

<b>Policy and Resources Committee Meeting</b>	
<b>Meeting Date</b>	5 <sup>th</sup> February 2025
<b>Report Title</b>	2025/26 Budget and Medium Term Financial Plan and Capital Strategy
<b>EMT Lead</b>	Lisa Fillery, Director of Resources
<b>Head of Service</b>	Claire Stanbury, Head of Finance and Procurement
<b>Lead Officer</b>	Claire Stanbury, Head of Finance and Procurement
<b>Classification</b>	<b>Open</b>
<b>Recommendations</b>	<p>That Policy &amp; Resources Recommends to Council:</p> <ol style="list-style-type: none"> <li>1. To approve the Administration's 2025/26 revenue budget proposals.</li> <li>2. To approve the proposed Council Tax Band D increase for 2025/26 to £206.64, or to the maximum allowed should the cash limit be increased.</li> <li>3. To approve the Medium Term Financial Plan.</li> <li>4. To approve the Capital Strategy.</li> <li>5. To approve the capital programme proposals.</li> <li>6. To note the additional amount of Council Tax for Parish Precepts.</li> <li>7. To endorse the Statement (Appendix III) provided by the Director of Resources.</li> <li>8. To approve the minimum revenue provision statement.</li> <li>9. To delegate authority to the Director of Resources to adjust charge out rates within fees and charges as appropriate, where they are based on costs incurred and where legislation changes are made to centrally set charges in year.</li> <li>10. To approve the use of reserves statement as detailed in appendix VII as to ensure reserves are valid and support the assumptions in the MTFS.</li> </ol>

# 1 Purpose of Report and Executive Summary

- 1.1 This report sets out the Council's Revenue and Capital budget proposals for 2025/26, the Medium Term Financial Plan (MTFP) and the Capital Strategy.
- 1.2 Policy and Resources committee received a budget report on 27 November 2024 prior to the provisional local authority grant settlement announced on 18 December 2024. This report reflects the implications of the settlement, along with any other changes identified since the committee meeting.
- 1.3 This report, if agreed by Policy and Resources committee, will then go forward to Council on 19 February.

## 2 Background

### Provisional Local Government Finance Settlement 2024/25

- 2.1 This year once again is based on a one year settlement only for district councils such as Swale. However, the new government has announced plans to commence the reform of local government funding in the Spring of 2025 including the long awaited reset of the business rate retention system.
- 2.2 The draft settlement published on 18 December announced a one year settlement. New Homes Bonus will continue to be paid, although this will be the final payment. The Services Grant was abolished and our Funding Guarantee Grant was reduced to zero for 2025/26. A Recovery Grant and funding to compensate the additional cost arising from increased National Insurance Contributions (NICs) have been introduced.
- 2.3 The main changes to the draft budget, arising from the provisional settlement are shown in the table below:

<b>Funding Source</b>	<b>Amount £'000 ( ) = increase in grant</b>	<b>Comments</b>
Revenue Support Grant	(18)	Increase arising from rolling in one off smaller grants, plus inflation.
New Homes Bonus	(314)	Increase based on activity
Recovery Grant	(539)	Gain from new grant
Funding Guarantee	1,276	Loss of grant
<b>Core Grant Funding Total</b>	<b>406</b>	<b>Reduction in core grant funding</b>
Homelessness Grant Funding	(393)	Increased grant funding
<b>Overall Change in Government Grant funding</b>	<b>13</b>	<b>Reduction in total grant funding</b>
Extended Producer Responsibility Funding	(1,349)	

- 2.4 New Homes Bonus and the Recovery Grant are reportedly only allocated for 2025/26. As yet, there has been no information in relation to what funding may replace these significant funding streams, increasing risk in future years.
- 2.5 As part of the funding settlement for 2025/26 the government confirmed the new funding stream, subject to the successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme. As yet we do not have any further details on the burdens arising from the allocation of the grant and again this is an indicative one year allocation.
- 2.6 When the scheme is fully introduced, government assume that local authorities can expect to receive income from the scheme whilst being asked to submit data relevant to their waste collection services. For 2025/26 the Government have guaranteed funding at the amount awarded for Swale, however this is not guaranteed to remain at this level and assessments of waste collection levels and performance compared to other authorities in our waste “group” will determine future allocations. Alongside His Majesty’s Treasury and the Department for Environment, Food and Rural Affairs, MHCLG will be assessing the impact of additional pEPR income on the relative needs and resources of individual local authorities.

### **Staff Pay**

- 2.7 The budget assumes a 3% increase in staff pay as well as increments that are due and the increase in the real living wage.

### **Capital Strategy**

- 2.8 The Capital Strategy sets out the Council’s approach and process to the deployment of capital resources in meeting the Council’s overall aims and objectives. It also provides a strategic framework for the effective management and monitoring of the capital programme. It provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services.
- 2.9 The proposed Treasury Management Strategy was reported to the Audit Committee on 22 January 2025 and is also reported separately to this meeting. The proposed Capital Programme and its funding are detailed in Appendix VI to this report.
- 2.10 Councils are required to balance their revenue budget annually and cannot borrow to achieve a balanced position. However, they have very far reaching powers to borrow to fund capital expenditure. This has historically been funded from borrowing from the Public Works Loan Board (PWLB), which is part of the Debt Management Office which is part of the Treasury. Borrowing can be for up to 50 years at rates which are below commercial rates. The decision to borrow

externally is ultimately a treasury one, and is made closer to the time when expenditure is actually incurred, taking into account available cash balances, the opportunity cost of investments and the exposure to interest rate and credit risks.

2.11 Council in February 2020 agreed the following principles:

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

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

2.13 The Council has not made and will not make any direct commercial investments outside of the Borough. Capital funds will be used for the benefit of local residents.

2.14 Looking ahead to 2025/26 there will be three major capital projects which are reflected in the draft Capital Budget:

2.14.1 Housing company - in October 2020 Cabinet agreed to establish Swale Rainbow Homes Ltd. The outline business case envisaged the Council providing up to £23m of funding through loans to support the delivery of new homes. The exact arrangements for the drawdown of this funding will follow the detailed planning and procurement phases. The cost of the borrowing will be wholly met by the company. The spend on this project has been profiled so that spend is spread across a number of years to more accurately represent the likely spend pattern.

2.14.2 Purchase of temporary accommodation – the Housing and Health Committee on 17 January 2023 agreed a budget of £11m to purchase up to 50 properties within the borough to accommodate households in need of housing. The purchase of properties will happen over time, as properties become available, so the spend has been profiled over several years, with 2025/26 being the third year. The funding for this project will be a reallocation of temporary accommodation spend to cover the capital financing costs.

2.14.3 Levelling Up Scheme – the council was successful in its bid for funding from the Levelling Up scheme. This project will use funding to improve health, education, leisure and employment opportunities in Sheerness through the Sheerness Revival project. This is expected to be a multi-year capital project, with the spend profiled accordingly. Due to delays in announcing the award of funding, the project has been reprofile the budget into 2025/26.

- 2.15 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The funding of the capital programme is also included in Appendix VI.
- 2.16 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). MRP is a charge to the revenue budget which then accrues on the Balance Sheet; it is not an external payment. Alternatively, capital receipts may be used to replace debt finance. The Council's policy on MRP is set out in Appendix VIII.
- 2.17 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing. For most Councils their cash flow level is much larger than their reserves as they take in funds through sources such as Business Rates and Council Tax which they hold before making payments to other bodies such as Kent County Council (KCC). The Council's daily cash balances averaged £19.8m in the 6 months to 30 September 2024. Where a Council is investing in a capital project, it can fund this capital investment from cash flow and this is known as internal borrowing. Internal borrowing defers the financial commitment to external borrowing. MRP still has to be made. The Finance Department closely monitors cash flow to ensure that there is no adverse impact.
- 2.18 For any significant investment the Council will supplement the expertise of Members and Officers with appropriate external specialist advice to ensure that proposals are fully tested, and risks considered.
- 2.19 The Director of Resources believes that the Capital Strategy and Capital Programme proposed are sustainable.

### **3 Proposals**

#### **Medium Term Financial Plan**

- 3.1 The updated Medium Term Financial Strategy is attached in Appendix I, and the detailed revenue budget proposal is attached in Appendix II.

#### **Balanced Budget Proposals**

- 3.2 The 27 November Policy and Resources report showed a balanced position with £1.533m being used from reserves within 2025/26 to achieve that position.
- 3.3 Along with the changes from the local government settlement, there have been a number of other variations since the 27 November report. These changes have had a positive impact on the budget of £1.190m, the most significant change is the allocation of Extended Producer Responsibility grant to support the

introduction of a new waste scheme aimed to charge producers for the waste that they create. The budget remains balanced by using reserves to the extent of £416k.

- 3.4 The table below shows a summary of all changes to the revenue budget as reported to Policy and Resources committee on 27 November 2024:

<b>Changes since November 2024</b>	<b>2025/26</b>
	£'000
Government grants - core grants	38,700
Government grants pEPR	(1,349,000)
Increased service costs	75,140
Loss of other grants/funding	144,820
Local Plan/Planning costs	582,700
Increased NI contributions	50,000
Additional interest income	(150,000)
Loneliness Project	(36,000)
Additional edition of Inside Swale	(13,100)
Staffing changes	(64,700)
Contribution to/from reserves	(46,900)
Contract savings	(175,000)
Playgrounds reduction	(100,000)
Delay Place work	(100,000)
One year removal of Members grants	(47,000)
<b>Total Changes</b>	<b>(1,190,340)</b>

- 3.5 Detailed revenue budget proposals are attached in Appendix II.

- 3.6 An analysis of the budget risks is detailed in Appendix IX.

### **Council Tax**

- 3.7 The proposals assume an increase of £5.94 (2.96%) in the Band D Council Tax to £206.64.

- 3.8 The Collection Fund and Council Tax base are set out in Appendix IV.

- 3.9 The Council Tax base was set at 50,518.20 by the Director of Resources.

- 3.10 Parish precepts are shown in Appendix V.

- 3.11 In February 2024, this council agreed two changes to the premiums to be charged for council tax with effect from 1 April 2025 as follows:

- A change in the application of a council tax premium on 'long term empty' properties. Currently, if a property has been unoccupied and unfurnished

for 2 years but less than 5 years, then a 100% council tax premium can be applied to the property (Swale Borough Council currently applies this premium in line with the relevant regulations). The Act shortens that 2-year period to 1 year. 'Long term empty' premiums are applied to encourage owners to bring properties back into use, so they are not left empty for extended periods.

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

### **Fees and Charges**

- 3.12 Proposed fees and charges were set out as part of the draft budget report on 27 November 2024, and these are set out in Appendix XI.
- 3.13 Delegated authority is sought for the Director of Resources to adjust charge out rates to ensure full cost recovery where fees are linked to internal costs.

### **Capital Programme**

- 3.14 The capital budget is attached in Appendix VI.
- 3.15 There have been no changes to the capital budget presented to Policy and Resources committee on 27 November 2024.

### **Robustness of Estimates and Adequacy of Reserves**

- 3.16 The estimated use of reserves is shown in Appendix VII which shows the budget forecast, but all in-year changes will be reflected in closedown and in the Council's financial accounts.
- 3.17 The key principles for the management of reserves moving forward are:
- Maintain reserves to support the Council's budget position and to deal with unexpected one-off events;
  - Funding the Council's strategic priorities; and
  - Fund one-off items of expenditure to support service delivery.
- 3.18 When the Council is considering its budget requirement, Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves and the robustness of the estimates when setting a budget.

- 3.19 What is required is the professional advice of the Director of Resources on these two areas. This responsibility is discharged by way of a certified Statement which can be found at Appendix III (Section 25 Statement). Members are recommended to read the statement thoroughly in order to understand the council's position and to have due regard to the contents when making decisions about the proposed budget.
- 3.20 The Council currently hold a balance of £3.1m as its General Fund balance. Whilst this is currently considered to be appropriate, this does need to increase over time to a target of £4m, representing two months spend. The Council holds earmarked reserves for specific purposes and the remaining unallocated funds form the General Reserve. It is proposed that in the event that the council is accepted on the Devolution Priority Programme, that an amount of £100,000 is ringfenced within the budget contingency reserve to cover costs arising as the council prepares for Devolution and Local Government Reorganisation. The Director of Resources' view is that the level of reserves and balances held by the Council are at a reasonable level overall, and will remain so throughout 2025/26. However, a robust savings plan will need to be established to ensure that the council continues to be able to deliver a sustainable balanced budget from 2025/26 onwards. Earmarked reserves have been rationalised to transfer uncommitted balances to the budget contingency reserve to support a balanced budget position for future years, alongside a deliverable savings programme.
- 3.21 Reserve balances have been reviewed as part of this budget round with some earmarked reserves rationalised and uncommitted balances transferred to the budget contingency reserve to support the assumptions in the Medium Term Financial Strategy. Where 2024/25 expenditure is committed but remains unspent at the end of the financial year, the committed amounts will be allowed to slip into future years.

#### **4 Alternative Options Considered and Rejected**

- 4.1 Do nothing – this is not recommended as the Council is legally required to set a balanced budget.

#### **5 Consultation Undertaken or Proposed**

- 5.1 The budget proposals were reported to Policy and Resources Committee on the 27<sup>th</sup> of November 2024.
- 5.2 An online budget consultation exercise took place from 28<sup>th</sup> November 2024 to 8<sup>th</sup> January 2025, and the results are summarised in Appendix X.



## 6 Implications

Issue	Implications
Corporate Plan	The budget proposals support the achievement of the Council's corporate priorities.
Financial, Resource and Property	The report sets out the Council's resourcing position.
Legal, Statutory and Procurement	The Council is required to set a Council Tax and a balanced budget.
Crime and Disorder	Any potential implications will be addressed by service managers in their budget proposals.
Environment and Climate/Ecological Emergency	The proposals support the Climate Change and Ecological motion previously agreed.
Health and Wellbeing	Any potential implications will be addressed by service managers in their budget proposals.
Safeguarding of Children, Young People and Vulnerable Adults	Any potential implications will be addressed by service managers in their budget proposals.
Risk Management and Health and Safety	Any potential implications will be addressed by service managers in their budget proposals.
Equality and Diversity	Any potential implications will be addressed by service managers in their budget proposals.
Privacy and Data Protection	Any potential implications will be addressed by service managers in their budget proposals.

## 7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Medium Term Financial Plan
- Appendix II: Detailed Revenue Budget Proposals
- Appendix III: Director of Resources Section 25 Statement
- Appendix IV: Collection Fund and Council Tax Base
- Appendix V: Parish Precepts
- Appendix VI: Capital Programme and Funding
- Appendix VII: Estimated Use of Revenue Reserves 2024/25 – 2028/29
- Appendix VIII: Minimum Revenue Provision Statement
- Appendix IX: Budget Risks
- Appendix X: Budget Consultation
- Appendix XI: Fees and Charges
- Appendix XII: Proposed Changes Schedules

## **8 Background Papers**

Policy and Resources papers 27 November 2024.