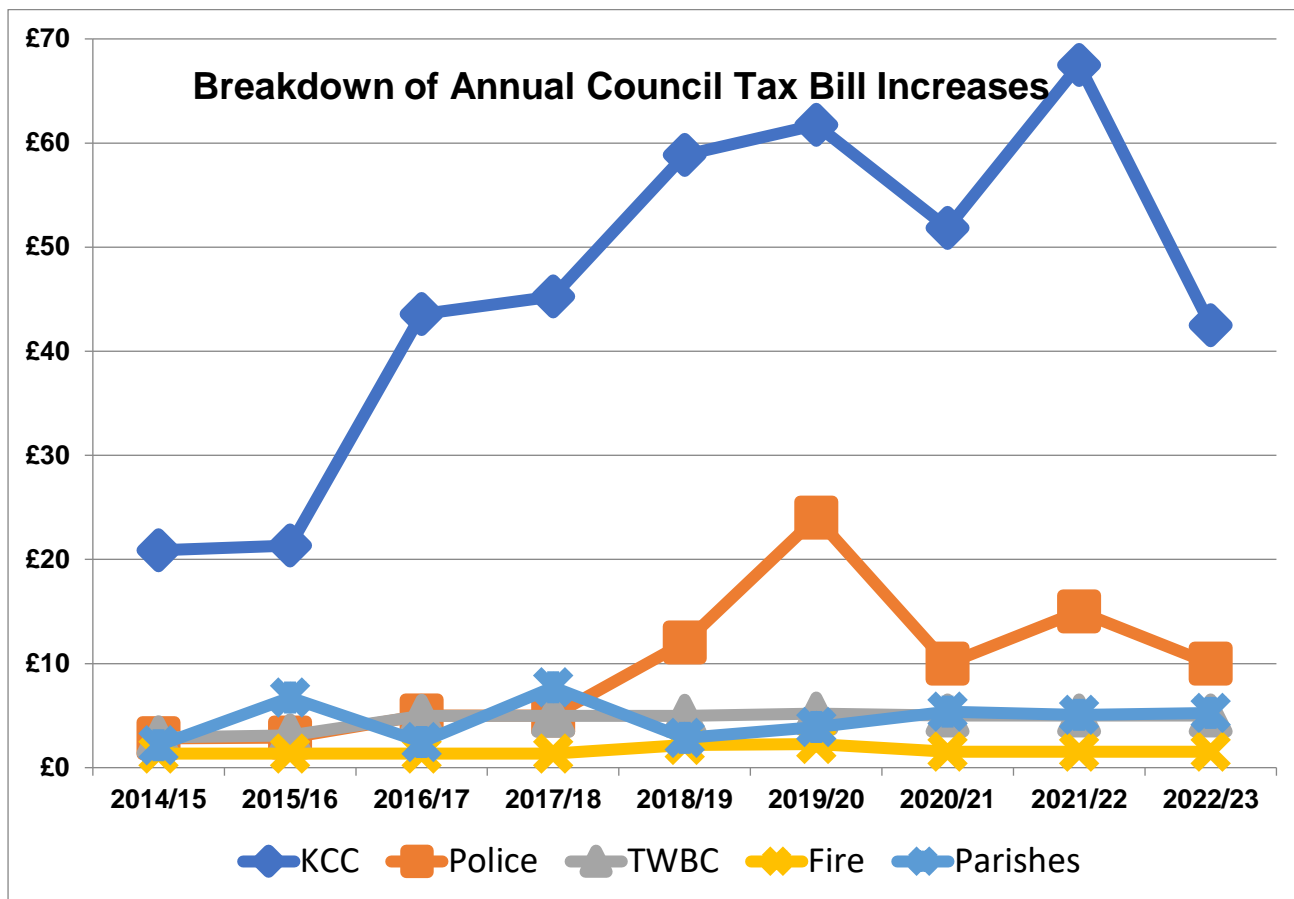
2.37 In the absence of a corporate plan the Borough Partnership have set out a Partnership Plan which runs to 2024 and is separately going through the Council’s decision-making process.

Council Tax Strategy

2.38 One source of funding for the provision of local services is council tax. This Council has historically had a policy of very low council tax levels and the strategy is for council tax to increase up to the threshold (the ‘cap’) for triggering a referendum.

2.39 In previous years, the most efficient authorities such as this Council have been able to increase council tax up to £5.00 a year rather than the cap of 2 per cent. The Provisional Local Government Settlement 2023/24 increases the percentage cap to 3 per cent but the £5.00 cash cap has remained frozen since 2013. The Government assumes this Council will increase council tax by the maximum permitted in their assessment of this Council’s available financial resources.

2.40 The Government has set different ‘caps’ for the various authorities who make up the council tax charge appearing on the bills for this borough, this is shown below:



2.41 The MTF5 assumes that Council Tax will increase by 3 per cent annually. It will be for Full Council to decide the level of council tax.

Fees and Charges

2.42 For the fees and charges which are not imposed by central government these were set by Cabinet on 17 November 2022.

Car Parking Charges

2.43 The decision on whether to amend car park charges is a political policy decision and would need to go through the Council's formal decision-making process.

Staff Savings and Efficiencies

2.44 Directors/Heads of Services and Portfolio Holders have been busy trying to identify further efficiency options to reduce the cost of their services and to increase income. After a decade of austerity and lower spending power than neighbouring councils the scope for further savings has been exhausted based on current policies and levels of service delivery. This situation was supported by the Financial Benchmarking exercise reported to Cabinet in October 2022 which confirmed that the Council had one of the leanest net cost bases within the comparator group.

2.45 The major changes to the range and level of services required to balance the budget, are dependent on officers being provided with a political mandate, that identifies those services to be reviewed and reduced. Major changes to services should be informed

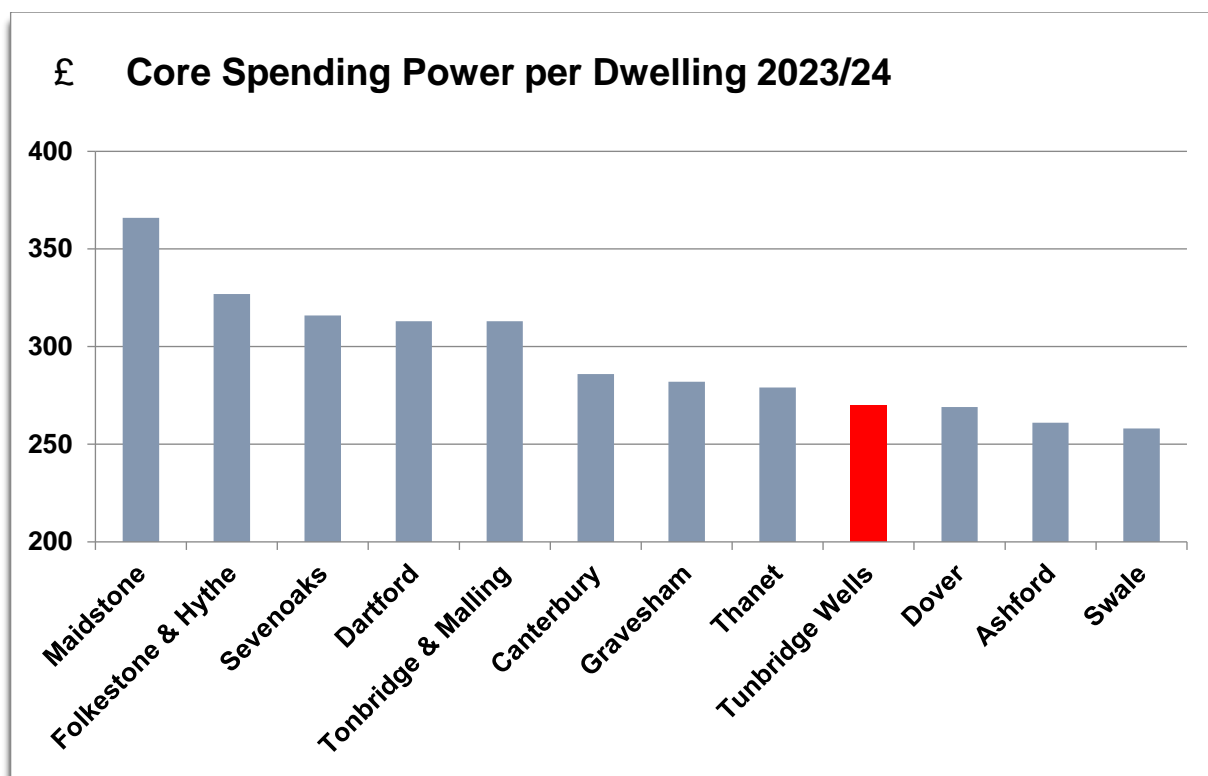
by evidence of demand and subject to public consultation and in the case of staffing changes adhere to formal employment procedures.

Digital Transformation

2.46 It is not possible to keep working harder and faster with fewer resources and still provide safe, effective services. The Council will need to find new ways of working smarter and deliver services in a more digitally efficient form which meets with the way the public now interact with service providers. The Council has a Digital Services and Transformation Team in place to improve operational delivery and transform the way that services are provided. Details of these projects are reported quarterly to Cabinet and the resulting efficiencies will be incorporated into the budget-setting process.

Spending Power

2.47 The Government has developed a universal benchmarking indicator called 'Spending Power' to enable comparisons between councils of the income they receive from national and local taxpayers. This indicator appears to be the best available for identifying how much each council receives per household to provide local services. The graph below shows that using the Government's own calculation TWBC has the fourth lowest spending power in Kent at just £270 per household (£252 in 2022/23).



Capital and Revenue Reserves

2.48 The Medium-Term Financial Strategy requires at least the following level of reserves:

	Minimum
General Reserves (Revenue)	£3.0 million
Capital Receipts	£1.0 million

2.49 The reserves and balances are currently forecast to meet the above levels although maintaining this position relies on delivering not just a balanced budget from 2023/24 but a sustainable budget for the future.

Capital Programme

2.50 At the Full Council meeting on 23 February 2022 the capital programme for 2022/23 to 2025/26 was approved.

2.51 Over the course of the past year the Council has been unable to make any significant progress on disposing of surplus land and property identified in the Asset Management Plan (AMP) with a view both to deliver capital receipts and to reduce operational running costs. The AMP provides a framework for further such work over the coming year and this work will be funded from a proportion of the capital receipts received (subject to the necessary approval).

2.52 The four-year capital programme will be rolled forward for another year. Any subsequent additions will be considered using the formal application approval process throughout the year.

2.53 Below is a summary of new applications to the capital programme which will require Full Council to agree in principle the additional total gross project funding of £620,000. The decision to procure each scheme and the source of funding will be determined by the s151 Officer.

New Schemes	Total Gross Project Cost £	Gross Cost £	Earmarked Reserve Funding £	Cap & Rev Initiatives Res. Funding £
A LIST - Health & Safety Related, Revenue or Capital Income Stream, S106 funded or Political Priority				
Crematorium Welfare Facility	23,000	23,000	0	(23,000)
Crescent Road CP Cladding	2,090,000	455,000	0	(455,000)
Crescent Road CP Switch Gear	35,000	35,000	0	(35,000)
ICT	80,000	80,000	0	(80,000)
TOTAL	2,228,000	593,000	0	(593,000)
B LIST - Service/Property Improvements				
Enforcement Van	27,000	27,000	0	(27,000)
TOTAL	27,000	27,000	0	(27,000)
TOTAL	2,255,000	620,000	0	(620,000)

2.54 The significant recurring cost of; planned maintenance, responsive repairs and the above capital investment in the Council's Civic Buildings, Car Parks and Leisure

Centres is not financially sustainable over the medium-term and a solution that provides value for money needs to be determined.

- 2.55 The Council has no external debt but with reserves largely allocated it will be necessary to commence borrowing to fund additional capital schemes. The Council does have the potential for using new capital receipts, building up usable reserves and access to internal and external borrowing. The determination as to which source of funding is most appropriate is a technical judgement that will be made by the s151 Officer.
- 2.56 In addition to the revenue and capital budgets, the Council has earmarked reserves which form part of the Budget and Policy Framework and are available to fund the specific purpose of the reserve in accordance with the virement procedure rules. The projected balances of these reserves are shown below and assume that the revenue budget is balanced after 2024/25 without further utilisation of reserves.

	31-Mar-22 Actual	31-Mar-23 Forecast	31-Mar-24 Forecast	31-Mar-25 Forecast	31-Mar-26 Forecast	31-Mar-27 Forecast
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	4,336	4,336	4,211	1,740	1,009	509
Earmarked Reserves	15,766	10,623	1,769	3,404	3,404	3,404
2022/23 Budget Deficit	0	-706	-706	-706	-706	-706
2023/24 Budget Deficit	0	0	-943	-943	-943	-943
2023/24 New Capital Schemes	0	0	-120	-1,755	-1,755	-1,755
Grant Volatility (Collection Fund adj)	6,911	1,301	0	0	0	0
Capital Grants & Contributions	3,280	3,280	3,280	3,280	3,280	3,280
Capital Receipts Reserve	2,200	1,000	0	0	0	0
Total Reserves	32,493	19,834	7,491	5,020	4,289	3,789
Outstanding Financing						
33 Monson Road	-900	-855	-810	-765	-720	-675
Dowding House, Paddock Wood	-1,870	-1,781	-1,692	-1,603	-1,514	-1,425
The Lodge, Calverley Park	-468	-447	-425	-403	-381	-362
Royal Victoria Place	-924	-882	-840	-799	-757	-714
The Amelia Scott	-2,000	-2,000	-1,920	-1,840	-1,760	-1,680
Civic Site Essential Works	0	-451	-1,235	-1,185	-1,135	-1,084
Total Outstanding Financing	-6,162	-6,416	-6,922	-6,595	-6,267	-5,940

Note: Schemes not funded from reserves need to be charged to revenue and this repayment is reflected in the reduction in financing over the life of the asset.

- 2.57 All Council borrowing whether external or internal will have a revenue budget cost which would need to be funded.

Budget Calculations and Adequacy of Reserves

- 2.58 In accordance with Section 25 of the Local Government Act 2003 the Chief Financial Officer is required to report formally to the Council on the robustness of the estimates and adequacy of reserves. It should be noted that Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves for which an authority must retain in setting its budget.
- 2.59 At the time of writing this report I have had regard to the CIPFA Resilience Index and undertaken Financial Benchmarking, and I am satisfied with the robustness of the estimates.

Financial sustainability

- 2.60 Prior to the pandemic the Council's finances were in a strong position with the revenue budget balanced and year-end net expenditure producing a surplus. Independent external reviews provided an annual clean bill of health based on the statement of accounts and value for money conclusion. The high quality of the accounts ensured that the audit opinion for 2021/22 was issued by the deadline, this is unusual with only 9 per cent of local authorities achieving this and some in Kent have not yet had their 2020/21 accounts signed off.
- 2.61 The impact from the pandemic has resulted in fundamental changes to how people live and work. The Council has seen a reduction to its local income and far greater risk exposure to the local economy and the vulnerability of external service providers.
- 2.62 Despite double digit inflationary increases to the cost of providing services the Government continues to 'cap' council tax at 3 per cent (just for district councils). The unsustainable budget gap created by expenditure exceeding income is prevalent across local government, with several councils' finances now under severe strain – including this Council.
- 2.63 Fundamental changes to the range of services provided by the Council are required to contain expenditure to within much lower levels of funding available. The disturbance from the pandemic has now settled and the Council must now focus on reducing its expenditure and avoid being distracted by, other events, elections, or projects.
- 2.64 The 2022/23 budget was balanced with the controlled use of reserves due to the ongoing impact from the pandemic. The budget for 2023/24 is also due to use reserves, as soaring inflation has wiped out all the income generated from the In-Year Budget Review. This review was an innovative and useful intervention to budget pressures and is now being considered by other councils and may need to be repeated.

Governance

- 2.65 The external auditor has just completed their Annual Report on the state of the Council, reviewing its strategies and arrangements for decision-making. The external auditor has made three improvement recommendations based on their findings, as follows;
1. A new corporate plan be brought forward, this will provide the focus required to help meet the challenges ahead.

2. In line with the new corporate plan, the Council should develop a long-term savings plan, failure to do so could lead to an unsustainable financial position developing; and
3. A Human Resources Strategy should be prepared, formally approved, and circulated to appropriate officers.

2.66 These are welcomed recommendations and will address the difficulties faced by the Council of trying to function without a Corporate Plan. Clear political direction is necessary to develop a credible and deliverable Savings Plan which will require significant reductions to the range of services that can be afforded. The need for a Human Resources Strategy is also welcomed as the Council grapples with increased levels of staff turnover and the associated loss of knowledge and professional expertise at the same time as a greater intake of newly elected members.

Reserves and Assets

2.67 With regards to the adequacy of the reserves, the Council must act without further delay to end the use of reserves for either the Revenue Budget or the Capital Programme. The minimum level of reserves has been set at £4 million and this will be breached as the capital cost of the civic buildings, the multi-storey car parks, leisure centres and the crematorium will always require significant funding if they are to remain operational.

2.68 Assets which are no longer required as they are either generating little income or which are underutilised should be disposed of. There have been no major capital disposals during the past couple of years, even where assets have been available for disposal. The Council no longer has the luxury of avoiding disposing of assets to entertain other interests. Usable reserves are forecast to breach the minimum level required and a steady supply of capital receipts is required for the investment in those remaining assets which are essential for the functioning of the Council.



Lee M Colyer FCPFA

Director of Finance, Policy and Development (S151 Officer)

2.69 Section 114 of the Local Government Finance Act 1988 provides the mechanism for the S151 Officer to halt council expenditure when resources are no longer sufficient to maintain or achieve a balanced financial position. The S151 Officer would only take this course of action when all options to stabilise the council's financial position had been unsuccessful. To be clear this Council is not in the territory where a S114 notice is likely as the Council has a strong balance sheet and is able to act on the professional advice of the S151 Officer and make decisions to reduce net expenditure and raise capital receipts.

Risk Factors

2.70 It is important to recognise that there are many factors that can affect some budgets and where variances could be significant requiring closer budget management and action; these areas include:

Risk Area	Management
Underfunding of Local Government	The financial difficulties of other local authorities can have significant consequences for the Council and its residents. Dialogue takes place through the Joint Kent Leaders Group which includes the County Council, Unitary, Districts, Police, Fire and Health representatives.
Pandemic	The pandemic is a health emergency which resulted in the greatest recession in a century. Further economic and health restrictions would have significant and fundamental budgetary implications.
Climate Emergency	In July 2019 Full Council declared a climate emergency. A climate cross-party task force has been established and a dedicated report is due with actions to make the borough carbon neutral by 2030. No financial requirements have been identified or provided for within the Medium-Term Financial Strategy. The cross-party group agreed to lobby central government to provide additional resources and to grant the necessary freedoms to deliver the above ambition.
Labour Shortages	Numerous parts of the economy are exposed to critical shortages of essential skills and professions. Where possible the Council will work with its contractors and across the sector to manage any disruption.
Growth	The Government is clear that local authorities have a responsibility to grow their local economies through new housing and businesses. The private sector is very selective in identifying those areas in which to invest and there is tough competition between destination towns. The borough needs to be viewed as 'open for business' and receptive to growth if it is to retain and attract residents and businesses and to deliver wider economic benefits. It is important to avoid a lack of confidence by the private sector to invest in the borough.
Market Failure	The Council is required to procure services and is reliant on a free and competitive market to obtain best value. In some circumstances the contractors may be unwilling or unable to take on the risk of providing services without significant cost increases in existing or new contracts.
Property Assets	The cost of maintaining property assets is currently around 10 per cent of the Net Revenue Budget and annually consumes around £1- £3 million in capital expenditure. Despite this some property assets have reached the end of their useful life and are at risk of further responsive costs to keep them operational.

Planning Inquiry Costs	Whilst the primacy of planning is paramount, decisions taken by the Planning Committee can lead to formal planning inquiries which have the potential for substantial costs to arise which are not budgeted for.
Business Rates Retention Scheme	Part of the Council's funding is now linked to the amount of business rates due in the borough. However, the Government has also transferred the liability for business rate appeals already in the system. To help mitigate the impact of appeals the Council maintains a Grant Volatility Reserve and is part of a Kent Business Rate Pool.
Economic Conditions	The majority of the Council's income is derived from sources which are subject to the prevailing economic conditions. Economic conditions can also alter the demand for council services and those provided by partners and the voluntary sector.
Employee Costs	The move to local pay offers some protection but a watching brief is still required especially regarding the vacancy factor. Changes to pensions, National Insurance and the introduction of an apprentice levy have been included where known, but such further changes can have a significant cost. Demand for some professionals exceeds supply and this is exacerbated by the higher salaries available in London and parts of the private sector which can be earned without the need for commuting daily.
Parking Income	Dependent on usage and the economic environment.
Planning and Licensing Income	Dependent on the economy and the impact of legislative changes which limit the full recovery of the cost of providing these services.
Crematorium Income	Dependent on mortality rates and competition.
Contracts	Dependent on inflation indices and a competitive market.
Utilities	Global supply and demand plus above inflation price rises.
Land Charges	The Infrastructure Bill was approved, paving the way for Local Land Charges to be centralised into a single computer system. The Land Registry are scheduled to take over from 2023/24.
Investment Returns	New cash deposits are dependent on interest rates and levels of balances.

	Property investments are dependent on the type of asset and rental demands.
Targeted Options to Reduce Net Expenditure	Assumes that savings identified are delivered and there are no unintended consequences.
Capital Receipts	Capital is tied up in non-operational assets which if released will help to reduce the use of cash reserves to fund the capital programme.
Government Policy and Announcements by Ministers	There has been a significant increase in the volume of legislation and announcements which can undermine strategic planning and compromise budget assumptions.
Capital Programme	Major capital schemes carry a significant risk which is managed through the Council's Strategic Risk Register. The funding of capital can also have a significant impact on the revenue budget where external borrowing is required.

National Policy and Legislative Changes

2.71 The above forecasts are subject to changes from the following government activities:

- The Reform of Local Government Funding
- The Final Local Government Finance Settlement 2023/24; and
- The Levelling Up and Regeneration Bill.

3. Options Considered

3.1 The budget-setting process is well rehearsed and has largely been successful in delivering a balanced budget and engaging with the public. There may be other alternatives but ultimately the Council must produce a budget which meets its statutory responsibilities.

4. Preferred Option and Reason

4.1 This report is the final in the formal budget-setting process and has been informed through consultation and research. Decisions on priorities and services will be communicated on a regular basis.

5. Consultation on Options

5.1 A budget survey was undertaken for six weeks along the lines of previous years and generated responses from across the borough. The budget survey is designed to raise public awareness of the services provided by the Council and the challenges it faces to balance income and expenditure whilst having limited local decision-making. To encourage participation the budget survey has been kept relatively straightforward and

consistent, although further detailed financial information is available on the Council's website.

The summary of the budget survey responses will follow, after 20 January 2023.

5.2 The detailed results of the budget survey will be set out in Appendix D.

6. Implementation

6.1 The budget will be agreed by Cabinet on 9 February 2023 and proposed for approval by Full Council on 1 March 2023.

7. Appendices and Background Documents

Appendices:

- Appendix A: Medium-Term Budget Projections
- Appendix B: Budget by Service
- Appendix C: Budget by Portfolio
- Appendix D: Budget Consultation Survey Responses (to follow)

Background Papers:

- None

8. Cross Cutting Issues

Issue	Implications	Sign-off
Legal including Human Rights Act	The Local Government and Finance Act 1992 requires Councils to approve their budget and set the Council Tax. Failure or delay in setting a legal budget/council tax could have a number of significant consequences/implications for the Council including a significant loss of revenue, the obligation to provide statutory services and making payments to precepting authorities. There would also be a risk of statutory reports served by the Chief Financial Officer and/or Monitoring Officer, intervention by the external auditor or Secretary of State and risk of judicial review. In some limited	Director of Finance, Policy and Development, 26 December 2022.

	circumstances, there may be personal liability for Members.	
Finance and other resources	This report forms part of the Council's Budget and Policy Framework.	Director of Finance, Policy and Development, 26 December 2022.
Staffing establishment	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	Director of Finance, Policy and Development, 26 December 2022.
Risk management	An assessment of the risk factors underpinning the budget will accompany the final budget report. The Strategic Risk Register also includes a risk on funding streams which is being monitored by Cabinet and the Audit and Governance Committee.	Director of Finance, Policy and Development, 26 December 2022.
Environment and sustainability	The budget has regard to the environmental sustainability priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 26 December 2022.
Community safety	The budget has regard to the community safety priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 26 December 2022.
Health and Safety	The budget has regard to the Health and Safety obligations and priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 26 December 2022.
Health and wellbeing	The budget has regard to the health and wellbeing priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 26 December 2022.

Equalities	Changes to service delivery may impact on equalities; however, heads of service will ensure that an equality assessment is in place where this has been identified.	Director of Finance, Policy and Development, 26 December 2022.
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