

Report to: **Executive**

Date: **30 November 2023**

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

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

Wards Affected: **All**

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

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#### **RECOMMENDATIONS**

**It is RECOMMENDED that the Executive considers the Draft Revenue and Capital Budget Proposals for 2024-25 and:**

- a) Notes the forecast budget gap for 2024/25 of £146,185 (1.1% of the projected Net Budget of £13.3million) and the position for future years; and**
- b) Tasks the Senior Leadership Team and Executive Members with bringing back further options of how to close the predicted budget gap for 2024/25, as part of future budget reports in early 2024 (once more detail of the Local Government Finance settlement is known), for Members' consideration.**

**It is RECOMMENDED to Council:**

- c) To fund the one-off cost of £450,000 of the roll out of the Devon Aligned Service for kerbside waste collection on 20 November 2023, from the Business Rates Retention Earmarked Reserve in 2023/24. Further details are in section 3.26 to 3.29.**
- d) To set up an advisory Committee comprising of all Non-Executive Members to meet in January 2024, to consider the 2024/25 Revenue and Capital Budget Proposals and make recommendations to the Executive on the Budget Proposals (meeting date proposed of Thursday 11th January 2024, 1pm)**

**e) That South Hams District Council continues to be part of the Devon Business Rates Pool for 2024/25, subject to there being no announcements within the Finance Settlement (expected to be announced in mid December), which in the opinion of the S151 Officer (in consultation with the Leader of the Council), would change this recommendation.**

**1. Executive summary**

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling three year timeframe to 2026/27. The Executive considered the MTFS at its meeting on 21 September 2023.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding. Between 2009/10 and 2020/21, the Council's Core Government funding has reduced by £4 million. The Council now receives minimal Government Grant (Revenue Support Grant) of £138,000 to fund its services and the Council must be self-sufficient.
- 1.3 The Council has continued to work in partnership with West Devon Borough Council which has allowed South Hams to achieve annual savings of £3.9 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million per annum. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.
- 1.4 It is important to note that this Medium Term Financial Strategy (MTFS) sets out the budget strategy for the Council for the next three years, with regular reviews (at least annually) and updates when items are further known or are announced by the Government.
- 1.5 Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response. Key to the authority's financial resilience are our reserves, which are at a prudent level.
- 1.6 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2026/27 although this has not been confirmed by the Government so the MTFS and Budget Proposals for 2024/25 assumes that these changes will happen in 2026/27. The Council is awaiting a Policy Note from the Government (due to be issued in November 2023) on the key principles upon which the Finance Settlement for 2024/25 will be based.

1.7 The Medium-Term Financial Strategy in September 2023 identified a budget gap of £382,194 for 2024/25. Since that report, there have been several updates to the proposed Budget for 2024/25. This has been set out in Section 3.1 of the report.

1.8 The following table illustrates the predicted budget gap from 2024/25 onwards for the Council **as shown in Appendix B**:

<b>Budget Gaps</b>	<b>2024/25 £</b>	<b>2025/26 £</b>	<b>2026/27 £</b>	<b>Total Aggregated Budget Gap £</b>
'New' Budget Gap each year	146,185	330,045	1,332,045	1,808,275
*Cumulative Budget Gap	146,185	476,230	1,808,275	2,430,690

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

1.9 ***The forecast budget gap for 2024/25 is £146,185. This is 1.1% of the Projected Net Budget for 24/25 of £13.3million.*** A cumulative budget gap of £476,230 is predicted for 2025/26 (the £476,230 assumes that the 24/25 budget gap of £146,185 has not been closed). The cumulative aggregated Budget Gap by 2026/27 is £2.43 million, if no action has been taken in each individual year to close the budget gap annually.

1.10 The budget gap for next year of £146,185 is very much in line with the level expected at this point in the financial planning cycle. In the year after, the budget gap is £330,045. The budget gap increases to £1.3m in three year's time, 2026/27, due to the local government reforms that are expected. These are the reset of the business rates baseline, the fair funding review and the impact of negative RSG (Revenue Support Grant), coupled with the loss of the business rates pooling gain.

1.11 There are continuing uncertainties about the level of local government funding for 2024/25 and there is no indication yet of the detailed local government funding levels for 2024/25 and beyond. Therefore, there are many uncertainties in preparing for the challenges we know we will face soon. It is thought that the first realistic opportunity for implementing funding reforms is 2026/27. There is now a very pressing need to update population and council tax data (both of which are at least a decade old). It is assumed that the core finance settlement for 2024/25 will increase in a similar manner as that for 2023/24.

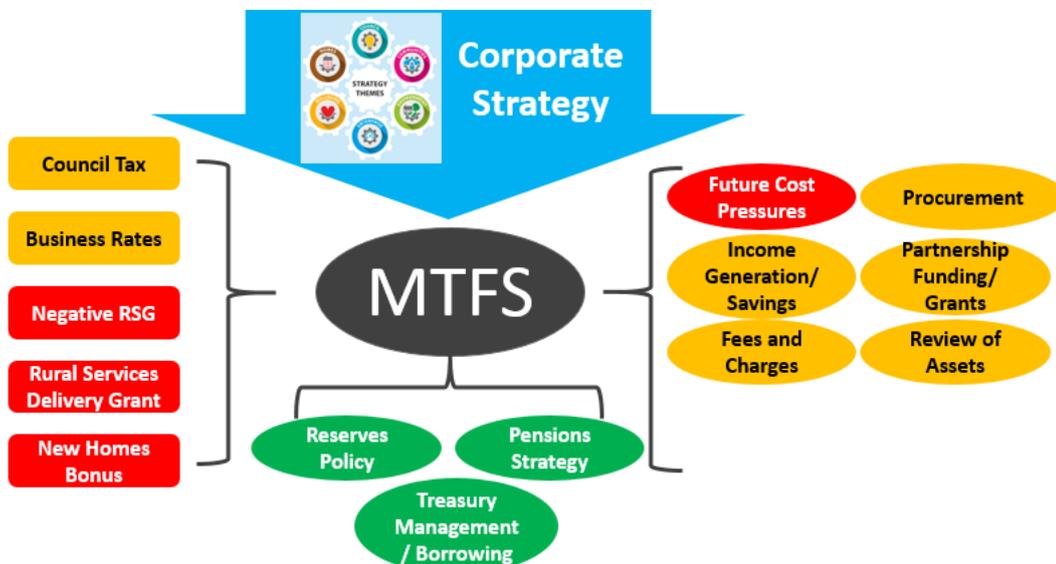
1.12 The provisional local government finance settlement is likely to be published late (just before Christmas), due to delays to the Autumn Statement.

1.13 Further options for Members' considerations of how to close the predicted budget gap of £146,185 will be presented as part of future budget reports.

## 2 KEY ASSUMPTIONS

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

### 2023/24 Net Budget £11.74 million



2.2 The key assumptions within the Medium-Term Financial Strategy and the latest Budget Proposals for 2024/25 are as below.

- The business rates baseline reset will be deferred until 2026/27 at the earliest (with no negative Revenue Support Grant in 2024/25 or 2025/26)
- There will be a phasing in of negative Revenue Support Grant as part of the business rates baseline reset (predicted to be in 2026/27) with a transition period, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £450,000 in 2026/27. Some of the negative RSG could be offset by growth.
- It is assumed Council Tax limits for District Councils will remain at the higher of £5 or 2.99% for 2024/25 onwards
- It is assumed that 2024/25 will be another roll over settlement, which will give an amount of around £700,000 of NHB funding (or

a similar replacement housing incentive scheme) that could be used to fund the 2024/25 revenue base budget.

- A business rates pooling gain of £400,000 has been modelled for 2024/25 and 2025/26, with no further gains for 2026/27 onwards.
- A council tax surplus of £59,000 for 24/25 has been assumed, with a council tax collection rate of 98% (98.55% was achieved in 2022/23)
- Rural Services Delivery Grant has been assumed to continue annually at the same level for 23/24 (£478,583)
- A 4% pay increase has been modelled from 2024/25 onwards (4% equates to £456,000 on total pay of £11.4m). The pay assumption has been reduced to 3% in 2025/26 and 2026/27

### 3 UPDATES TO THE BUDGET POSITION FOR 2024/25

3.1 The Medium-Term Financial Strategy in September 2023 identified a budget gap of £382,194 for 2024/25. Since that report, there have been several updates to the proposed Budget for 2024/25 which are summarised in the Table below.

	£
<b><i>Budget gap for 24/25 reported in the Medium Term Financial Strategy in September 2023</i></b>	<b>382,194</b>
<b>Additional cost pressures identified £150,000</b>	
Increase the cost pressure for IT software and support contracts from £90,000 to £150,000 as per the latest budget monitoring report. This is reflective of increased cyber security risks and inflationary pressures.	60,000
Cost pressure for flooding – recent events have highlighted the need to add a cost pressure for dealing with the impacts of climate change, such as flooding, on our communities. This would give a contingency budget each year so that the cost of responding to and recovery from such events is covered (i.e. contractors used for the clear up, skip hire for disposal of waste etc.)	50,000
Additional cost pressure for external audit fees – audit fees are increasing nationally	40,000
<b>Changes to Financing of the Base Budget (£206,019)</b>	
Increase the amount of New Homes Bonus used to fund the Base Budget from £500,000 to £700,000 (see section 3.20)	(200,000)

Increase the estimate of the funding from the Funding Guarantee (3% increase in Core Spending Power) – increase from £810,000 to £850,000	(40,000)
Decrease the Council's share of the Collection Fund surplus for 2024/25 (decreased from £80,000 to £59,000)	21,000
Decrease the estimate of Services Grant for 2024/25 (Reduce the estimate from £77,991 to £65,000)	12,991
<b>Additional income/savings identified (£180,000)</b>	
Increase the business rates pooling gain from £300,000 to £400,000 (see 3.17)	(100,000)
Increase the additional income target for income from treasury management from £700,000 to £800,000 – This would set an income target of £1.6million for 2024/25 for treasury management income and it is proposed to reduce the target to £1.2million for 2025/26.	(100,000)
Employment estates – reduction from an extra £50K of income in 24/25 to an extra £30K of income	20,000
<b><i>Latest Budget gap for 2024/25 as set out in this report (as at November 2023)</i></b>	<b>146,185</b>

- 3.2 The Council is awaiting a Policy Note from the Government (due to be issued in November 2023) on the key principles upon which the Finance Settlement for 2024/25 will be based. The provisional local government finance settlement is likely to be published late (just before Christmas), due to delays to the Autumn Statement.
- 3.3 Further options for Members' considerations of how to close the predicted budget gap of **£146,185** for 2024/25 will be presented as part of future budget reports in early 2024.

#### **OVERALL POSITION – BUDGET GAP**

- 3.4 Financial modelling has been undertaken for the next three years to predict the Council's financial situation for the short and medium term.
- 3.5 **Appendix A** to the Budget report sets out the Budget Pressures forecast for the next three years and the additional savings and income forecast. **Appendix B** illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £11.74 million in 2023/24.
- 3.6 A Summary forecast is shown below of the potential budget situation if all the budget pressures and the savings and income generation in Appendix A were approved. It also shows the situation if the Council Tax is increased by £5 per annum (shown in Appendix B).

- 3.7 The following table illustrates the predicted budget gap from 2024/25 onwards for the Council **as shown in Appendix B**:

<b>Budget Gaps</b>	<b>2024/25 £</b>	<b>2025/26 £</b>	<b>2026/27 £</b>	<b>Total Aggregated Budget Gap £</b>
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\* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

- 3.8 ***The forecast budget gap for 2024/25 is £146,185. This is 1.1% of the Projected Net Budget for 24/25 of £13.3million.*** A cumulative budget gap of £476,230 is predicted for 2025/26 (the £476,230 assumes that the 24/25 budget gap of £146,185 has not been closed). The cumulative aggregated Budget Gap by 2026/27 is £2.43 million, if no action has been taken in each individual year to close the budget gap annually.

### **Council Tax**

- 3.9 The Council Tax Referendum limits for District Councils for 2023/24 was the higher of 2.99% or £5. An increase in council tax of £5 for the next three years has been modelled for council tax purposes. This would equate to a Band D council tax for the District Council of £190.42 in 2024/25 as shown in Appendix B (an increase of £5 for the year, less than 10 pence per week) which equates to a 2.70% increase. The Council's share of the council tax for 2024/25, will be set at the Council meeting on 15th February 2024. (A 1% increase in council tax generates £75,000 of extra council tax income).
- 3.10 Of an average Band D Council Tax within the District of £2,261.19, an amount of £185.42 is the element of a council tax bill set by South Hams District Council. Therefore 8pence of every £1 paid (8%) in council tax is received by South Hams District Council to pay for our services. The rest of the council tax bill is set by Devon County Council, the Fire, the Police and Town and Parish Councils to fund the services they provide.
- 3.11 **The Council collected 98.55% in council tax in 2022/23 which was in the top quartile of all Councils nationally.** A council tax collection rate of 98% has been assumed for 2023/24. It has been assumed that the number of properties within the District will increase by 500 per annum from 2024/25 onwards.

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

- 3.12 It has been assumed that the Business Rates Reset will be delayed to 2026/27. Whilst this change is not confirmed by the Government, a reset based on the current taxbase would appear very unlikely.
- 3.13 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2026/27 although this has not been confirmed by the Government so the MTFs assumes that these changes could happen in 2026/27. The 2025/26 finance settlement will be the first year of a new spending review period.
- 3.14 The MTFs assumes that the full range of changes from the Fair Funding Review will be implemented based on the proposals in the December 2018 consultation paper, plus the latest population estimates (2022) and the latest council tax data. It is assumed that the business rates baseline reset will happen in 2026/27.
- 3.15 Estimates have been made of the business rates baseline funding levels for 2024/25 onwards and the relative deductions for negative RSG in 2026/27. For example in 2024/25, the £3.45m is the amount the Council is projected to retain from its business rates income collected of around £25 million (this equates to around 14p in every £1 collected of business rates). The 2022/23 collection rate for South Hams for business rates was 97.95%, which was in the second quartile of all Councils nationally.
- 3.16 It is modelled to take £400,000 funding from the business rates retention on an annual basis. This would reduce the business rates retention reserve by £1.2m over the next 3 years to smooth the impact of the business rates baseline reset and the future loss of pooling gains. There will also be £1.5m coming out of this business rates retention reserve in 2023/24, for the transitional cost of the waste and recycling service coming back in house in October 2022. This reserve is predicted to have more business rates income being set aside into the reserve in 23/24, due to the way that business rates income flows through the collection fund over a period of years.

### **Devon Business Rates Pool**

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

### **Rural Services Delivery Grant**

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

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

- 3.19 A decision on the future of New Homes Bonus funding (NHB) will be announced before the 2024-25 finance settlement. The consultation on the future of NHB was in February 2021. In the absence of any decision or announcement, it is assumed that NHB will continue for one more year in 2024-25.
- 3.20 In 2023/24 the NHB allocation for the Council was £456,012. The latest modelling of the potential NHB payment for 2024/25 is an amount in the region of £700,000. This is based on a property increase of 595 properties. (The amount received is 595 less the baseline of 0.4% (188 properties) at 80% of £2,065 which is an average national council tax). It is modelled that all of the 24/25 NHB payment will be used to fund the revenue base budget in 2024/25.
- 3.21 The Consumer Price Index (CPI) was 4.6% (September 2023 CPI), which is down from 6.7% in August. Inflation over the past 18 months has been at a 40 year high. An extra £450,000 cost pressure for inflation on goods and services and increases in utility costs has been included within the cost pressures in Appendix A. The latest minutes from the meeting of the Monetary Policy Committee (MPC) state that it is expected that inflation will drop back to 4.8% by the end of 2023, accounted for by lower energy, and to a lesser degree, food and core goods price inflation. At present, there is no indication from Government of any additional funding to meet inflationary cost pressures.
- 3.22 A provision for the 2024/25 pay award has been modelled in the MTF5 at 4% (£456,000), with total pay being £11.4million. This has been reduced to 3% in 2025/26 and 2026/27. The Medium-Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council. The Council is particularly affected by inflation in terms of the Local Government Pay Award as staffing forms a significant proportion of the Council's budget.
- 3.23 The pay award for 2023-24 has now been agreed. This is for £1,925 per Scale Point or a 3.88% increase for Scale Point 44 upwards. This would cost an extra £550,000 and this amount also needs to be built into the Base Budget for 2024-25 as a 'catch up' as the budget for 23/24 has already been set.
- 3.24 The current Bank Base Rate will increase the Council's income from treasury management investments and additional income of £800,000 has been built into the Budget for 2024/25. This would set an income

target of £1.6million for 2024/25 for treasury management income and it is proposed to reduce the target to £1.2million for 2025/26. It is predicted that bank base rate will remain at 5.25% until September 2024 when it is predicted to reduce to 5%, with a predicted reduction to 4.5% by December 2024 and 4% by March 2025.

- 3.25 As per the report to Council on 13 April 2023, an extra £270,000 per annum needs to be built into the base budget for the waste collection, recycling and cleansing service. A breakdown of the £270,000 is shown in the Waste Memorandum note in Appendix A. Cost pressures for insurance (£130,000) and IT inflation cost pressures (£150,000) have also been built into the MTFs.

### **Waste and Recycling services – roll out of the Devon Aligned Service**

- 3.26 The roll out of the Devon Aligned Service (DAS) for kerbside waste collection was originally planned for 6 October 2023 and the 2023/24 budget was based on this 'go-live' date. The go live date was always contingent on the vehicle procurement and delivery, infrastructure works at Torr Depot and operational resources.
- 3.27 Due to a delay in a part (hydraulic valves) for the recycling vehicles, it has not been possible to go live on 6 October and instead the roll out of DAS will start on 20 November. This has an additional one-off cost of £450,000 due essentially to each month of delay of DAS incurring additional costs of £170,000, plus some additional one-off costs.
- 3.28 It is recommended to fund the one-off cost of £450,000 of the roll out of the Devon Aligned Service for kerbside waste collection on 20 November 2023, from the Business Rates Retention Earmarked Reserve in 2023/24.
- 3.29 Every single property in the South Hams will be affected by the changes which will see all residents being able to recycle food waste. The upcoming changes will mean that everyone is on the same service, using kerbside boxes, a white reusable sack and food waste caddy to present their recycling each week. Residents can check changes to their collection day online on [waste.southhams.gov.uk](https://waste.southhams.gov.uk) from 18 November.

### **Corporate Strategy (Council Plan)**

- 3.30 There is a separate report on this Executive agenda on the Draft Corporate Strategy (Council Plan) for the period 2024-2028. Once adopted, the strategy will be the Council's overarching strategic document setting out our ambitions and priorities for the District. The report also sets out how we will shape delivery plans for consideration by Members in early 2024.

### **Climate Change**

- 3.31 The Council's annual delivery plan on 'Adapting and mitigating climate change and increasing biodiversity' sets out the Council's action plan for addressing climate change and the carbon/biodiversity impact.

## **OTHER BUDGET ITEMS**

- 3.32 The Levelling Up and Regeneration Act 2023 allows Billing Authorities the discretion to charge second homeowners a council tax premium of 100% (so a second home dwelling would pay double the council tax charge). The Act requires Billing Authorities to have a minimum period of 12 months between making its first determination and the financial year in which it takes effect. That means the earliest that Councils can introduce it is for the start of the 2025-26 financial year, i.e. 1 April 2025. At Council on 21 February 2023, Council approved charging up to an extra 100% council tax in second homes. Modelling shows that extra council tax income of £800,000 could be generated and this has been modelled for the 2025-26 financial year (see Memorandum note).
- 3.33 There is a Housing Policy update report on the Executive agenda for 30<sup>th</sup> November 2023. This report recommends that the Executive agrees an annual budget of £100,000 to fund the community affordable housing offer. It is recommended that this is financed from the funding identified from the review of the capital programme and the review of earmarked reserves which equated to £2.554m in total. Further detail is in Section 7.3.
- 3.34 The revenue budget monitoring report to the Executive on 21 September shows an overall projected surplus of £79,000 for the 2023/24 financial year. This is 0.7% of the overall net budget set of £11.738million.

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

- 4.1 The Council has previously taken external treasury management advice on the Council's overall borrowing levels and debt levels. The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million in 2019 and it is not proposed to change this limit at present.
- 4.2 In 2022/23 the long term borrowing of the Council decreased from £14,284,000 (21/22) to £13,825,000. Short term borrowing increased from £96,000 to £459,000. This is due to the profiling of the debt repayments where long term borrowing has moved to short term borrowing. No further external borrowing took place during 2022/23.
- 4.3 Council has also approved future borrowing of up to £5.5million for the Plymouth and South Devon Freeport (Council report 30<sup>th</sup> March 2023, Council Minute CM 77/22). The borrowing will be paid for from the

business rates income generated by the Freeport and therefore it will be self-financing.

## **5 FEES AND CHARGES**

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

## **6 FINANCIAL SUSTAINABILITY AND TIMESCALES**

- 6.1 The Council will continue to assess various options for closing the budget gap for 2024/25 onwards, and in the longer term, to achieve long term financial sustainability and further options will be presented to Members in further budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.
- 6.2 Making the best use of our resources and setting a balanced budget annually is within the Council's Delivery Plan.

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

- 7.1 Unearmarked Reserves total £2.113 million at 31 March 2023. There was a surplus of £57,000 on the outturn position for 2022/23 (0.5% of the net budget of £10.464m) as shown in the Draft Statement of Accounts for 2022/23 published by the end of June 2023. In accordance with normal accounting practice, this underspend has gone into Unearmarked Reserves.
- 7.2 **Earmarked Reserves** have reduced by £5.415m in 2022/23 moving from £20.839m on 1 April 2022 to **£15.424m at 31 March 2023**. This follows the application of £3.066 million of the S31 Business Rates compensation grant received in 2020/21 and 2021/22 which was held in the S31 Compensation Grant Business Rates Reserve. This is a technical adjustment as part of the Collection Fund. In addition, the Business Rates Retention Earmarked Reserve has reduced by £2.570

million in 2022/23 partly due to supporting the costs of bringing the Waste and Recycling Service back in house from October 2022 (£1.448 million) and partly to support the Business Rates Collection Fund deficit in 2022/23 (£0.785 million).

- 7.3 There was a separate report on the Executive agenda of 21<sup>st</sup> September 2023, regarding a review of Earmarked Reserves and the Capital Programme. This report identified £1.541m of Earmarked Reserves which are potentially available to support the delivery of the emerging corporate strategy and £1.013m of capital resources. These are one-off amounts, so £2.554million in total. This was subsequently approved at Council on 28 September 2023 (Minute CM 30).
- 7.4 The proposed contributions to/from Earmarked Reserves for 2024/25 are shown in Appendix C. It is recommended to make an annual contribution of £75,000 to a JLP reserve, to commence the JLP review.
- 7.5 Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves, their unallocated balance and the contributions to/from Earmarked Reserves for 2024/25 and future years also.
- 7.6 At Council on 16<sup>th</sup> February 2023, Members set a minimum balance for Unearmarked Reserves of £1.5million, with an operating level of a minimum of £2million (Minute reference CM 59/22). This was based on a risk assessment basis and a sensitivity analysis. Therefore the current level of £2.113million at 31 March 2023 is still above these levels which are set annually.
- 7.7 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 Officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances (this was recommended at £1.5million being the minimum level in February 2023, with an operating level of £2million). Section 25 of the Local Government Act 2003 requires the Section 151 officer to report on the adequacy of the Council's financial resources on an annual basis.
- 7.8 The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
- 7.9 As highlighted above there is a high degree of uncertainty about future levels of funding for local government. However, the Section 151 Officer is keeping a close watch on developments and planning for this longer-term uncertainty.

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

8.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.

8.2 Capital projects will be scored on the following criteria:

- Health and Safety compliance
- Essential to keep operational assets open
- Fit with the Council's Delivery Plans for the new emerging Council Plan
- To rationalise service delivery or service improvement
- To generate income, capital value or to reduce revenue costs

8.3 It is important that future bids for capital are aligned with the review of the new emerging Council Plan. See 7.3 regarding funding.

8.4 There is a capital bid for 2024/25 (£90,000) that it is recommended forms part of the Capital Budget Proposals for 2024/25 and be funded from capital receipts. This is detailed below: -

- £90,000 – to renew and upgrade the Councils' bank reconciliation software (This is 50% of the projected cost, which is shared with WDBC)

This will be a recommendation as part of the Budget Proposals report in January 2024.

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

## **9 NEXT STEPS AND PROPOSED WAY FORWARD**

9.1 The MTFs is the starting point for developing a meaningful three year strategy that sets out the strategic intention for different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.

9.2 The Council's budget is essentially fixed in cash terms and its ability to raise income is limited as there are national controls in place around council tax and business rates.

9.3 Officers will continue to work with the Executive and the results of this will be incorporated into future Budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.

9.4 Further options for Members' considerations of how to close the predicted budget gap of £146,185 will be presented as part of the 25th January 2024 report. The table below shows the budget timetable for the budget meetings for the 2024/25 Budget process.

21st September 2023	Executive – To consider the three year MTFS (Medium Term Financial Strategy) for 2024/25 to 2026/27
30 <sup>th</sup> November 2023	Executive – To consider draft proposals for the Revenue and Capital Budget for 2024/25
Tuesday 9 <sup>th</sup> January 2024 (4pm)	All Member Briefing on the Draft Budget for 2024/25
Early January 2024	It is recommended to set up a meeting of the Budget Advisory Committee (meeting date proposed of Thursday 11th January 2024, 1pm)
25th January 2024	Executive – To recommend Final Budget Proposals to Council for 2024/25
<b>12th February 2024 (9am)</b>	<b>Date which Council Procedure Rule 16 applies</b>
15th February 2024	Full Council – To approve Final Budget Proposals for 2024/25 and set the SHDC share of the Council Tax
22 February 2024	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2024/25 (This is SHDC share plus all other precepting authorities share).

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

this would need to be submitted by 9am on Monday 12th February 2024.

## 10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Executive is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council on an annual basis. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget report is evidence of whether the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p>
Financial implications to include reference to value for money		<p><b><i>The forecast budget gap for 2024/25 is £146,185. This is 1.1% of the Projected Net Budget for 24/25 of £13.3million.</i></b> A cumulative budget gap of £476,230 is predicted for 2025/26 (the £476,230 assumes that the 24/25 budget gap of £146,185 has not been closed). The cumulative aggregated Budget Gap by 2026/27 is £2.43 million, if no action has been taken in each individual year to close the budget gap annually.</p> <p>It is recommended to Council to fund the one-off cost of £450,000 of the roll out of the Devon Aligned Service for kerbside waste collection on 20 November 2023, from the Business Rates Retention Earmarked Reserve in 2023/24. Further details are in section 3.26 to 3.29.</p> <p>There is no indication yet of the detailed local government funding levels for 2024/25 and beyond. Therefore there are many uncertainties in preparing for the challenges we know we will face in the near future.</p>

		<p>As part of Grant Thornton's external audit of the Statement of Accounts for 2022/2023, they will assess the arrangements the Council has in place for:-</p> <ul style="list-style-type: none"> <li>• Improving economy, efficiency and effectiveness</li> <li>• Financial Sustainability</li> <li>• Governance</li> </ul> <p>The outcome of Grant Thornton's work in this area will be reported to Members at the Audit Committee meeting in December 2023.</p>
Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The majority of activities set out in the Council's delivery plans can be delivered through refocusing and reprioritisation of existing resources however, in order to realise the ambition set out in the strategy, some of the activities will require additional resources.
Climate Change - Carbon / Biodiversity Impact		<p>The Council declared a Climate Change and Biodiversity Emergency on 25 July 2019 and the potential for this to have significant financial implications for the Council was highlighted.</p> <p>A Climate Change Action Plan was presented to Council in December 2019. Following this report, a strategy is being implemented as to how the Council can finance the items within the Action Plan, whether that is from external grant sources or some funding from the Council's own resources.</p> <p>The Council has Earmarked £400,000 in a Climate Change Earmarked Reserve as part of the 2020/21 Budget, with a further £200,000 being agreed as part of the 2021/22 Budget Process.</p>
Comprehensive Impact Assessment Implications		
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Equality and Diversity		Equality Impact Assessments are completed for the budget proposals.
Safeguarding		None directly arising from this report.

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

**Supporting Information**

**Appendices:**

Appendix A – Budget pressures and savings

Appendix B – Modelling of the Budget Position

Appendix C – Contribution to/from Earmarked Reserves

**Background Papers:**

None