Medium Term Financial Strategy

Contents

<u>Tables and Charts</u>

1. Medium Term Financial Strategy (MTFS)

The document that guides the Council's strategic financial planning and forecasting

1.1 Swale Borough Council's Medium Term Financial Strategy (MTFS) is a strategic document that supports the delivery of the Corporate Plan outcomes and helps ensure a focus on the Council's medium term budget position. The MTFS establishes how the Council's priorities will be achieved by setting out the framework within which resources are available over the medium term and the financial challenges facing the Council in terms of future funding gaps. It is the method by which the Council plans translates its long-term goals into action by considering;

- Where the Council is now
- Where the Council wants to be
- What the Council's plans are to get there

1.2 The MTFS helps to ensure that the Council is 'doing the right thing' while taking account of internal strengths/weaknesses and external threats/opportunities. It also provides a link between the Council's long-term service objectives and its financial capacity, which effectively asks the question 'can the strategic objectives be achieved within the available financial envelope?' The aim should be to provide a framework to support and inform the medium term planning considerations and the budget setting process. Essentially the MTFS should include consideration of a broad range of factors that influence the Council's long-term financial success.

The MTFS Aims to:

- Provide a high-level assessment of the resources available to support the Corporate Plan outcomes, outlining the high-level funding projections for the following four financial years (beyond the current year);
- Explore the financial context in which the Council operates, considering a number of local and national factors. These will include known spending pressures and commitments, along with forecast future funding reductions and the impact of the national economic outlook;
- Explore the demands on the capital programme both in terms of ambition and resources along with the impact on the revenue account and reserve levels held by the Council;
- Highlight how the Strategy links in with and supports other Council strategies and policies;
- Assess the risks on which the Plan is based;
- Provide preparatory work for the following year's budget;
- Address the sustainability of the Council's financial position.

1.3 The MTFS is fundamentally linked to the Corporate Plan, a summary of which can be found on the Council's website here.

1.4 The Council is currently projecting a deficit position from 2023/24 onwards. Forecasting the deficit allows the Council time to plan mitigating actions more effectively, meaning we are more likely to be successful, enabling us to reduce the reliance on reserves to plug any budget gaps which is not a sustainable position. This strategy will explore some of the Council's plans for addressing this deficit and consider some of the assumptions included. The future year projections can be found within Appendix I.

2. Corporate Plan 2020 - 2023

'Working together for a better borough'

2.1 In May 2019 a new Coalition Council was elected adopting a new Corporate Plan which set out the intent and ambition of the authority for the period 2020 – 2023. The Plan details the Council's vision for the next four years, providing the framework and context for the Council's service provision, project interventions and resource allocation (financial and staffing) for the period through to 2023. It reflects the essential needs and aspirations of our customers and communities and how we feel the Council can best use its resources to deliver services and outcomes that make a positive difference for everyone who lives in, works in or visits the borough of Swale.

2.2 However, despite the borough having a number of very positive attributes we also have some big challenges: – responding to environmental change, increasing affordable housing supply, supporting economic growth and decent jobs, tackling deprivation and ensuring the council is fit to deliver the best possible services within current budget constraints.

2.3 The Corporate Plan identifies four key priorities, each of which contain a number of objectives and actions to respond to the challenges our district faces in the years to come;

- Building the right homes in the right places and supporting quality jobs for all
- Investing in our environment and responding positively to global challenges
- Tackling deprivation and creating equal opportunities for everyone
- Renewing local democracy and making the council fit for the future

2.4 Planning is challenging, especially given the broad range of services we provide, and the competing demands for increasingly scarce resources. All our services are committed to making improvements and finding savings, so that the Council remains efficient, effective and meets the day to day needs of the communities we serve. The purpose of the Corporate Plan is to focus on those priorities where we need to give specific attention. It will help us target better our dwindling capital and revenue resources and help direct and focus any bids for external grant support. The Plan also provides a framework against which we can assess our progress to support the needs of our customers and communities.

2.5 Underpinning the Corporate Plan is the day-to-day business that departments undertake, and which will be reflected in departmental Service Plans. All Service Plans are linked to the Corporate Plan. These plans also include the performance measures by which the delivery of wider improvement activity can be managed. The priorities within the Corporate Plan were developed by talking with, and listening to the community, Elected Members, staff and other key stakeholders all of whom have helped to shape the content of the Plan.

Investment in Priority Areas

2.6 Whilst the overall level of the Council's resources is reducing it is important that a clear focus is maintained on matching funding to priorities. This will remain a key focus over the coming years to ensure the aspirations contained within the Corporate Plan are realised.

Our Purpose

2.7 To develop a long-term plan, every organisation needs to set an aspiration of where the organisation is aiming to be in the future. This enables everyone to be united in a shared direction and purpose. The Council's aspiration is as follows:

Swale Borough Council – working together for a better borough

Our purpose is supported by our corporate priority themes which are as follows;

Priority 1: Building the right homes in the right places and supporting quality jobs for all
Priority 2: Investing in our environment and responding positively to global challenges
Priority 3: Tackling deprivation and creating equal opportunities for everyone
Priority 4: Renewing local democracy and making the council fi t for the future

Our leadership qualities

In order to deliver our priorities and objectives the Council needs strong, positive leadership and this is embodied within our leadership qualities as follows;

- Leadership at all levels
- Performance
- Ambition
- Customer Care
- Teamwork

Our Values

Our values represent the beliefs and expected behaviour of everyone working for Swale. Our values, which aim to support quality services, we;

- **F**airness - being objective to balance the needs of all those in our community
- **I**ntegrity - being open, honest and taking responsibility
- **R**espect - embracing and valuing the diversity of others
- **S**ervice - delivering high quality, cost effective public service
- **T**rust - delivering on our promises to each other, customers and our partners

'One Team' Team Approach

In order to deliver high quality services, we need to have excellent teams to deliver them. We recognise that our staff are our most important resource at the heart of the services we provide. We are committed to investing in staff and their development so that we have well trained and supported employees, providing professional services and who are happy and motivated in their work. The One Team approach also includes Members to ensure we work closely together to deliver our priority outcomes and that their training needs are also met as part of their ongoing development.

3. Context

Demographic and landscape issues that set the scene for the budget and financial strategy

3.1 For such a relatively small area, the borough is a remarkably diverse place, including the historic market town of Faversham, the traditional seaside resort of Sheerness and the more industrial market town of Sittingbourne, which in recent years has been the focus of major council-led redevelopment. These urban centres are connected both physically and culturally by the borough's extensive and important rural areas, accounting for around a quarter of the population, which take in several protected wildlife habitats and part of the Kent Downs area of outstanding natural beauty.

3.2 Swale's demographic make-up is no less diverse than its geography, including a mix of affluent and less affluent communities, but in general the area is less well-off than is typical for the south-east, and there are some concentrated pockets of severe socioeconomic disadvantage to be found in locations across the borough. While the causes of this are deep-rooted and complex, the outcome is that a proportion of our residents suffer from entrenched inequality and a lack of opportunities which the council needs to do what it can to address.

3.3 The indices of multiple deprivation are calculated by government based on a range of measures of poverty and associated disadvantage and were last published in 2019. Compared to the previous time the figures were calculated in 2015, Swale's overall position on the indices deteriorated relative to other places, with the borough now the 69th most disadvantaged of 317 shire districts in England, and the second most disadvantaged in Kent.

3.4 Over recent decades, Swale has seen a successful diversification of its economy, which now has key strengths in manufacturing and distribution, as well as high-skilled activities including cutting-edge technology and life sciences. However, it remains the case that much of the borough's employment, including employment created in the last few years, is at the lower end of the skills spectrum

4. Global and National Pressures

Some financial pressures are driven nationally and indeed globally and are beyond the control of the Council. Some of these which impact Swale are shown below

Global issues

4.1 The Net Zero agenda represents a significant global issue, not just a national or local one and at the present time some of the emerging green technologies, which are undoubtedly the way to go for the future, can be significantly more expensive to deliver at the current time. The war in Ukraine is impacting significantly on energy prices which is in turn feeding into the huge increases in inflation which we have experienced.

Political

4.2 Following Liz Truss' resignation Rishi Sunak was announced as the new Prime Minister in October 2022. During a period of instability and change, resources are redirected to other areas, particularly within the civil service and other priorities are reduced. There has been little progress with the Fair Funding Review and business rates retention has been further postponed.

Central Government Funding

4.3 We were hoping this year for a multi-year settlement but despite headlines suggesting local government funding has been announced for the next 2 years, this relates predominantly to top tier councils, leaving a high level of uncertainty for district councils beyond 2023/24. The revenue support grant has been combined with council tax support and family annex grants, which on the face of it look like an increase in RSG, but the total increase in funding for all three grants is minimal. Government have promised an early review on new homes bonus ahead of the 2024/25 funding announcement to allow time for councils to plan, the potential loss of this grant remains a significant risk to the Swale budget. A one off funding guarantee grant has been awarded for 2023/24 with the aim to ensure that all authorities will see at least a 3% increase in their Core Spending Power before any decision they make about organisational efficiencies, use of reserves, and council tax levels.

4.4 As part of the provisional funding settlement the government have announced that 2024-25 brings with it a significant new funding stream which will be subject to successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme. As a result government assume that local authorities can expect to receive additional income from the scheme whilst being asked to submit data relevant to their waste collection services. Alongside His Majesty's Treasury and the Department for Environment, Food and Rural Affairs, DLUHC will be assessing the impact of additional pEPR income on the relative needs and resources of individual local authorities in the coming year.

Inflation

4.5 CPI rose by 9.0% in the 12 months to April 2022, the highest 12-month rate since the statistics started back in 1997, with CPI at 10.5% in December and the equivalent RPI rate at 13.4%. This puts pressure on the Council's finances and erodes spending power with several of the Council's largest contracts increasing in line with indices that are often index linked to inflation, so we are effectively having to pay more money just to stand still.

Covid-19 Recovery

4.6 We are still recovering both nationally and globally from the impacts of Covid and the country is working out what it's 'new normal' is. The recovery does however offer opportunities as well as local government has demonstrated how well we are able to continue to operate services and indeed in a number of examples improve them during Lockdown. New Ways of Working can provide further opportunities in terms of efficiencies and working differently in the future, with more flexibility around remote and home working and less reliance on office space, travelling to meetings etc which also supports the Council's Net Zero ambitions.

5. Local Pressures

These arise from local circumstances and demand for services. The financial effects of these must be dealt with by the Council, as there is often no external funding

Local Economic changes

5.1 Swale derives significant sums of income from fees and charges for services such as car parking and planning. These will be affected by factors outside the Council's control, such as consumer confidence, the general health of the economy and the cost-of-living crisis.

Waste Management

5.2 Waste management currently represents a significant pressure. A contract extension has been agreed due to the lead in times for the new waste vehicles which will take the current contract through to the end of March 2024. The estimated additional cost of this due to the impact of inflation and the extension itself is in the region of £1.8m.

5.3 Environment Committee approved the award of the new waste and street cleansing contract in December 2022, Full Council approved the funding to acquire the fleet vehicles at an extraordinary meeting in January 2023 and this is now included in the capital programme for expenditure in 2023/24. This represents a significant cost pressure as market conditions have changed substantially since the contract was last let and coupled with the current inflationary pressures the additional cost anticipated in 2024/25 is around £1.7m including the annual costs of the new vehicle fleet.

Temporary accommodation

5.4 The council has a duty to provide emergency/temporary accommodation (TA) for homeless households whilst assessing their case and/or ahead of securing more permanent accommodation. A range of accommodation is currently used to cover this duty: three units owned by Swale, some units owned by housing associations, nightly let self-contained and shared accommodation and rooms in hotels/bed and breakfast accommodation.

5.5 Whilst some of the costs of this accommodation are covered by housing benefit this is only payable up to 90% of the Local Housing Allowance (LHA) which is the amount set by government that can be covered by housing benefit. The difference between the actual cost and housing benefit levels is borne by the council. This has been increasing over recent years, with last year's deficit being £0.352m and current forecasts for the end of this financial year at c£1m. Whilst officers are working hard to try and reduce the requirement for temporary accommodation, we are at the present time still anticipating budget pressures in future years as a result of this demand led pressure.

5.6 As well as the costs to Swale, demand for TA in Kent is exceptionally high and often there are limited options, placements regularly occur outside the Borough. Many of the current TA options are not ideal for what are vulnerable households, accommodation that is not self-contained, not within Borough and is used for increasingly lengthy periods (we currently have 54 households that have been in TA for over 2 years).

5.7 A Housing Options transformation project has been initiated to look at a whole system approach to the service, seeking efficiency improvements and focusing how we can move residents through the service quicker and ensure that stays in TA are as short as possible.

5.8 A financial assessment of the income and costs associated with the Council purchasing TA has been completed. The assessment undertaken includes an illustration of the costs which can be avoided by being able to accommodate households in Council owned TA rather than in private provision. The model utilised has been developed by neighbouring local authorities delivering similar temporary accommodation schemes.

5.9 The table below illustrates the level of investment required to purchase 50 properties, based upon 20 1 bed properties and 30 2 bed properties. The table also outlines the revenue income and costs the Council can expect from the investment, as well as the level of costs the Council will avoid by not having to place the households in privately provided TA. The Council would also own the Capital asset and therefore hold the value of the asset.

Table 1 – Summary of TA purchase model

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

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

Local Council Tax Support Schemes (LCTS)

5.10 The LCTS scheme was implemented in April 2013 as a replacement to Council Tax Benefit. This change was part of wider welfare reforms to reduce expenditure, giving responsibility of the replacement scheme to Local Councils. LCTS schemes should encourage people into work and be based on the ability to pay. Previously the Council Tax Benefit scheme was 100% funded through subsidy paid to the Council from the Department for Work and Pensions (DWP).

5.11 From April 2013 each billing authority was given the discretion to set their own scheme, although at the outset the government did stipulate that the scheme would not change the 100% maximum support for low-income pensioners i.e. they would receive the same level of support as they did under the system of Council Tax Benefit. Funding for LCTS is no longer received as a separate subsidy grant but is now within the overall Local Government Funding system as non ring-fenced funding within the Revenue Support Grant (RSG) and baseline funding level. The local scheme (for Swale) has changed several times since the introduction of LCTS in 2013/14. The local scheme means that those of working age previously entitled to 100% maximum council tax benefit are required to pay a minimum of 20% of their council tax liability.

5.12 However, with the changes made as a result of the rollout of Universal Credit there were implications for the cost of LCTS schemes and a review was undertaken to ensure the scheme remained affordable. As a result of this work the Council consulted on a revised scheme which was approved, to be implemented from April 2023. The new income banded / grid based council tax reduction scheme for working age applicants aims to simplify the scheme for claimants, reduce the administrative burden placed on the Council by the introduction of Universal Credit and to improve the targeting of support for the lowest income families The proposed changes to the schemes are anticipated to be broadly cost neutral so no additional allowance has been made within the budget forecasts at the current time.

Lower Medway Internal Drainage Board Precept

5.13 The levy for 2023/24 has been increased by 5% to £0.951m, the Council has no control over the setting of this levy and the Chief Executive has raised the issue of drainage board levies with the government officials. They are aware of the position that local councils are in with regards to having to fund increases in excess of the amount that we are able to raise from council tax.

Workforce

5.14 We recognise that our staff are our most important resource at the heart of the services we provide. We currently have around 260 full time equivalent posts and 300 actual members of staff. Our pay bill is our most significant area of direct spend and stands at £14.4m including pension contributions of £2.9m as per the 2023/24 budget. The pension fund is administered by Kent County Council (KCC), employee contribution rates are set by Government and range from 5.5% to 12.5%. The fund actuary Barnett Waddingham sets the employer contribution rate, currently 18.5%, plus an annual fixed sum.

5.15 The Fund is valued once every three years and the valuation as at 31 March 2019 disclosed a net deficit of £15.5m on Swale’s share of the fund, a reduction of £4.6m from the 2016 valuation deficit of £20.1m due largely to increases in annual investment returns. The last actuarial valuation took place on 31 March 2022 and the change in contribution rates because of that valuation will take effect from 1 April 2023. The

Council has now received these results, the contribution rate will be increasing from 18.5% to 20.5% but the back funding element is decreasing for next year, the combined impact of which is an additional cost pressure of around £100k.

5.16 On Friday 28 October, staff on Swale payroll were sent a survey to ask their views on different ideas relating to staff pay and potential savings. The survey was linked to work accounts so people could only respond once, but no names were recorded to make sure people could respond honestly without risk to anonymity. The survey closed at 5pm on Wednesday, 9 November, with 164 responses submitted out of a total of 296 staff on the payroll (55.4%).

5.17 The two main questions asked were:

1. Please rank the below options in order with your preferred option at the top and least preferred at the bottom. (Options displayed randomly for each user)

   - No annual pay increase for 2023/24, reducing the working week to 34 hours with no reduction in pay (equivalent to an 8% pay increase per hour), closing the office at 13:30 on Friday and making the closure between Christmas and New Year permanent.
   - 2% pay increase for 2023/24, then permanent 4 day working week from 2024/25, with pay then being reviewed annually as normal.
   - 2% pay increase with the £275,000 cost needing to be found from other savings
   - 4% pay increase with the £550,000 cost needing to be found from other savings
   - 5% pay increase with the £675,000 cost needing to be found from other savings

2. Which of the following options for pay increases would you be in favour of?

   - All staff
   - Grade 7 and under only
   - Grade 9 and under only
   - Grade 11 and under only – wouldn’t apply to heads of service, directors or chief executive
   - Grade 12 and under only – wouldn’t apply to directors or chief executive
   - All staff except chief executive

5.18 The results were as follows;

Chart 1 – Staff survey question 1 (Ranking options)

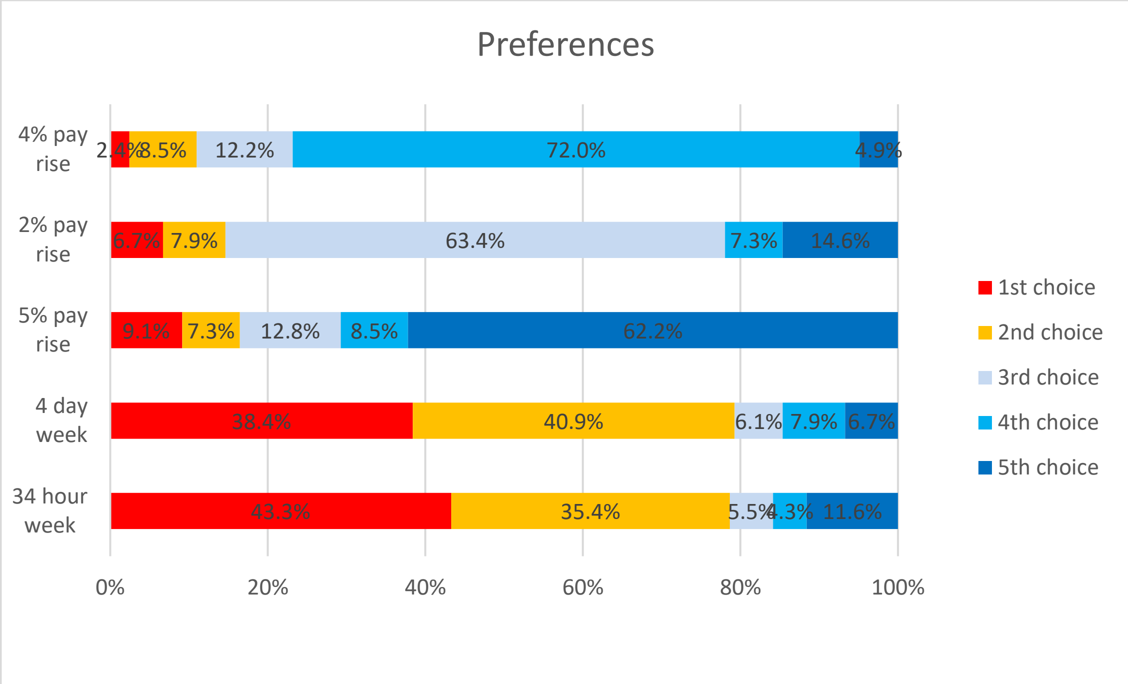
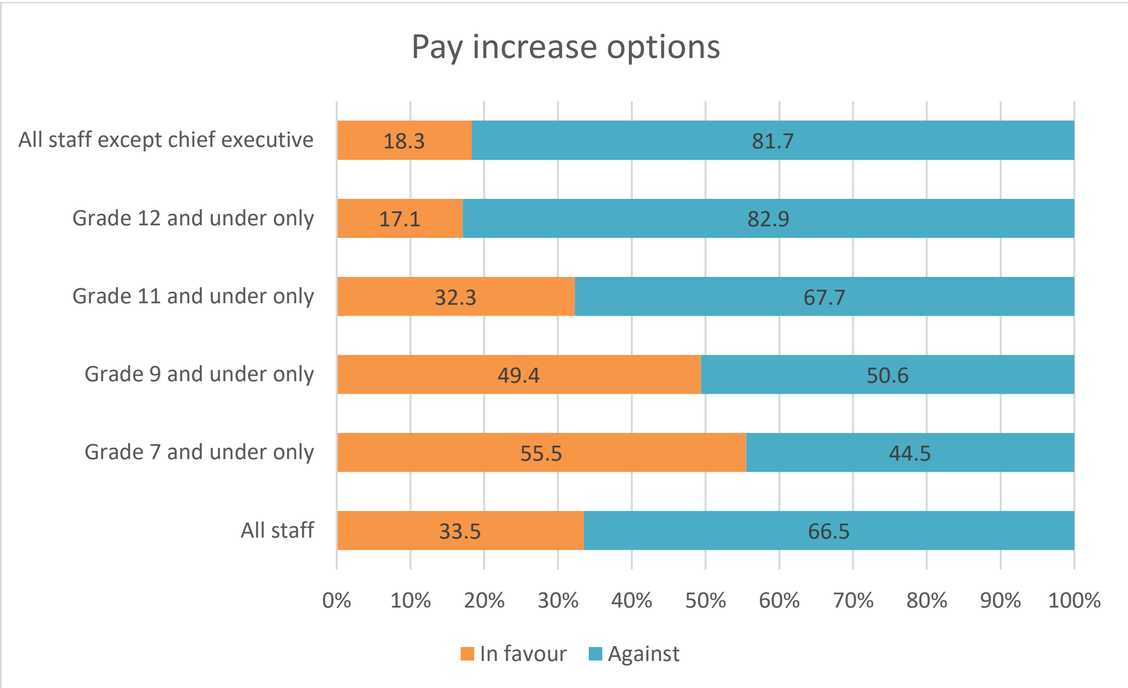


Chart 2 – Staff survey question 2 (Who gets a pay increase?)



5.19 As can be seen from the ranking of options (question 1) the 34-hour week with no pay award was the most popular first choice (43.3%). The budget does not assume any inflationary pay award, the only increases currently forecast are due to the Real Living Wage which is now £10.90 per hour (outside of London) and any annual increments. It should be noted that this does not constitute the final pay agreement for next year and that the normal negotiations will need to be held with the Union prior to any formal final pay proposal coming through separately to Full Council. The council launched a formal consultation on the proposed change to working hours and at the time of drafting there have been 65 responses from staff. The main area of concern arising from the proposed reduction in working hours is that staff will be expected to continue with the same level of workload. Heads of Service are working with teams, alongside the formal consultation to assess what changes can be made if the proposal is agreed.

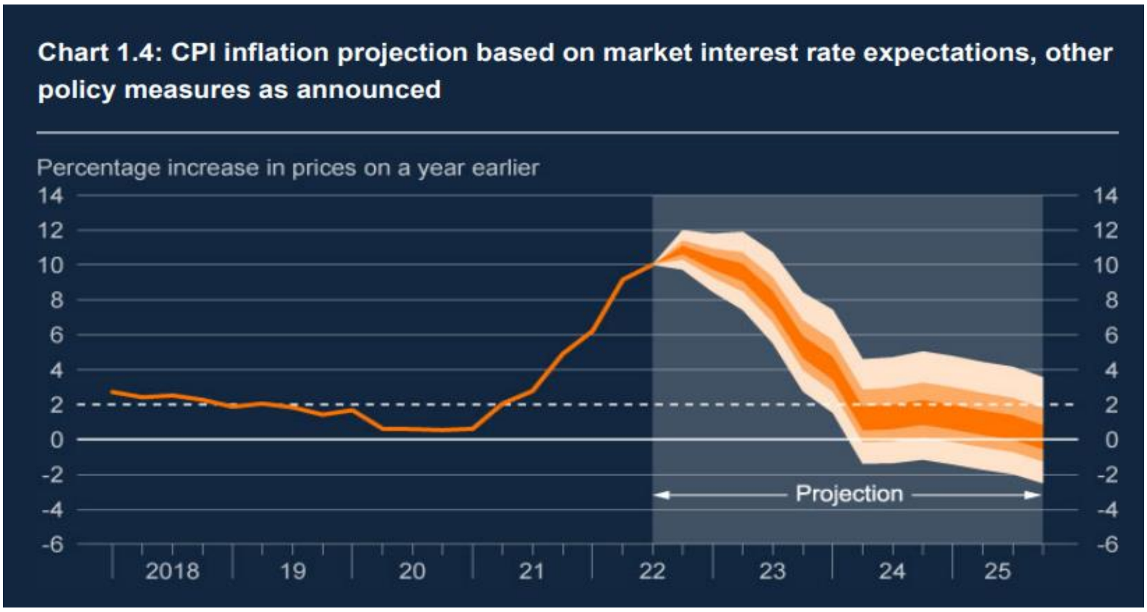
6. Inflation

Inflation is the rate prices for goods and services that the Council buys are expected to rise.

6.1 Inflation is significantly eroding the Council's spending power, the Retail Price Index (RPI) was at 13.4% at the end of December. The Bank of England's Monetary Policy Committee (MPC) met on 14 December and increased the bank base rate by a further 0.50% to 3.50% to help control inflation. CPI inflation is projected to fall sharply to around 5% by the end of next year, as fading external factors outweigh domestic pressures. Inflation is projected to fall to 1.4% in two years' time, below the 2% target, and to 0.0% in three years' time, as energy prices make a negative contribution and as domestic pressures weaken further.

6.2 The Council assumes in this financial strategy that inflation will broadly follow the pattern in the graph below as outlined by the Bank of England with general price increases being assumed at around 10% for 2023/24 but reducing significantly thereafter in line with these projections. There are also some areas and contracts, such as the waste contract, which use different indices to calculate annual increases, and these are taken account of where appropriate.

Chart 3 – MPC Forecasts November 2022



6.3 Staff Pay – as discussed above the current forecasts do not assume an annual pay award next year but do include turnover savings (for staff leaving and temporarily vacant posts etc) of 2%. The Council is not part of a National Joint Council (NJC) national pay agreement, so any increases are set and agreed locally in negotiation with the Union. As a guide a 1% increase equates to approximately £135,000 annually. Therefore, should a pay award be agreed there will be an additional cost to be factored in.

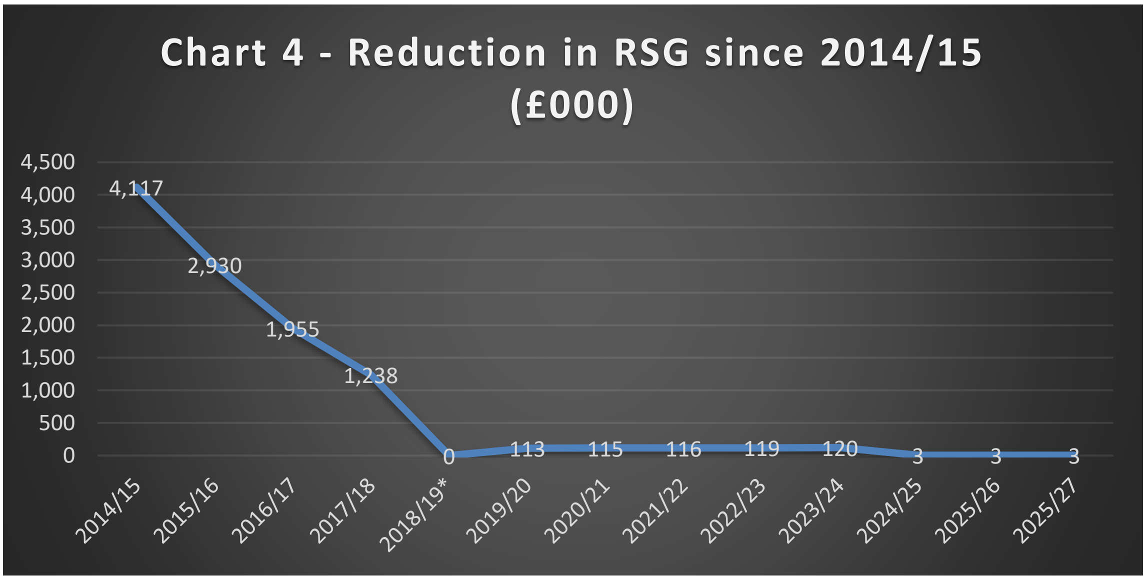
6.4 Income (fees and charges) – In recent years' budgets for fees and charges have included a 2% increase unless there have been specific reasons for higher or lower increases or alternatively the Council is not able to influence them. Due to the current budgetary and inflationary pressures being experienced fees and charges for 2023/24 are being recommended for an increase in the region of 10%. As part of the Council's financial planning processes, and to address the pressures on future year's budgets, the finance team will be working with service managers next year in the run up to the 2024/25 budget setting process to undertake a more fundamental review of fees and charges. This will involve more detailed work to ensure that we fully understand our cost base so that we can ensure our charges are covering this as a minimum.

7. Funding changes

Local Government is currently going through a significant period of change in terms of the way it is funded and the way the funding elements are to be calculated for the future

Local Government Funding Settlement Funding – last year's forecasts

7.1 The settlement is issued by the Department for Levelling Up, Housing and Communities (DLUHC) and for Swale comprises several elements including Revenue Support Grant (RSG), New Homes Bonus (NHB), Baseline Funding Level (via the Business Rates Retention Scheme) and Council Tax (through the setting of referendum principles) but has more recently also included the Lower Tier Grant and Services Grant. The Settlement confirmed some additional one-off grant funding for 2022/23 and a further year's allocation of New Homes Bonus. Unfortunately, the settlement was once again for one year only, despite some indications that there would be a return to multiyear settlement. RSG is an un ring-fenced grant which can be spent on services at Swale's discretion. This has reduced drastically over past years and 2019-20 was expected to be the last year of receipt of this grant. The allocation for 2022/23 was just £0.1m compared to £4.1m back in 2014/15 representing a reduction of 98%.



7.2 The Lower Tier Services Grant continued from 2021/22 and is a district level grant based on an assessment of relative need. The Services Grant was supposed to be a one-off grant proposed in the 2022/23 finance settlement to provide funding to all tiers of local government in recognition of the vital services provided. For Swale these represented just under £0.2m and £0.3m respectively.

Settlement Funding – Spending Round 2022

7.3 On 17 November 2022, the Chancellor delivered his Autumn Statement, alongside the Office for Budget Responsibility's (OBR's) new set of Economic and Fiscal Outlook forecasts. The Autumn Statement responds to the OBR forecasts and sets out the medium term path for public finances. A number of announcements were made in relation to taxation plans and social care funding but the key issues for Swale and district authorities in general are as follows;

Business Rates

7.3.1 A package of reliefs and support to help businesses was announced and is worth £14bn over two years. The 2023 Revaluation will go ahead as planned, and the measures are designed to help offset the impact of the revaluation as well as other financial pressures on businesses as follows;

- **Transitional relief scheme** (government funded) for 2023 Revaluation (£1.2bn in 2023/24). This has no effect on billing authorities (like Swale), it simply makes the transitional support scheme more generous
- **75% relief for Retail, Hospitality and Leisure (RHL) sectors** in 2023/24 (£2.3bn in 2023/24). Local authorities will be compensated in the usual way through section 31 grants.
- **3-year support for small businesses** (scheme for properties losing Small Business Rates Relief or Rural Rates Relief) equating to £190m per year for 3 years. Again, local authorities will be fully compensated.

7.3.2 From a local authority perspective, the decision to freeze the multiplier in 2023/24 is the most important one. Normally, the multiplier is uprated every year in line with the September CPI but with a 10.1% increase in the CPI in September 2022 this will be expensive and is anticipated to cost £1.8bn in 2023-24. This is now the third year in a row that the multiplier has been frozen.

7.3.3 For local government, the key financial concern about the multiplier is whether local authorities will be compensated for the lost income. Business rates income, baselines (including Baseline Funding Level), and tariffs and top-ups are usually uprated in line with the multiplier. When the multiplier is capped or frozen, the Government pays compensation to local authorities via a section 31 grant. This has now become a very important part of funding to local authorities and is included within Core Spending Power (CSP). It is also the only element of CSP that is formally linked to inflation.

7.3.4 Thankfully, the Chancellor has announced the cost of the freeze will be fully funded: Para 5.25: … "English Local Authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs."

District Council Band D Increases

7.4 The Chancellor is using council tax increases to help manage the funding gap within local government. Changes to the council tax referendum limits for non-metropolitan districts (like Swale) mean that we now have the ability to raise local council tax by 3% or £5 (whichever is greater) on a band D property, without the need for a referendum. The cash limit increase of £5 remained unchanged in the provisional financial settlement, however if this position is reviewed as part of the final settlement, this council will reserve the right to increase the council tax by the maximum amount available. The narrative from central government assumes that councils will increase council tax by the maximum when calculating their analysis of core spending power. Indications are that future funding from central government will somehow be linked to local decisions.

7.5 Prior to these announcements the forecasts assumed a council tax increase of £4.95 for modelling purposes and coupled with growth forecasts in the tax base resulted in income projections of around £9.648m for 2023/24, which is growth of £385k based on the 2022/23 position. These changes have been reflected in the final budget with the council tax increase for Swale set at 2.99% as opposed to £4.95 which equates to £5.67 and this has generated an additional £36k per annum in the base budget. This charge equates to an increase of just under 11p a week for Swale's element of the council tax.

7.6 While the statement has been made regarding the additional 1% increase nothing has yet been announced in relation to the £5 cash limit. There has been speculation that the £5 cash limit could increase to perhaps £10 when the final settlement is confirmed.

7.7 If the £5 cap was also increased, the following additional income could be generated;

Band D increase	£ increase	Council Tax estimate	Increased estimate
2.62%	£4.95	£245,884	
2.99%	£5.68	£282,042	£36,158
3.96%	£7.50	£372,552	£90,510
5.28%	£10.00	£496,736	£124,184

7.8 Just for information a £10 increase would equate to 19p a week or 2.7p a day.

7.9 The provisional settlement was published on 19 December and until the Final Settlement figures are confirmed the figures remain provisional and subject to change..

8. Income

The Council derives a limited and reducing amount of funding from Central Government, the main sources of income are locally raised taxes, fees and charges and specific grants. This section focuses on how the Council is funded and how this will continue to change over the coming years

Business Rates Retention

8.1 Since the 2013/14 financial year, local government has been able to retain 50% of the growth in the local business rates income to support services. As part of a manifesto commitment, the Government pledged to allow Councils more control locally over their finances, and as part of this began to plan for an eventual system of 100% local retention of business rates growth. In exchange for this, Councils would have to forgo certain grants received from Central Government. Following the snap General Election in 2017 and a period of uncertainty around the new Business Rates Retention Scheme, MHCLG (as was) had previously confirmed a local 75% share from April 2020, however these potential changes continue to slip, and we are still no closer to having a revised scheme.

8.2 The income from the current system is shared based on 50% being returned to Central Government, 40% being retained by Swale with 10% going to the County. However, while technically Swale's share is projected to be around £23.4m (£24.0m 2021/22), after the tariff and levy payments are made the net income to Swale reduces to around £9.1m for 2022/23 (£8.6m 2021/22) and just under £10.1m for 2023/24. This is based on the assumptions contained with the Chancellors Autumn Statement.

8.3 We still do not know the timing of the business rates reset, and while we anticipate this will have a negative impact for Swale, we would expect some form of transitional grant relief which again at the current stage is unknown, so this issue continues to be monitored until we have greater clarity.

Kent Business Rates Pooling Arrangements

8.4 Local authorities can enter arrangements with other Councils to pool their business rates. Legislation allows councils to voluntarily enter a business rates retention pool. Councils within a pool are treated as a single entity with tariffs and top ups netted off and a single levy rate applied. In two tier areas this creates the potential for the levy paid by Borough Councils being reduced thus retaining more resources in the local area. Swale has been a member of the Kent Business Rates Pool since 2015/16, the pool must reapply to DLHUC each year for the arrangements to continue. There is still be an option for the pool not to proceed up to 28 days after the Local Government Finance Settlement is received. At the Performance and Resources Committee meeting held on 28 September it was agreed to re-enter the pool for the 2023/24 financial year.

Revaluation Proposals

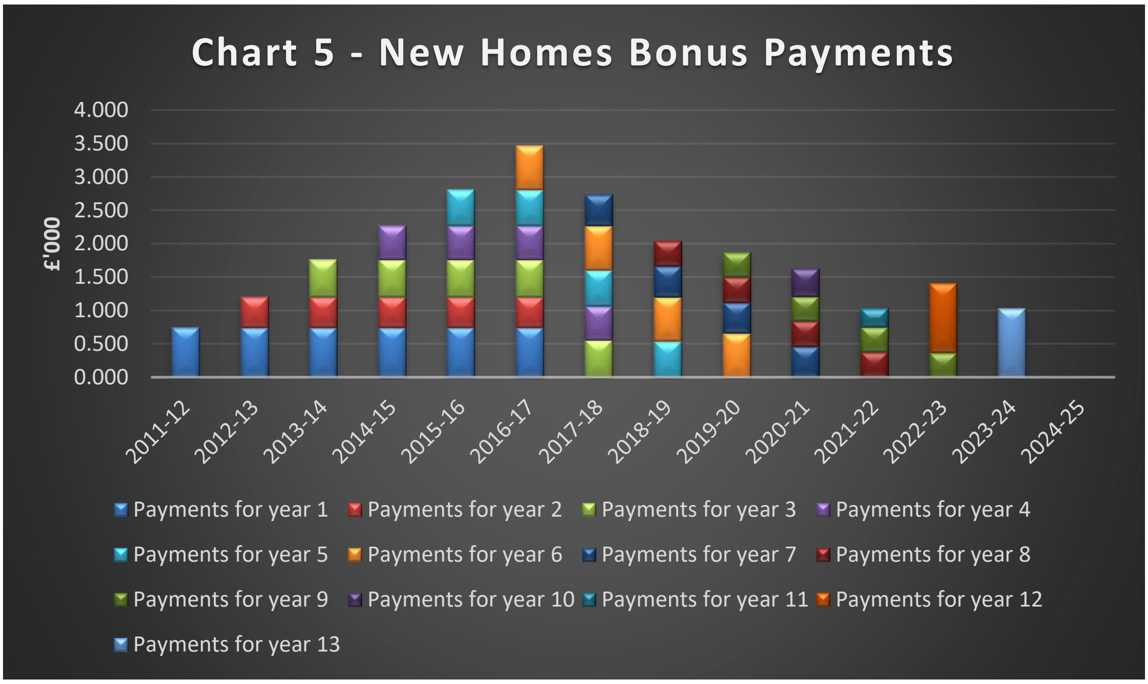
8.5 Business rates revaluations update rateable values, and therefore rates bills to reflect changes in the rental market. This helps ensure that shifts in economic activity which have driven changes in market values are fairly reflected in business rates liabilities. The final report of the government’s Review of Business Rates announced that the frequency of revaluations would be increased to 3 yearly starting from the next revaluation in 2023. The next revaluation of properties for business rates will, therefore, take effect from 1 April 2023 based on the rental market at 1 April 2021. The move to 3 yearly revaluations will make the system fairer and more responsive for all ratepayers, meaning bills will more closely reflect current rental values. Some stakeholders in the Business Rates Review also suggested that more frequent revaluations could reduce the need for and scope of future transitional arrangements.

8.6 DLUHC’s consultation on the proposed revaluation changes was completed in September 2022, new RV’s will be introduced from 1 April 2023 and updates to local lists have now been made, replacing the previous lists from September 2017. Support for businesses and the freezing of the multiplier as announced as part of the Chancellors Autumn Statement are discussed above.

New Homes Bonus (NHB)

8.7 The New Homes Bonus was introduced in 2011/12 to incentivise and reward Councils and Communities that build new homes in their area. The bonus was originally paid as an un-ringfenced grant for six years and was paid based on the net additional homes plus an additional supplement of £350 per affordable dwelling. The payment is then split between local authority tiers: 80% to lower tier (Swale) and 20% to upper tier (KCC).

8.8 Since its initial introduction the payment mechanism has undergone two fundamental changes which have significantly impacted on the income received by Swale. The first was the transition from payments rolled up over a 6-year period up to 2016/17 (for which the Council received £12.3m) to 5 years in 2017/18 to the new ‘floor’ of 4 years from 2018/19 onwards. The second was in 2017/18 when a national baseline of 0.4% (based on borough property numbers) was introduced which attracted no bonus funding. The chart below shows the current projections. Due to the current funding pressures whilst there is the potential to receive income for 2024/25 we have not at the current time included this within our forecasts as the provisional settlement only confirmed the funding position for 2023/24.

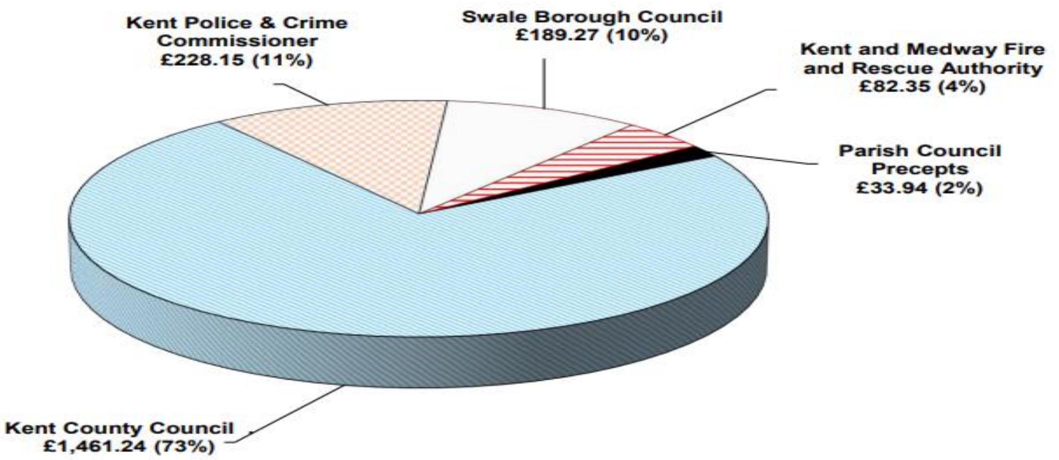


Council Tax

8.9 Swale is the billing authority for the borough, this means that Swale send out the Council Tax bills to residents and collect the Council Tax, but most of this is then distributed to the County Council and Kent Police Authority with a further element then going to town and parishes councils. The relative splits are shown within the chart below.

8.10 The charge on a Band D property which is retained by Swale is currently £189.27 (£184.23 2021/22) based on a tax base of 48,939.46 (48,040.12 2021/22). Any increases on this amount are restricted by a cap put in place by the Government, but as discussed above this has now increased from 2% or £5 to 3% or £5, whichever is the greater, without undertaking a referendum on the proposals. This generates an extra £421k (including tax base growth) over the 2022/23 income levels.

Allocation of Council Tax:



8.11 Within the MTFS, it is assumed that Swale will increase its precept by 2.99% for the next few years as was confirmed in the provisional settlement. This table highlights the impact of the assumed increases within the charts below.

Table 1 – Projected council tax income growth

Council Tax	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Council Taxbase (for council tax setting purposes)	49,673.46	50,170.19	50,671.89	51,178.61
Band D standard Council Tax £	£194.94	£200.79	£206.73	£212.85
Council Tax (standard)	**£9.683m**	**£10.074m**	**£10.475m**	**£10.894m**

Fees and charges

8.12 The Council has limited means to charge for some of the services it provides. Some of these charges are set by central government, but the Council has discretion over the levels of others. Of the c£7.0m gross income forecast for 2023/24, the most significant areas include waste and recycling (£1.1m) which includes things such as garden bins and bulky waste collection, car parking income (£2.5m) and planning and building control income (£1.6m). It should however be noted that there are also significant costs associated with generating some of this income, such as the car park maintenance and enforcement, the waste contract etc.

8.13 As part of the Council's drive to close the budget gap we will be undertaking a fundamental review of the fees and charges structure within our control as part of the 2024/25 budget setting process. This is to ensure that we are at least covering our costs in all areas while looking to develop and increase income streams wherever possible to help make the budget position more sustainable in the medium to long term and to protect frontline services.

9. Links to other strategies

The MTFS is fundamentally linked to and underpins several the Council's key strategy and policy documents

9.1 The most significant linkage with the MTFS is with the Council's Corporate Plan and this is discussed in detail above. There are however several other strategies and policies supported by the MTFS.

Capital Strategy

9.2 The Capital Strategy sets out the Council's approach and process to the deployment of capital resources in meeting the Council's overall aims and objectives. It also provides a strategic framework for the effective management and monitoring of the capital programme, within which the Council will work in formulating the strategies for individual services. It is a primary document for all capital decision making, together with the Corporate Plan and other strategies.

9.3 The Strategy is reviewed on an annual basis to reflect the changing needs and priorities of the Council including residents, businesses and places. The aim of the Strategy is to provide a framework within which the Council's capital investment plans will be prioritised and delivered. The Strategy is the foundation of proper long-term planning of capital investment and how it is to be delivered.

9.4 The Strategy's principal objective is to deliver an affordable programme that is consistent with the Council's priorities and objectives. This Strategy is intended to be used by all stakeholders to show how the Council prioritises and makes decisions on capital investment and how this investment supports the Council's priorities and ambitions.

9.5 The capital programme approved by Full Council in February 2022 included £27.0m investment in 2022/23 with £2.1m in 2023/24 and 2024/25. This is funded through a mixture of capital receipts and reserves (£0.1m) internal/external borrowing (£24.9m) and s106 contributions and other grants (£2.1m). The existing programme has been reprofiled in line with forecast spend, with a significant amount of the planned investment now expected to be spent in future years.

9.6 The capital programme for 2023/24 has been updated to include the provision to acquire the waste and street cleansing fleet vehicles in line with the re-procurement of the current contract and the temporary accommodation project as detailed above. As referenced above the revenue implication of acquiring the fleet is included within the MTFS assumptions for 2024/25.

The key principles of the Strategy are;

- Investing in sustainable, affordable and social housing to increase overall supply,
- Using the ability to borrow at low rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value, and
- Ensuring that the costs of borrowing are manageable long term within the Revenue budget.

Treasury Management Strategy Statement

9.7 The Council's Treasury Management Strategy Statement is intrinsically linked with the Capital Strategy and the capital programme, the latest report is included in the agenda for this committee meeting. The strategy manages the Council's investments, cash flows, banking, money market and capital market transactions.

9.8 The treasury management budget supports the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations and understands the revenue implications of all capital decisions.

9.9 This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. When it is prudent and economic, any debt previously incurred may be restructured to meet the Council's risk or cost objectives.

9.10 The Council receives and approves the following reports each year;

- Before the start of the financial year, the updated Treasury Management Strategy Statement, the Minimum Revenue Provision (MRP) policy statement; how investments and borrowings are to be organised (including prudential indicators); and an Investment Strategy;

- In year treasury management assurance reports to update Council with the progress of the capital position; adherence to the treasury management strategy and whether any policies require revision and;

- At the end of the financial year, a treasury management outturn report to provide details of actual indicators compared to the estimates within the strategy.

Property Asset Strategy

9.11 The Property Asset Strategy is set within the wider context on the Council's strategic priorities and seeks to align and review the asset base with the Council's corporate goals and objectives. The full Strategy was approved by Full Council in March 2018 and can be accessed on the Council's website here.

9.12 The Strategy provides the framework that will guide the Council's future strategic property decisions and ensure there is a consistent way of managing the Council's land and assets. The Strategy is likely to make recommendations regarding the rationalisation of the property portfolio, and to secure additional investment income from the let estate and property investments, and future budgets will reflect this. It is anticipated that the Strategy will be updated during 2023.

Commissioning and Procurement Policy

9.13 The Commissioning and Procurement Policy establishes the Council's strategic approach to procurement and can be accessed here. The Policy should be read in conjunction with the Finance Code of Practice, Contract Procedure Rules and Scheme of Delegation within the Council's Constitution here. It emphasises the increasing importance of using procurement to support wider social, economic and environmental objectives, in ways that offer real long term benefit.

9.14 The Council recognises the importance of a strong and vibrant local economy and the role it can play in stimulating local markets. The website has been developed to provide potential suppliers with a host of information in relation to the Council's procurement processes, which includes a portal advertising all current tender opportunities. To deliver an agile service the Council uses an electronic tendering system.

9.15 The strategy provides a corporate focus for procurement, embracing the Council's commitment to strategic procurement and its alignment with corporate objectives and values. The document is not intended to be a "user manual", although the principles contained within the strategy should be applied to all facets of procurement activity. Additional detail regarding the Council's procurement processes can be found within the Contract Procedure Rules and there are user guides available on the intranet.

9.16 Social value is the positive impact an organisation has further to the activities it carries out. These can be economic, social and environmental impacts. The Council recognises that Social Value can significantly help it in meeting its priorities and aspirations for the borough by supporting good jobs, better incomes and wellbeing, increased skill levels, higher value economy and higher productivity levels. The Commissioning and Procurement Policy is one of the underpinning strategies that supports the Council's priorities.

10. Looking forward

In the context of these pressures and reduced funding, the Council has produced a forecast for spend for Capital and Revenue purposes and anticipated use of Reserves

10.1 The resources position has been updated with the best information currently available against the previous budget forecasts below. The business rates and Fair Funding reviews have been further delayed and a one-year settlement is anticipated and although this has had a positive impact on the financial position for 2023/24 the Council is experiencing significant spending pressures which have more than offset this.

Table 2 – Deficit forecasts as per the 2022/23 budget

Funding forecasts as at Feb 2022	**2022/23** £'000	**2023/24** £'000	**2024/25** £'000
Base budget & reserve contributions	**22,000**	**22,947**	**23,921**
Revenue Support Grant (RSG)	(119)	(119)	(2)
Business Rates	(9,072)	(9,322)	(9,576)
Local Council Tax Scheme Grant	0	0	0
Lower Tier Services Grant	(192)	0	0
Covid grant allocation	0	0	0
New Homes Bonus (assuming not just legacy payments)	(1,407)	(983)	(983)
Services Grant	(296)	0	0
Council Tax	(9,263)	(9,648)	(10,042)
Projected use of reserves/savings	**1,651**	**2,875**	**3,318**

10.2 Following the Autumn Statement, the table below has been updated to show the revised funding position, with the future year's deficit peaking at £4.7m in 2026/27.

Table 3 – Updated deficit forecasts

Updated Funding forecasts	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Base budget & reserve contributions	21,094	22,990	24,432	24,992	25,913
Drainage board levy	906	951	983	1,032	1,084
Net cost of services	22,000	23,941	25,415	26,024	26,997
Revenue Support Grant (RSG)	(119)	(317)	(317)	(317)	(317)
Business Rates	(9,072)	(10,122)	(10,736)	(10,897)	(11,060)
Lower Tier Services Grant	(192)	0	0	0	0
New Homes Bonus	(1,407)	(1,103)	0	0	0
Services Grant	(296)	(167)	0	0	0
Funding Guarantee Grant	0	(504)	0	0	0
Council Tax	(9,263)	(9,683)	(10,074)	(10,475)	(10,894)
(Surplus)/deficit	1,651	2,045	4,289	4,335	4,727
Deficit analysis					
Uncertain Government Grants	0	0	1,654	1,654	1,654
Cummulative Savings required	1,651	2,045	2,635	2,681	3,073
Total Deficit	1,651	2,045	4,289	4,335	4,727

10.3 Additional cost pressures of c£3.5m in 2023/24 relate mainly to the waste contract extension (£1.7m), additional cost of temporary accommodation and supporting homeless applications (£1.0m) and other additional inflationary pressures that are being experienced. This is partly offset through grant allocations and savings of £2.8m which can be found within Appendix XI.

10.4 For 2024/25 the additional pressures in the main come from the new waste contract including the fleet purchase (£1.7m), anticipated loss of central government funding (£1.6m) and continuing inflationary pressures. The additional income relates mainly to business rates growth and again the savings breakdown can be found within Appendix XI.

10.5 This year officers have undertaken high level analysis of the cost of the statutory and non-statutory functions which the Council undertakes. Statutory functions include things such as waste collection and the payment of benefits, non-statutory areas include things such as the provision of public conveniences and leisure facilities. Very roughly the statutory and income generating services cost around £21m and the Council's grants and income (from business rates, council tax etc) is around the same level. The non-statutory non-fee earning areas then account for around a further £5m which puts significant pressure on the affordability of the Council's medium term financial position. The savings exercise that has been undertaken has however taken account of savings potential and efficiencies across the Council's entire budget.

Reserves

10.6 The Council holds several 'useable' reserves both for revenue and capital purposes which fall within one of the following categories:

- General Reserve
- Earmarked Reserves
- Ringfenced Reserves
- Capital Receipts Reserve

10.7 The *General Reserve* is held for two main purposes:

- to provide a working balance to help cushion the impact of uneven cashflows and avoid temporary borrowing and;
- a contingency to help cushion the impact of unexpected events or emergencies.

10.8 As part of setting the budget each year the adequacy of all reserves is assessed along with the optimum level of General Reserve that we should hold. The optimum level of the General Reserve considers a risk assessment of the budget and the context within which it has been prepared.

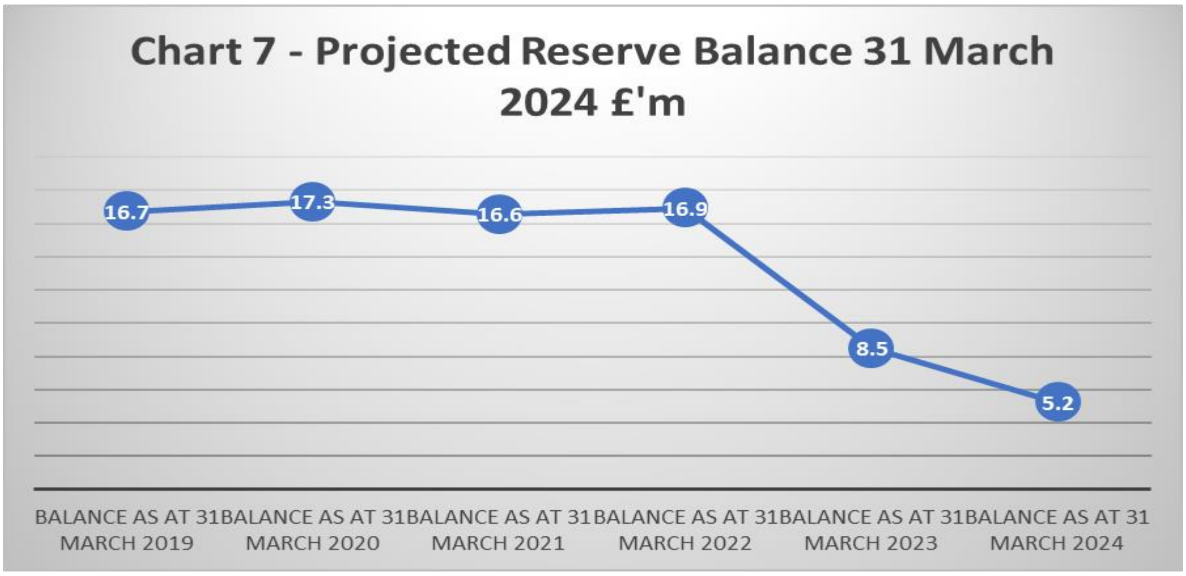
10.9 *Earmarked Reserves* provide a means of building up funds to meet known or predicted liabilities and are typically used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund restructuring. A number of contingency reserves are also held by the Council to reduce the impact on Council Tax payers of future uncertain events such as business rate appeals or claw back of benefit subsidy.

10.10 *Ringfenced Reserves* are reserves where funding is allocated for a specific or technical accounting purpose and can only be spent in line with the purpose of that funding and cannot be used to support wider council expenditure unlike our earmarked reserves.

10.11 All reserves, general and earmarked, have been reviewed as part of setting the budget for 2023/24, and where commitments have not been identified and funds or reserve balances are no longer required these have been re-allocated to specific reserves to support the overall budget position.

10.12 Use of reserves to balance a budget provides only a short-term solution as the funds can only be used once. They can however be used to smooth the impact of funding gaps over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer-term financial benefit through reduced costs and/or additional income.

10.13 The available earmarked reserves balance as at 1 April 2022 stood at £16.9m, the budgeted use of reserves for the 2022/23 financial year is £8.4m which leaves a forecast balance as at 1 April 2023 of £8.5m. A £1.1m transfer from the General Reserve is assumed in 2023/24 to the budget contingency reserve. Based on the current medium term budget projections the Council will not have sufficient reserves to help address the budget gap after 2024/25.



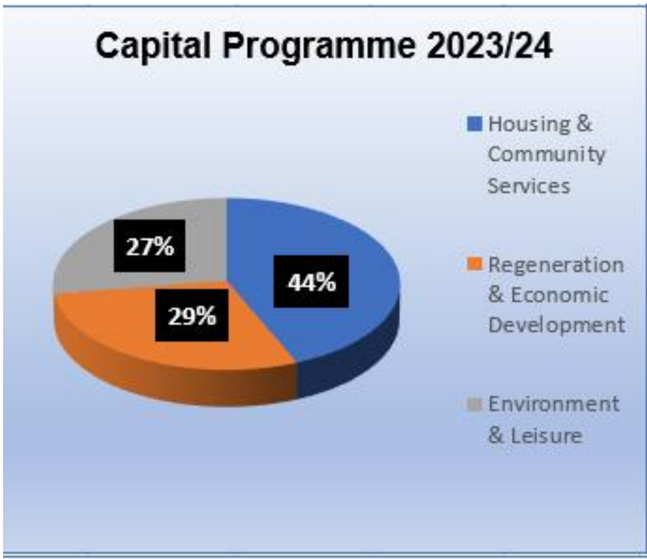
Capital

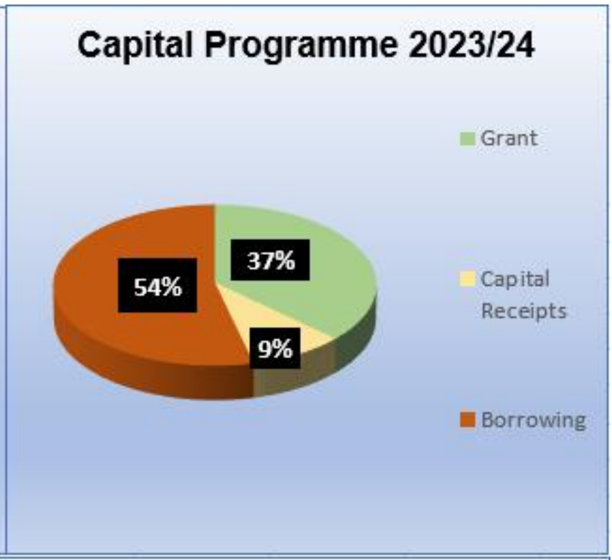
10.14 The capital programme (Appendix V) shows what the Council intends to spend on purchasing new assets and improving its existing ones over the next four years. As capital expenditure is incurred, a source of finance must be identified through capital receipts, grants and other revenue resources or alternatively through borrowing.

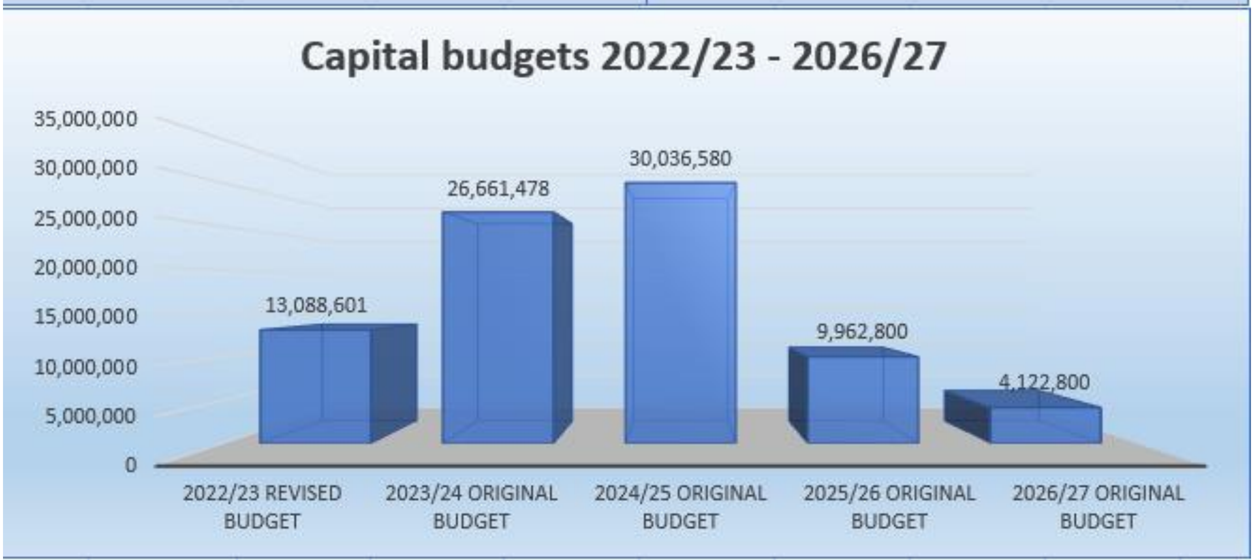
10.15 Any expenditure that is financed through borrowing increases the Council's 'Capital Financing Requirement' (CFR). Each year a revenue charge called the Minimum Revenue Provision (MRP) is made to reflect the funding of the CFR by the taxpayer, it is required to be set aside to cover the repayment of debt caused by the need to borrow for capital purposes. As the need to borrow increases, the CFR and MRP also increase. If the Council has sufficient cash resources to meet the expenditure, it will not be necessary to borrow externally, and cash balances can be used to cover the expenditure. This is referred to as 'internal borrowing' and attracts an MRP charge in the same way that external borrowing does.

10.16 New projects, which are included in the programme in the future, will need to be financed by MRP if no capital resources such as capital grants or capital receipts from future asset sales are available. Alternatively existing revenue reserves could be used to finance these projects through a revenue contribution to capital (RCCO) which would avoid the need to make an MRP charge.

10.17 Future external borrowing is assumed to finance a portion of the waste vehicle fleet purchase, the temporary accommodation project and also the funding for the Rainbow Homes housing provision. The cost of borrowing has fluctuated significantly over recent months from around 2% back in June for 8-year annuity loans from the Public Works Loans Board (PWLB) to over 5% in September but these have settled more recently and are now just over 4%. What this does mean however is that any business cases which include borrowing will need to be fundamentally reviewed before any borrowing takes place to ensure the schemes remain affordable and still deliver the anticipated benefits. This includes schemes that have previously been assessed as affordable based on earlier costs of borrowing. Next year's budget is shown below (£26.6m) along with the forecasts to 2026/27 (Chart 8).







11. Closing the Budget gap

The Council's strategy for reducing the budget gap covers several work streams as outlined below.

11.1 Due to the budget pressures being experienced for not only the 2023/24 financial year but also the years following, the Council has had to fundamentally review what services it provides and how they are provided to try and identify savings to help achieve a balanced sustainable budget in future years. The main workstream areas are summarised below.

Efficiency Review

11.2 As part of the production of these forecasts a detailed budget review has taken place over the summer and autumn to identify efficiencies and additional income to help support frontline services and to balance the Council's financial position. For next year these total around £2.8m (Appendix XI), however based on current forecasts this still leaves a deficit of £2.0m which will need to be supported from reserves. An Equality Impact Assessment (EQIA) has been undertaken on the proposals where relevant and the council consulted on the draft budget proposals from 1 December 2022 until 13 January 2023.

11.3 The efficiencies and savings identified have come from a number of areas and include the following;

- Various operational savings – travel, subsistence, conferences etc
- Contract savings from retendered contracts
- Additional income from increased annual demand – car parks, planning etc
- Increased fees and charges
- Savings and a freeze in Members allowances
- Charging for Members parking
- Reductions in some 3rd party grants
- Staff restructure savings across service areas
- Investment income
- Shared services
- Digital transformation – ebilling etc

Fees & Charges Review

11.4 A full review of the existing fees and charges was carried out as part of the budget build process for 2023/24. As detailed above this strategy is recommending an increase of 10% for most charges which is in line with the inflationary increase in costs that the council is experiencing.

11.5 There is an assumption that the increase in planning fees included in the government's planning reform proposals in May 2022 will be implemented in 2023/24. The proposals will be subject to government consultation and are intended to increase major and minor application fees by 35% and 25 % respectively.

11.6 Proposed changes to car parking fees include extending the charging period in our car parks (proposed to operate between 6am and 12 midnight), and a 10p increase in the hourly rates.

11.7 Proposals for higher increases to some fees and charges have been included where the underlying cost to the council has significantly increased; where previous charges have been below the statutory maximum charge and where market conditions indicate a higher charge. The proposed fees and charges for 2023/24 can be found within Appendix X.

Financial sustainability

11.8 Financial sustainability and reducing reliance on central government grants is one of the four key themes within the Corporate Plan (Priority 4) and is fundamental to this strategy and setting balanced budgets in future years. One of the initiatives will include a review of the way we currently budget for fees and charges structures to ensure we are fully covering our costs. The aspiration is to have a balanced medium term budget which does not rely on reserves to balance the position.

Our investment approach

11.9 There is an ever increasing need for Councils to take a more commercial and business-like approach to all elements of their business. A more commercial approach will directly support the Council's objective of becoming financially sustainable for the future. Part of the strategy development process will involve the identification and prioritisation of a number of internal and external projects which will consider income generation, efficiency and doing things differently. The focus will be on making every pound count for our residents, improving efficiency, investment and increasing social value.

11.10 The Local Government Association (LGA) are encouraging Councils to move towards a more commercial culture as a way of developing sustainable self-funding streams that reflect Council's individual priorities and place shaping aspirations. Consequently, the Council needs to think about how it can maximise revenue and efficiencies moving forwards. Swale can already evidence its commercial approach through the delivery of the Bourne Place development and will continue to develop these opportunities.

Property Investment and New Ways of Working

11.11 Opportunities for investment in property, whether direct or indirect, continue to be considered to achieve either a direct income stream from the asset or improved returns on investment. A programme of asset valuations and condition surveys are currently underway. This will help us better understand the challenges faced in terms of maintaining and improving our asset base over the medium to long term to ensure that it remains fit for purpose, delivering income for the Council where appropriate.

11.12 Opportunities for the most efficient utilisation of the Council's assets and maximising returns where appropriate are vital. Indirect property investments via treasury instruments, such as the purchase of pooled property funds, can potentially provide a return in terms of a regular income and growth in the value of the investment. Under the Treasury Management Strategy the Council has made the LAMIT Pooled Property Fund, which invests exclusively in various property assets with the aim of achieving a regular income and growth in the value of the investment.

11.13 The Council can choose to use its capital resources to finance a programme of asset investment which aims to deliver long-term revenue streams for the Council and work on an ongoing basis is required to identify the most appropriate projects. This strategy of direct property investment can ensure a secondary benefit to the district as it is possible to generate an economic growth benefit when the investment is located within the borough. This is, however, more resource intensive to manage than externalising these investments.

11.14 The Council continues to progress its New Ways of Working strategy off the back of the Covid pandemic which again will bring opportunities in the future for new operating models and how the Council conducts its business in the future. With more staff working from home there will also be potential opportunities to rationalize office space and potentially share space with other partner organisations and indeed the private sector. There may also maybe opportunities to work with other partners under the government's One Public Estate agenda.

Digital Transformation

11.15 The Council needs to consider how digital transformation can support the business in the future and deliver more for our residents, identifying changes to service delivery from the implementation of new technology and changes to business processes. It is anticipated that the overall programme will be delivered over a number of years and as projects are rolled out there will be changes to working practices which will help to deliver efficiencies.

11.16 The key to this work in the future should really focus on 'putting our customers at the heart of everything we do'. This will undoubtedly lead to efficiencies and potential cashable savings but the direction of travel should be to improve our services for our customers first and foremost because that's the right thing to do. It will also mean that staff can spend longer prioritising 'added value activities' rather than getting bogged down with inefficient paper-based processes.

Shared Services, collaboration and selling services

11.17 Creating efficiencies through shared services continues to be a priority for central government. Identifying such opportunities must therefore continue at a local level, ensuring that realistic and deliverable benefits can be achieved. Again this is an which Swale is already heavily involved in, including activities like the joint waste procurement but could involve a range of other joint procurement opportunities.

11.18 Identifying opportunities to work alongside other public sector partners and organisations to deliver services, such as through our successful Mid Kent Services shared service arrangements, will continue to form an important part of our efficiency strategy. Opportunities for further sharing arrangements continue to be explored and include potential arrangements for the Revenues and Benefits teams.

Growing Business Rates and NHB

11.19 Under the previous allocation method of New Homes Bonus (NHB) there was a direct financial benefit to the Council from growth in homes through the NHB funding and through increasing the council tax base and additional income generated from council tax. Whilst new housing growth has had an impact on the demand for local services, there will still be a net gain in terms of overall income for delivery while the NHB remains. We do however know that the NHB system is due to be replaced although at the present time it is not clear what with or when it will be introduced so the life of any ongoing funding from NHB remains unclear.

11.20 For similar reasons growing the business rates base will have a direct impact on the level of business rates income retained locally. Equally, maintaining existing business rates remains a priority in that decline in business rates will reduce the amount of income retained. However as with the NHB the reform and any localisation of business rates continues to be delayed along with the Fair Funding review.

Council Tax

11.21 The increased flexibilities around council tax discounts and increases following the removal of the tax freeze grant in 2016/17 provides a further potential income stream. Further review of the current level of discounts can also provide additional income, recommendations on the level of council tax discounts will be reported for approval as part of the budget reports for 2023/24.

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

i. A change in the application of a council tax premium on ‘long term empty’ properties. Currently, if a property has been unoccupied and unfurnished for 2 years but less than 5 years, then a 100% council tax premium can be applied to the property (Swale Borough Council currently applies this premium in line with the relevant regulations). The Bill is proposing to shorten that 2-year period to 1 year. ‘Long term empty’ premiums are applied to encourage owners to bring properties back into use so they are not left empty for extended periods.

ii. The implementation of a council tax premium on ‘second homes’. ‘Second homes’ are properties which are unoccupied but furnished. For some years now local councils have been able to apply a full council tax charge to second homes. This charge is applied in Swale. The Bill proposes the councils may apply a 100% council tax premium on second homes (this would mean an owner of a second home in the borough would pay double the normal council tax charge).

11.23 Both of these changes can only come into effect if the Bill receives Royal Assent, and even then, the earliest that both of these changes can come into effect is 1 April 2024 if the assent is granted by 31 March 2023. The Bill states that to apply these changes approval to do so must be given at least 12 months before the implementation date. On the basis that the Bill receives Royal Assent we are proposing to review the inclusion of the premiums from 1 April 2024.

New opportunities

11.24 Given the ongoing uncertainties around Covid recovery, the cost-of-living crisis, global events and the economy in general following the political upheaval, Local Government funding and funding mechanisms are overdue for review and the outcome from this remains a significant risk for the Council's medium term financial assumptions. It will be essential to identify new opportunities to either increase income, increase efficiency through the redesign of services, explore new partnership models for service delivery etc and this will be one of the main challenges over the medium term.

11.25 While the Council's reserves do provide some level of comfort over the short term and could be used to address budget deficits this is not a sustainable financial strategy for the medium to long term as mentioned earlier within the report the reserves are forecast to be fully depleted by 2025/26 so this would not even be an option.

Lobbying and consultation

11.26 The Council will continue to lobby central government in terms of increased funding allocations and continued relaxation/increased flexibility in terms of the council tax referendum principles which will be one of the things required if income raising and decision making is ever to be truly local. We will also continue to respond to all relevant consultations, in particular in relation to the business rates and Fair Funding reviews.

11.27 Members will need to support the efficiency agenda in future years and support officers to deliver a balanced budget position over the medium term as use of one-off reserves to balance the budget deficit is not sustainable.

12. Conclusions

How will this help shape our future budget and financial projections?

12.1 While the Council's reserves do provide some level of comfort over the short term and could be used to address budget deficits this is not a sustainable financial strategy for the medium to long term, and as mentioned earlier within the report the reserves will be fully depleted in 2025/26 if ongoing savings are not found for the base budget.

12.2 Previous budget forecasts made back in February 2022 were made at a time of significant uncertainty in terms of future Government finances due to the Fair Funding and Business Rates Review. This uncertainty was further heightened by the ongoing recovery from Covid which added an additional level of complexity in terms of future forecasts and potential impacts on the economy, inflation, suppliers, contracts, Brexit implications etc.

12.3 The updated high level funding forecasts within the strategy build on previous figures from the 2022/23 Budget setting exercise in February which were made within this context, at which time we were forecasting future year deficits which were increasing year on year to around £3.3m by 2024/25.

12.4 The updated forecasts now differ significantly from this, in the main this is due to the significant spending pressures which the Council is experiencing in relation to the waste contract and homelessness, inflationary pressures and increasing uncertainty around future funding levels.

12.5 The MTFS and budget forecasts include the latest information as in the Provisional Financial Settlement on 19 December 2022.

12.6 As part of the production of these forecasts a detailed budget review has taken place over previous months to identify efficiencies and additional income to help support frontline services and to balance the Council's financial position. For next year these total around £2.8m (Appendix XI), and are supported by a number of increases to fees and charges (Appendix X), however based on current forecasts this still leaves a deficit of £2.0m which will need to be supported from reserves.

12.7 The Council is still projecting a deficit position from 2023/24 onwards but due to the funding changes, forecasting the future years deficits does however allow the Council time to plan mitigating actions more effectively, meaning we are more likely to be successful.

12.8 A comprehensive financial risk assessment is undertaken for the revenue and capital budget setting process to ensure that all risks and uncertainties affecting the Council's financial position are identified as far as is reasonably practical. These are reviewed each year as part of the refresh of the MTFS and future year's budget forecasts and are included within Appendix VIII.

12.9 At the current time the key messages are as follows;

- budget gap of £2.0m for 2023/24 even with current savings and fee increases
- We can deliver our statutory services with current income levels but nothing more
- To fund non-statutory services we need to find more income/savings/reserves
- Our reserves will help set a balanced budget for the next 2 years but not after 2024/25
- Funding from reserves is not a sustainable way to manage our budget
- We need to identify more efficiencies and income to make the budget sustainable
- The current projections are based on a number of assumptions which can and do change

12.10 In conclusion, it is still not clear how the various reviews and the ongoing economic pressures will impact on local government funding in the medium term. We have delivered a balanced budget for 2023/24 with a substantial reliance on reserves, this position will need to be addressed by the provision of a robust savings programme for future years' budgets to continue to meet our statutory obligations.