

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Cabinet
Date: 6 November 2023
Reporting officer: Sarah Parfitt, Director (Corporate Services)
Subject: Financial Update and Balancing the Budget

Purpose and summary of report:

To provide Members with information on the current financial challenges facing the Council, the General Fund Budget and Medium Term Financial Plan (MTFP).

To engage with Members ahead of the council's budget setting process for 2024/25 and outline, at a strategic level, the activity to be undertaken to manage the council's ongoing financial sustainability, which will likely be reflected in the budget proposals presented to all Members in February 2024.

Recommendations:

1. Cabinet is requested to discuss the content of the report.
2. Cabinet approves the implementation of the revised Car Parking Charges set out at Appendix One to this report and delegate authority to the Parking & Environmental Enforcement Services Manager to undertake all necessary action to implement these charges.

Key Implications:	
Item	Implications
Legal	<p>The provisions of the Local Government Finance Act 1992 (LGFA 1992) require the council to set a balance budget with regard to the advice of its Chief Finance Officer (Section 151).</p> <p>The setting of the budget is a function reserved to Full Council, who will consider the draft budget prepared by the Cabinet. Once the budget has been agreed by Full Council, any in-year changes or virements can only be made in accordance with the council's Constitution.</p>
Finance and Value for Money	<p>The potential financial implications are set out in the main body of the report.</p>
Corporate Plan	<p>One Council: a well-run and innovative authority, defined by its skilled and valued workforce, committed to developing its local social impact.</p>

	Financial responsibility: a financially sustainable authority, driven by a strong Medium Term Financial Strategy, enforced by a suite of effective financial monitoring controls.
Climate Change	No direct implications from this report.

1. Introduction

- 1.1 In the last decade, the council has experienced a sustained period of challenge to its financial sustainability.
- 1.2 In response to ongoing funding cuts from Central Government since 2010/11, in 2016 the council adopted a four-year Medium Term Financial Strategy in response to the rising challenges to its financial position and embarked on a multi-faceted programme of activity intended to optimise income generation, innovate service delivery of services and ensure that resources were appropriately focused on the needs of the borough. The council demonstrated its ability to deliver against this programme and, in February 2020, was able to announce that £4.25m of base budget reductions had been reflected in its Medium Term Financial Plan and that the council had in place a sustainable financial plan for the next 10 years, the period which is covered by the MTFP.
- 1.3 Since March 2020 the council has been responding to further funding pressures alongside managing the consequences of the COVID-19 pandemic and macroeconomic factors.
- 1.4 During the 2022/23 financial year, Cabinet received various reports providing information on the service delivery and financial risks to the Council, residents and businesses stemming from the economic situation at that time and its impacts on the Council.
- 1.5 This report is intended to provide Members with an updated position statement on the council's financial position, both from a General Fund and HRA perspective, and consider the actions to be progressed by the council as a means of pro-actively managing the council's ongoing financial sustainability. The timing of this report is particularly pertinent as the council begins to consider revenue and capital budgets for General Fund and HRA Services for 2024/25 and beyond, with budget proposals to be presented to all Members in February 2024.

2. Executive Summary

- 2.1 The latest budget monitoring information from Q2 (six-month period to 30 September 2023) indicates ongoing in-year challenges to the council, principally driven by factors beyond the council's control.
- 2.2 Growing demand pressures and economic factors over the last decade have required the council to actively manage its budgetary position. As an illustration of this, the council's net budget requirement in 2010/11 was £14.4m. Taking into account inflation this would have increased to £23.4m for the current financial year. The actual net budget requirement for 2023/24 was £14.1m.
- 2.3 Despite this proactive management of the budget position, the council's current projected revenue expenditure plans exceed the anticipated income the council is expected to be able to generate from council tax and business rates receipts, fees and charges and funding directly from central government.
- 2.4 The level of direct government funding available to meet expenditure on council services since 2010/11 from £8.44m to £499,800 in 2023/24. This has introduced increased volatility in the council's funding streams, shifting from a position where expenditure on council services was primarily met by secure, known funding sources provided directly by Central Government to the situation today where funding for council services is met from more volatile, local income sources, including council tax. Decisions taken by the Full Council around annual council tax levels can have a significant impact on the council's financial position for the year and as a starting point for council tax setting in future years.
- 2.5 The council is clear that it needs to accelerate the activity it has already identified and set out in its Medium Term Financial Strategy to balance the budget position. This report provides an overview of the external factors affecting the council's financial position and sets out a number of actions that the council intends to progress ahead of setting the budget for 2024/25.

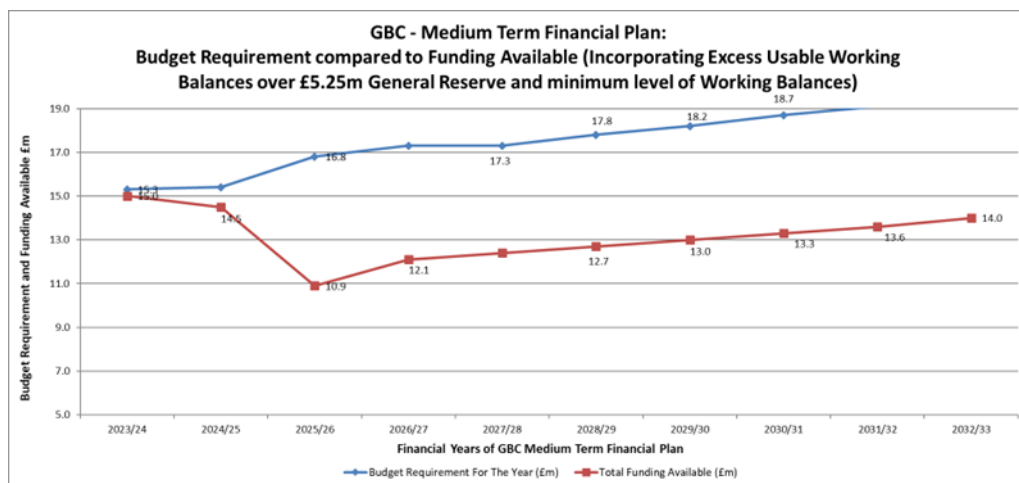
3. General Fund – Current Revenue Position

- 3.1 The council's General Fund accounts for all income and expenditure relating to the day-to-day running of council services. It does not include income and expenditure related to the provision of council housing and services associated directly with this, which are accounted for through the Housing Revenue Account (HRA).
- 3.2 Each year the council is legally obliged to produce and agree a balanced budget, whereby spend plans are matched to the estimated funding available. Where income expected in the year does not cover expenditure plans, the council can draw on its working balances to make up the shortfall, whilst ensuring that it retains sufficient balances to cover any unexpected events.
- 3.3 The council's Medium Term Financial Strategy sets out how the council will plan for and meet the financial challenges it faces over the medium term as a means of delivering a robust and stable financial basis on which to deliver quality council services. The Strategy includes the core principle that the council will preserve a minimum level of £5.25m General Fund working balances. Working Balances are held for two primary reasons:
- A Minimum Working Balances to help cushion the impact of uneven cash flows and avoid the need for temporary borrowing;
 - A General Reserve to form a contingency sum to cushion the impact of unexpected events or emergencies.
- 3.4 At the start of the 2023/24 financial year, total Working Balances stood at just under £8m. The value of the total Working Balances has reduced by some £2.4m from that reported at the end of the 2022/23 financial year due to the impact of the revised accounting treatment of the St Georges Shopping Centre transaction and the requirement to provide for the implicit interest related to the transaction. On 16th October 2023 the transaction was terminated and is now funded instead through PWLB borrowing, meaning that the issues created by the required change in accounting treatment and risks associated with inflation have been overcome moving forwards.

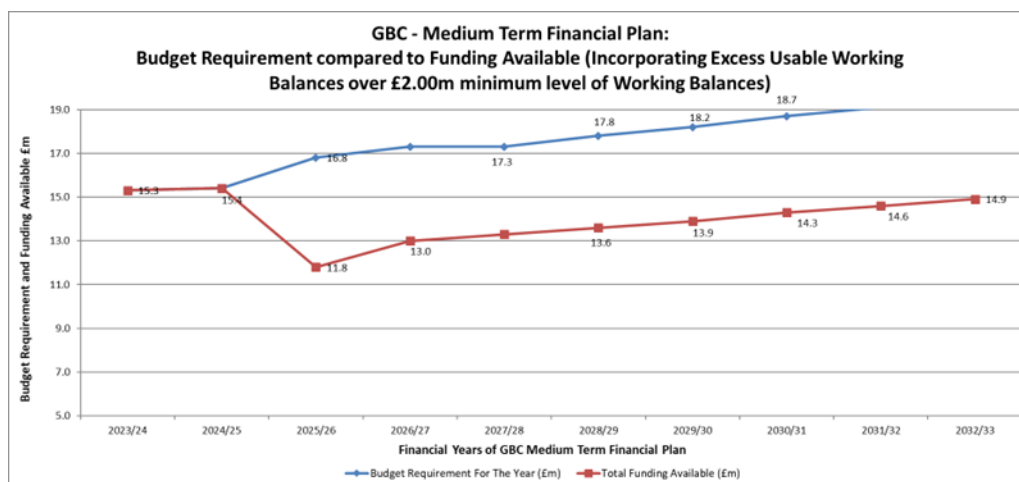
Title	Purpose	Value at 31/03/23 (£)
Minimum Working Balance	To help cushion the impact of uneven cash flows and avoid the need for temporary borrowing.	2,000,000
General Fund Reserve	To provide a contingency sum to cushion the impact of unexpected events or emergencies.	3,250,000
Usable Working Balances	Funds that are available to support the council's revenue budget.	2,568,520
		7,818,520

- 3.5 The approved Original Net Revenue Budget Requirement for 2023/24 was £14,127,930. Planned expenditure for the year was greater than expected income, requiring £2,262,090 of Usable Working Balances to be used to produce an overall balanced budget.

- 3.6 This has meant that 88% of the Usable Working Balances (the sums held that are above the £5.25m General Fund working balance) are to be used to balance the budget for 2023/24.
- 3.7 Budget monitoring for Quarter Two 2023/24 (period to 30 September 2023) has indicated an in-year budget shortfall of £1.089m. This is in addition to the use of working balances already planned and would see the council utilising all of its Usable Working Balances in 2023/24 and drawing a further £282k funds from its General Fund Reserve based on current projections, should there be no further intervention to manage this in-year position. This would see the council end the year below the minimum level of reserves of £5.25m set within the Medium Term Financial Strategy if such a situation were to occur.
- 3.8 This will create an acute challenge for the council in producing a Balanced Budget for 2024/25 given predicted income for the year is already below the level of expenditure for the year.



- 3.9 Whilst the expected remaining balance on the General Fund Reserve could currently be used to produce a balanced budget for 2024/25 this would be considered as an extremely short-term and risky strategy, leaving the council in a position where it would only hold total balances just above its absolute minimum level of £2m for cash flow purposes and would not be able to manage the impact of any significant or unexpected events or emergencies during 2024/25.



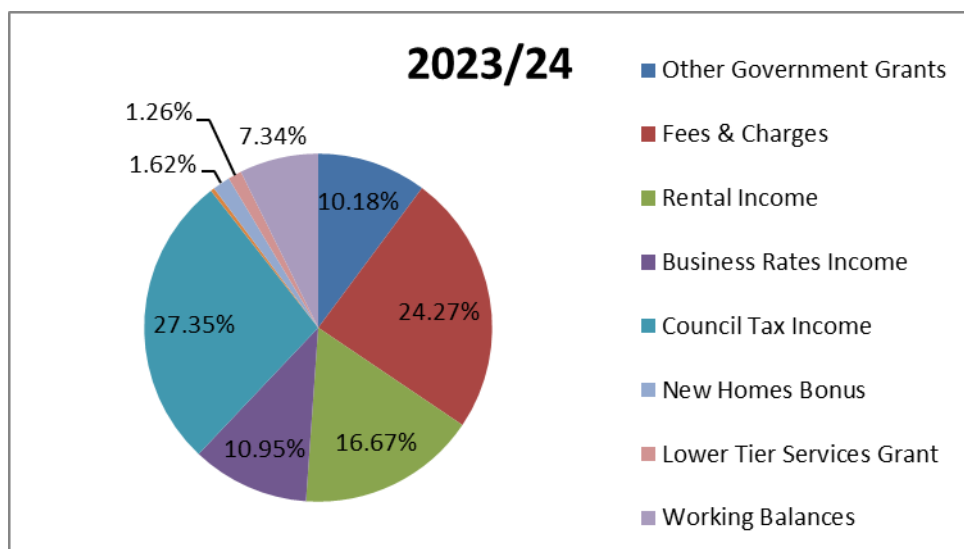
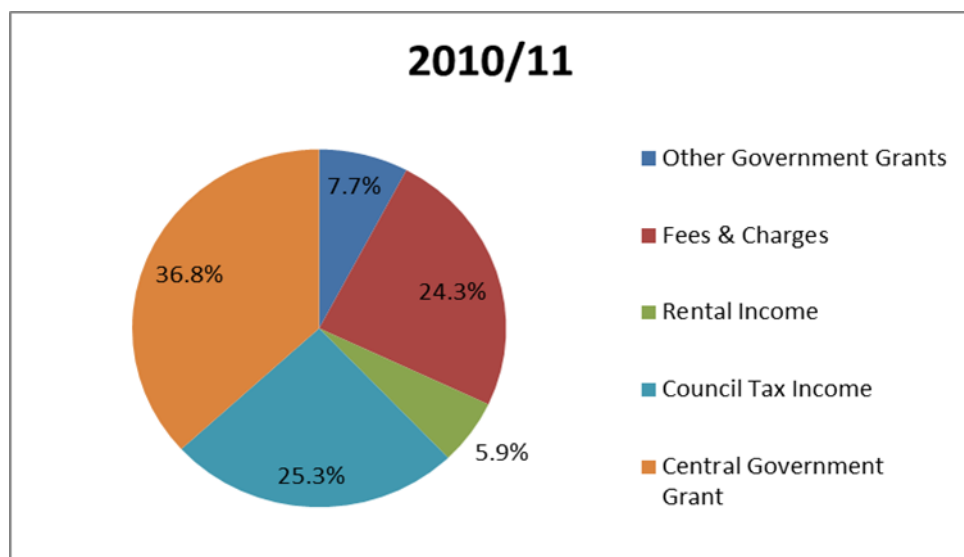
- 3.10 However, the council chooses to apply its working balances, the council's revenue expenditure plans exceed the anticipated income the council is expected to be able to generate from council tax and business rates receipts, fees and charges and funding directly from central government.
- 3.11 This position has, in the main, come about due to economic factors over the last four years and changes to the way local government is funded stretching back beyond the last decade. These factors are set out in the next Section of this report.

4. General Fund - Financial Pressures

4.1 Government Funding for General Fund Services

4.1.1 The way local government is funded has significantly changed over the last 13 years, shifting from a position where expenditure on council services was primarily met by secure, known funding sources provided directly by Central Government to the situation today where funding for council services is met from more volatile, local income sources.

Gravesham Borough Council – Analysis of Funding Sources for annual budget



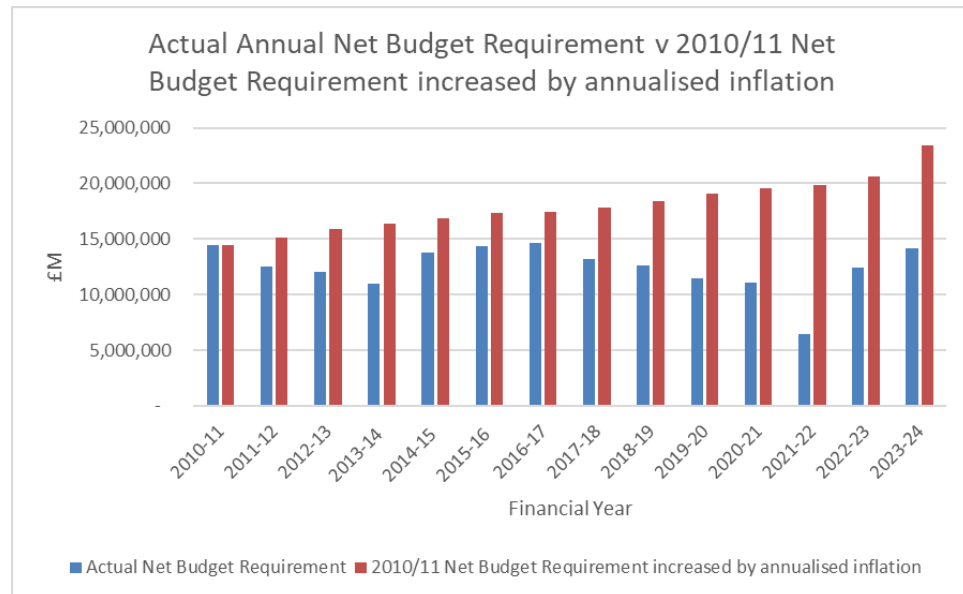
- 4.1.2 In pure monetary terms, in 2010/11 the council received £8.44m direct funding support from Central Government in 2010/11; in 2023/23 this direct funding had fallen to £499,800.
- 4.1.3 As set out in the paragraph above, the council now receives very little direct support from Central Government and is heavily reliant on the income it is able to generate locally, which principally comes from council tax, fees & charges, commercial rental income and retained business rates, effectively topping this up with its own Working Balances when these sources of funding are not sufficient to meet expenditure plans.
- 4.1.4 Whilst locally generated income, the amount of Council Tax and Business Rates that can be levied and retained by the council is still effectively controlled by Central Government through annually applied council tax referendum limits and the Business Rates Retention Scheme.
- 4.1.5 Council Tax income forms the most significant funding stream for the council, albeit the council only receives 11% of the total council tax charge paid by Gravesham residents.

Council Tax Band D Charge 2023/24



- 4.1.6 The Medium Term Financial Strategy sets out the central assumption that the Council Tax charge attributable to the council will increase by 3% in 2024/25 and then 2% annually thereafter; this is based on the Policy Statement issued by Government in December 2022 setting out the principles for the 2024/25 local government finance settlement and will be confirmed by the guidelines issued annually as part of the Local Government Finance Settlement by the Secretary of State.
- 4.1.7 Any decision to not increase council tax levels in 2024/25 to 3% as modelled will further worsen the council's financial stability. Conversely, and taking into account the guidelines issued by the Secretary of State, any decision to increase council tax levels in 2023/24 beyond the 3% modelled will be favourable to the council's financial position.
- 4.1.8 Where funding is provided by Central Government, this is increasingly through targeted bidding processes or assessments intended to deliver against specific government policy initiatives.
- 4.1.9 Despite growing demand pressures, the level of funding available to meet expenditure on council services over the same period has reduced when taking into account inflationary impacts on staff pay and the cost of goods

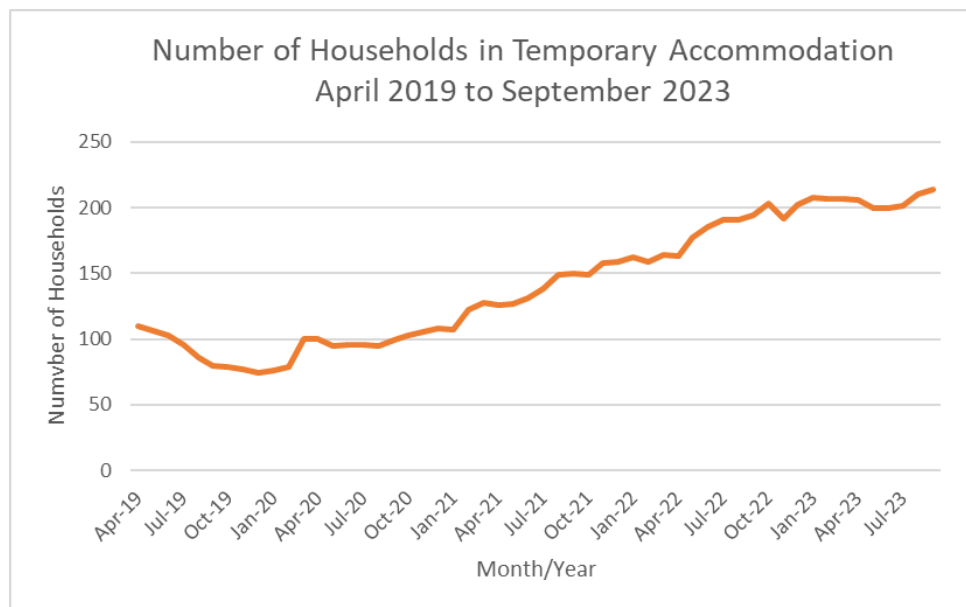
and services. As an illustration of this, the council's net budget requirement in 2010/11 was £14.4m. Taking into account inflation, this would have increased to £23.4m for the current financial year. The actual net budget requirement for 2023/24 was £14.1m.



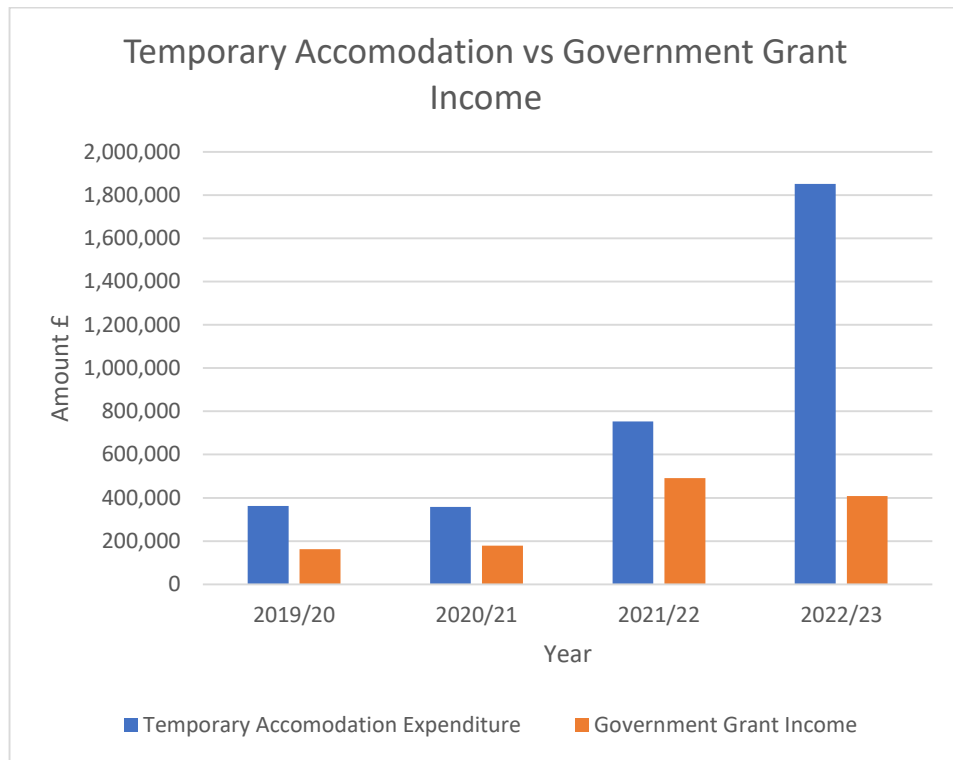
- 4.1.10 In 2016 Central Government committed to the Fair Funding Review, intended to ensure a fairer formula for the allocation of funding to Local Government by assessing the relative spending needs of different local authorities against their ability to generate revenue.
- 4.1.11 The current funding methodology uses a number of metrics to allocate local government funding based on spending needs from 2013/2014. Since that time, population numbers and demographics have changed meaning that the funding allocation methodology no longer accurately represents the needs of the communities that individual local authorities serve.
- 4.1.12 The Fair Funding Review has yet to be concluded, with the latest indications being that this is likely to slip into the next Comprehensive Spending Review period i.e., after 2025/26.
- 4.1.13 In December each year, Government announces the Provisional Local Government Finance Settlement which sets out the level of funding assessed by Central Government for each council. Following consultation, allocations are confirmed in the final settlement, usually in February and just before the council is required to set its annual budget and council tax charges for the forthcoming year commencing 1st April.
- 4.1.14 Since 2020 settlement information has been released for the forthcoming financial year only, stifling the ability of councils to effectively forward-plan their spending and investment proposals due to the uncertainty of whether funding would continue to be available beyond the year for which the information was provided.
- 4.1.15 In December 2022, as well as the 2023/24 Provisional Local Government Finance Settlement Government also released a Policy Statement on the principles for the 2024/25 local government finance settlement.

4.2 Service Demand Pressures - Homelessness

- 4.2.1 Demand for homelessness assistance is currently the most significant pressure affecting Borough and District Councils financial stability. Providing temporary accommodation to a person or household that is homeless, eligible, has a priority need and is not intentionally homeless is a statutory duty that the council must discharge.
- 4.2.2 Since the start of the COVID-19 pandemic the council has seen a doubling of households to which it has a duty to provide temporary accommodation.



- 4.2.3 The council is increasingly seeing outer London Boroughs paying for and making use of private sector housing within Gravesham to meet their own need to provide temporary accommodation. This reduces the availability of private sector accommodation available to the residents of Gravesham and to support those assessed as homeless within the borough. The council has written to the London Boroughs securing accommodation in Gravesham for their own temporary accommodation purposes to make its views on this practice known.
- 4.2.4 In recent months the council has also lobbied the local MP on the housing and homelessness pressures being experienced in Gravesham as well as writing to central government immigration teams regarding the additional pressures being felt through Central Government's approach to rehousing asylum seekers and refugees.
- 4.2.5 The next chart shows annual total expenditure on temporary accommodation against direct government grant income to fund homelessness services over the period 2019/20 to 2022/23. As can be seen, the level of government grant received falls short of the total cost of temporary accommodation to the council.



- 4.2.6 At the point of setting the 2023/24 budget for the service, that council anticipated spend on temporary accommodation for the year of £1.5m based on projected demand levels for the service and the associated cost of accommodation.
- 4.2.7 Nationally, Homelessness Prevention Grant is provided to support deliver services to prevent and tackle homelessness however due to the challenges in preventing homelessness within the private sector this is usually offset against the temporary accommodation spend. In the current year, the council was originally allocated Homelessness Prevention Grant from Government of £320k, and recently an additional top-up grant of £124k has been received.
- 4.2.8 At the end of Quarter Two, anticipated gross spend on temporary accommodation for the year has increased by £1.2m to £2.7m based on projected demand levels for the service and the associated cost of accommodation. This is not only due to a rise in numbers but the cost of temporary accommodation not being fully covered by the Housing Benefits System where Housing Benefit can be claimed (under the Housing Benefits system the council is only able claim subsidy on 90% of the 2011 LHA rate). Therefore, the provision of TA will never be cost neutral to the authority.
- 4.2.9 This level of funding through the Homelessness Prevention Grant results in 1/5 of the total spend on temporary accommodation being funded by Central Government, with the balance falling on the Gravesham Taxpayer.
- 4.2.10 After taking into account Homelessness Prevention Grant from Government and anticipated recovery of accommodation costs through the Housing Benefit System, current projections indicate that the council's net budget for residual costs of providing temporary accommodation in the year will need to increase from £880k to £1.9m.

4.2.11 In addition to an unaffordable private rented sector locally, there are various factors that have impacted the council's temporary accommodation position:

- Cost of Living - Households affected with rising cost of living costs both on fuel and shopping has affected some households to meet their housing costs, which is in addition to increased rents.
- Relationship breakdowns with friends and family- In the last 2 quarters this has been the highest reason for homelessness in Gravesham with 41 households presenting.
- Since the Domestic Abuse Act 2021 was introduced on 5 July 2021 there has been more households presenting to the Council with the main reason of losing their last settled accommodation being due to domestic abuse or violence. Within in the last 2 quarters there have been 17 households presenting as homeless.
- Increasing nightly charges – With landlords being more competitive with their rent levels and providers trying to secure leases to operate nightly paid temporary accommodation this has increased the charge to council's. By way of example, one provider has increased charges by £3 per night on their units, with the council currently using 74 units held by the provider.
- With the Homes for Ukraine scheme coming to an end in April 2023, there is an increased risk of placements ending or relationships breakdowns resulting in those households presenting as homelessness due to rematching being unsuccessful and the lack of options of rematching families. In addition, the Home Office are currently using a hotel in the Borough to house 70 asylum seekers. Where positive asylum applications are made the Home Office accommodation support ceases and therefore these households become homeless and can approach for local authority

4.2.12 Recognising this as a high risk to the financial sustainability of council, earlier in the Summer Cabinet approved the creation of a Social Lettings Agency (GBC Lettings) to increase access to good quality private sector accommodation for the purpose of providing temporary accommodation. The council will also benefit from the installation of eight Solohaus pods gifted by the Hill Group as part of Foundation 200, Hill Groups project to help tackle the homelessness crisis. Implementation is underway and these initiatives are expected to reduce spend total spend on temporary accommodation by £480k in 2024/25.

4.2.13 The council is also currently considering suitable residential property purchase options where the cost of borrowing for purchasing such properties could be met by Housing Benefit claimed for homelessness households and at a cost lower than the current expensive nightly paid accommodation the council has been required to secure. The council has also applied for the Local Authority Housing Fund, intended by Central Government to provide sustainable housing for those arriving in the country under the Afghan and Ukraine refugee and resettlement schemes.

4.2.14 In addition, service management continues to scrutinise processes and procedures to ensure that the council is robust in its assessment and placements of applications for support, while ensuring it fulfils its legal duty to those approaching the council and in priority need. The table below demonstrates the number of homeless approaches within the last six months and those resulting in a placement where it was assessed that the council owed a statutory duty;

	April	May	Jun	Jul	Aug	Sep
No of Homeless Approaches	141	162	163	182	162	139
No of TA placements	20	11	21	17	20	19
% of approaches resulting in a placement	14%	7%	13%	9%	12%	14%

4.2.15 As referenced above in paragraph 4.2.14, a person/household must be in priority need to be offered temporary accommodation. A person/household automatically has priority need if they:

- Are at risk of domestic violence.
- Are a pregnant woman, or live with a pregnant woman
- Have dependent children living with them or who are reasonably expected to live with them.
- Are 16 or 17 years old and are not looked after by social services.
- Are 18,19 or 20 years old and spent time in care while between the ages of 16 and 18
- Lost their accommodation because of an emergency such as flood, fire, or other disaster.

4.3 Fuel Costs

4.3.1 The Council operates over 120 vehicles in delivering services to the residents of the borough, with the fleet increasing over recent years and including 18 refuse collection vehicles and around 100 small to medium vans. Fuel for vehicles is purchased at volume and stored at the Brookvale Depot site. Prices per litre have increased significantly over the last three years, from £0.88 per litre in March 2020, to £0.97 in March 2021, £1.37 in March 2022 and £1.22 in March 2023. Despite a reduction in fuel prices during the summer, at the end of September 2023 the price per litre was £1.30.

4.3.2 Resultantly, spend in this area has increased over the least three years. For petrol, diesel and gasoil combined, expenditure in 2020/21 was £250k, in 2021/22 it was £361k, with £464k spent in 2022/23.

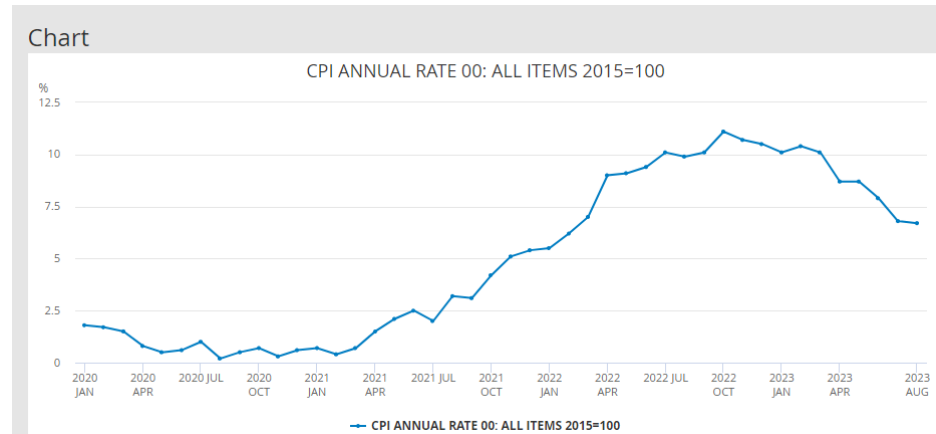
4.3.3 The total Council budget in 2023/24, for fuel (diesel) held at the Brookvale Depot, is £438,830. Additionally, a budget for petrol of £6,500 is held within the Horticulture service.

4.3.4 Based on current predictions of fuel consumption and price trends, a small underspend of £40k is anticipated in 2023/24. This is largely expected to be experienced within the Waste and Street Cleansing services and has been achieved through lower than expected fuel prices in the first half of the year, ongoing review of vehicle routes and commencement of the planned programme to covert the vehicle fleet to alternative sources of fuel. The council currently has 13 electric vans in its fleet and plans for

installation of further charging points at the Brookvale Depot to expand the electric fleet further.

4.4 Inflation

- 4.4.1 The latest release from the Office of National Statistics reported that the Consumer Prices Index (CPI) remained at 6.7% in the 12 months to September 2023, slightly down from 6.8% in July and continuing the downward trend from its peak at 11.1% in October 2022. Food prices provided the largest downward contribution, with rising prices for motor fuel being the largest single upward contributor to the change in annual rates.



Source: ONS [CPI ANNUAL RATE 00: ALL ITEMS 2015=100 - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

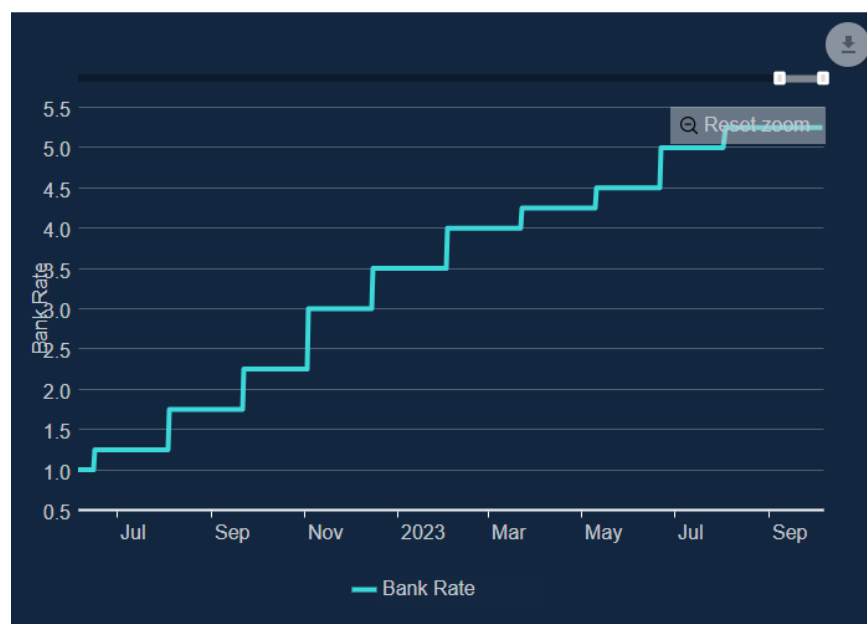
- 4.4.2 Analysis indicates that the General Fund spends some £8m on supplies and works contracts each year. During the last eighteen months or so the council has experienced significant increases in the cost of inflation-linked contracts and general supplies and services.
- 4.4.3 As part of its prudent financial planning, the council budget includes a general provision for inflation where contract costs are not able to be contained within service budgets due to inflationary pressures. The 2023/24 General Fund original budget for this purpose is £280k, with the provision currently increasing by £90k per annum over the life of the Medium Term Financial Plan (MTFP). To date, £130k has been released in 2023/24 to cover general inflation pressures across General Fund services.
- 4.4.4 Whilst the council's exposure to inflation appears to have peaked based on the chart above and inflation projections published by the Office of Budget Responsibility and the Bank of England, the situation remains volatile, and activity will be undertaken during the budget setting process to review the provision made in the light of current and projected costs at that time.

4.5 Staff Pay

- 4.5.1 The pay settlement for 2023/24 still remains unresolved, with the National Joint Council (NJC) full and final offer to the unions representing an increase of £1,925 (pro rata for part-time employees) to be paid as a consolidated, permanent addition on all NJC pay points, equating to a percentage increase of between 9.42% and 3.88% across the salary scales. The offer also includes an increase of 3.88% on all pay points

above the maximum of the pay spine but graded below deputy chief officer, and an increase of 3.88 per cent on all allowances.

- 4.5.2 UNISON has announced that it would not be taking any strike action and wished instead to, "...resolve this year's pay dispute and get that pay increase in [its members] pockets as soon as possible." Unite is currently engaged in industrial action in a small number of councils, and GMB is conducting industrial action ballots, targeted at some councils and schools, which close on 24th October. The unions have agreed to reconvene within a few days of GMB's strike ballots closing.
 - 4.5.3 For 2023/24 the council budgeted for an average 5% pay award across its staffing establishment. Analysis of the implementation of the full and final offer from the NJC, alongside known movements in the staffing structure, has indicated that the average pay award across all grades will be around 7.5%.
 - 4.5.4 Current monitoring of salary budgets indicates that the unbudgeted costs driven by the final pay award offer can be offset by vacancies within the staffing establishment. In a number of areas, the council is finding it difficult to recruit to posts due to, amongst other reasons, shortages in qualified candidates in a number of fields and increasing flexibility in working arrangements making it a candidates market.
 - 4.5.5 The current Medium Term Financial Plan assumes an average pay award of 2% in 2024/25 and for the remaining years of the plan. These assumptions will need to be reviewed during the budget setting process to take account of the economic conditions prevalent at that time, and to reflect the compound effect in future years of the current year pay offer being above that assumed.
- 4.6 **Investment & Borrowing**
- 4.6.1 The Bank of England Base Rate is currently 5.25%, having increased eight times since September 2022 from a rate of 1.75%.



Source: Bank of England [Interest rates and Bank Rate | Bank of England](https://www.bankofengland.co.uk/interest-rates/)

- 4.6.2 The approved Original Net Revenue Budget Requirement for 2023/24 included estimated income from investments of £832,000. Following announcements on the Bank of England Base Rate and monitoring of investment activity, this estimate has been revised to £1.46m. for the year.
- 4.6.3 The mid-year review of the Treasury Management Strategy Statement for 2023/24 (TMSS) details a total borrowing requirement for the General Fund of £23.131m in 23/24, £20.024m in 24/25 and £0.953m in 25/26.
- 4.6.4 On 16 October, the council exited the legal and financial arrangements with Aviva Investors in relation to the St Georges Shopping Centre. The Council secured five PWLB loans which mature between 25 and 45 years. PWLB rates are elevated at the current time due to economic conditions but by securing a mixed structure arrangement, the council achieved a saving of £3.274m over if it had taken a straight annuity loan. Interest payable for the new PWLB loans are £1.080m in 2023/24 (part year), £2.335m in 2024/25 and £2.311m in 2025/26.
- 4.6.5 Delays on The Charter development have significant financial implications for the council. During the earlier stages of the scheme, delivery of the completed scheme was expected to be in Summer 2023. After some initial delays, an extension of time was agreed which pushed practical completion back to late Summer/early Autumn so therefore the council secured debt which was due to mature in April 2024. Following the demise of Henry Construction, practical completion of the entire site is now estimated to be achieved in late 2025, although this is still subject to further discussions with the council's development partner, Reef. As a result, the council is now exposed to a substantial refinancing requirement at a time when interest rates are significantly higher than they were at the start of the project, albeit the council and Rosherville Property Development Limited have protection on the overall contract sum with Reef under the terms of the Development Agreement in place. The council will also need to take on the remaining debt required for completion for longer than originally envisaged. Both these factors could potentially see the council incurring an additional £2.5m in development interest costs before the project is completed with these costs recovered from Rosherville Property Development Limited over the longer term.
- 4.6.6 Despite the downward trend in inflation as referenced in section 4.3, the impact of inflation on the construction industry over the past couple of years has been significant. The high cost of materials and a continued labour shortage, means that construction costs remain at an elevated level. This coupled with the high interest rates means that capital projects which were viable in a pre-covid environment are becoming increasingly unaffordable. As a result, if the council is to bring forward schemes, it is necessary to secure alternative sources of funding in order to reduce the reliance on external borrowing.
- 4.6.7 The council's treasury advisor, Link Asset Services, updated their interest rate forecast on 25 September 2023 alongside updating their Public Works Loan Board borrowing rate forecasts (which show the Certainty Rate (standard rate minus 20 bps) which the Council can access).

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Source: Link Asset Services

4.7 Fees and Charges Income and Collection Rates (NNDR & Council Tax)

4.7.1 Assumptions around charging structures and demand levels for services subject to fees and charges levied by the council are reviewed annually, with significant impacts felt on these income lines in recent years due to the COVID-19 pandemic and the cost of living changing behaviours and habits, as working patterns and levels of disposable income and potential secondary spend is impacted.

4.7.2 The approved Original Net Revenue Budget Requirement for 2023/24 included estimated income from fees and charges of £7.482m. Budget monitoring for Quarter One 2023/24 has indicated that income levels are in line with expectations currently, with 28.8% of the annual budget being achieved against a straight-lined budget profile.

Directorate	Q1 Actual	Original Budget	Budget Achieved
Chief Executive	3,330	15,650	21.3%
Communities	1,118,855	3,911,600	28.6%
Corporate Services	165,537	739,220	22.4%
Environment	735,702	2,387,150	30.8%
Housing	133,511	428,200	31.2%
Total	2,156,936	7,481,820	28.8%

4.7.3 As at the 31 August 2023 Council Tax in-year collection at 46.89% was very slightly ahead of the level collected to the same period in 2022 (46.62%). Households are continuing to choose to spread their instalments over twelve months as opposed to the norm of ten months which also has a detrimental effect upon the council's cash flow as receipts are received later in the year; numbers opting for this instalment pattern has increased from 2,784 or 6.3% of households in August 2021 to 5,504 or 17% of households in August 2023. There continues to be restricted court time allocated to the council which is therefore impeding the recovery process.

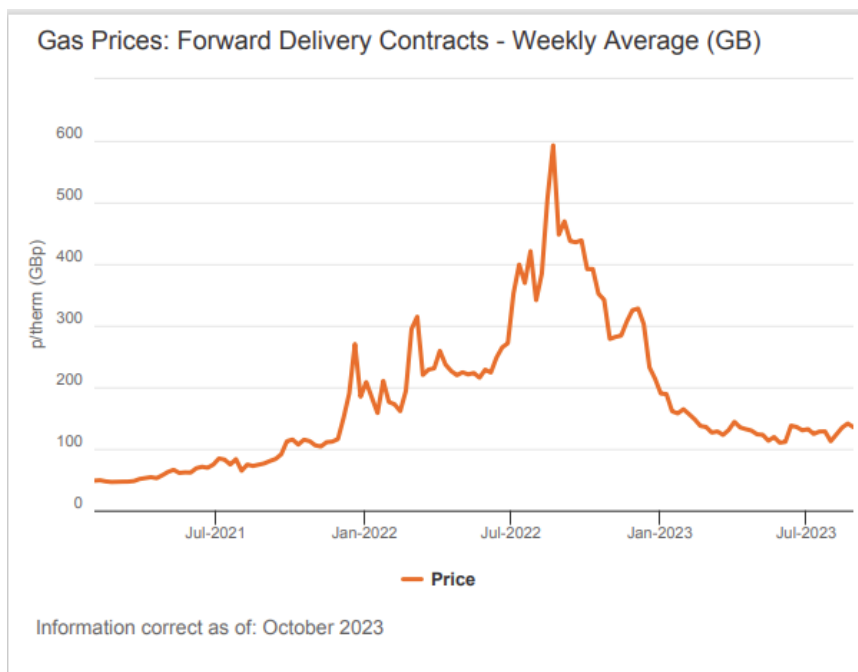
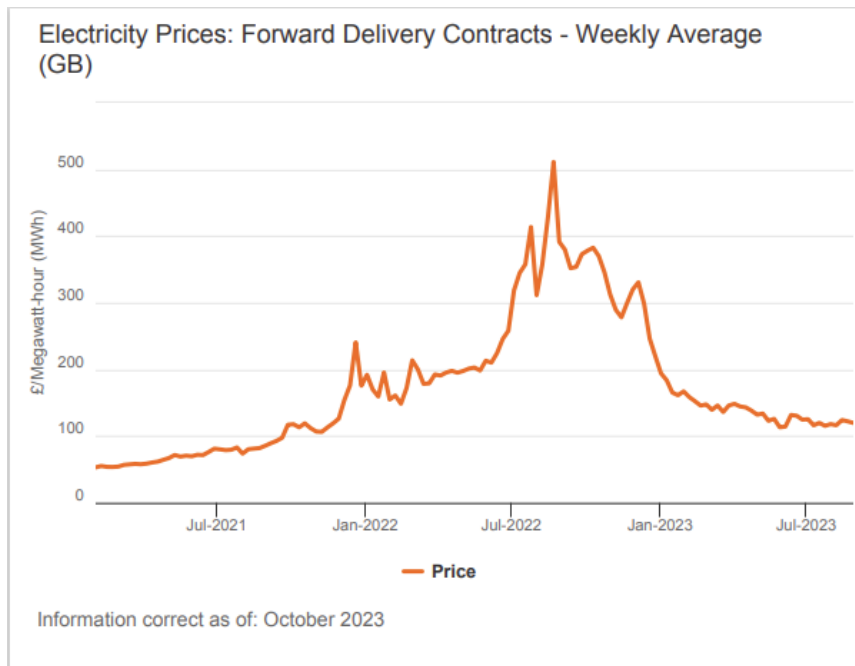
4.7.4 With regard to Business Rates, as at the 31 August 2023 in-year collection was 49.66%, down 7.36% on the same point last year. This is in the main due to the cancellation of Retail Hospitality Relief totalling nearly £1m where the ratepayer has not confirmed, despite reminders, that they meet subsidy allowance levels The collection does still compare favourably to other prior years when 2021/22 was 40.10%; 2020/21 was 45.63% and 2019/20 was 47.37.

4.8 Supply chain and capital contracts

- 4.8.1 As at Quarter Two of 2023/24, the General Fund Capital Programme had a working budget of almost £84m. This was heavily dominated by The Charter and the plans to bring forward a new Leisure Centre at the Cascades site.
- 4.8.2 The Charter is being delivered at an agreed cost so is not expected to be subject to inflationary pressures, however, supply chain issues and delays in construction have occurred so this risk may emerge should the Developer, Reef Construction, experience financial difficulties themselves. As mentioned at paragraph 4.5.5, the project is starting to give rise to financial implications due to the delay in rental income that was anticipated from the scheme and the need for the council to refinance borrowing associated with the project.
- 4.8.3 In general terms, heightened inflation on contract and construction costs are still being experienced. Within the General Fund there is limited exposure to these impacts compared to the Housing Capital Programme, however, schemes such as Essential Repairs to Buildings, IT Infrastructure Assets and Disabled Facilities Grants may be adversely affected.
- 4.8.4 Thus potentially, and to stay within the budget agreed by Full Council, it may be necessary to adjust the profile of works undertaken within schemes accordingly or to seek alternative funding sources other than further borrowing.

4.9 Energy Costs (GBC)

- 4.9.1 The energy requirements of the council are procured through LASER Energy, which is part of the Commercial Services Group, a company wholly owned by Kent County Council.
- 4.9.2 The General Fund currently budgets ££892,490 annually heating and lighting its administrative buildings, other operational buildings, and street lighting.
- 4.9.3 Wholesale energy costs significantly increased during 2022, before recovering to lower levels as shown by the graphs below.



Source: Ofgem wholesale market indicators [Wholesale market indicators | Ofgem](#)

4.9.4 Based on latest market intelligence, analysis conducted by the Finance Team (working closely with the Property Team) indicates that consumption volumes during the 2023/24 financial year to date are slightly down on the equivalent period last year. Coupled with lower unit costs, budgeted energy costs are expected to be £200,000 lower this year.

4.10 Energy Costs (GCLL)

4.10.1 The council's budget is also feeling the impact of rising energy costs through the Management Fee received from Gravesham Community Leisure Limited (GCLL). As reported within Q1 Budget Monitoring, the council has agreed to provide financial support totalling £500,000 during 2023/24 in response to the significant increases in energy costs and GCLL invoking a clause in their contract which specifies the council as liable for increases in the unit cost of utilities.

4.10.2 Given the downward movement in energy unit costs, discussions have commenced to review the level of support provided by the council.

5. Duty to Provide Services

- 5.1 Local authorities in England have a statutory duty to provide a range of services to their communities. As a District or Borough level such as Gravesham these include: waste collection, environmental health, planning and housing services. Local authorities are able to offer discretionary or non-statutory services above the level of statutory services it provides to enhance or support its local communities. These include maintaining parks, supporting sport and the arts and promoting tourism.
- 5.2 As funding for services decreases it becomes increasingly difficult for councils to support the provision of non-statutory services. The way in which statutory services are delivered will also require scrutiny to ensure these services are delivering value for money and providing the best outcomes for the communities that councils serve.

6. Short Term Responses to the council's Financial Position

- 6.1 The General Fund holds a balance of **Revenue Grants** that have been received but not yet applied to spend. In a number of cases, grants are provided for a specific purpose, however any grants that are not ringfenced for a specific purpose could be considered for application to the General Fund revenue budget. It is important to emphasise that any such action would provide a one-off, in-year benefit and not address the overall budgetary gap and would reduce the council's ability to fund in-year expenditure which was not identified at the point of setting the budget.
- 6.2 The **Reserves Policy** is an important element of the council's financial governance arrangements. As stated earlier in the report, the council maintains a principal of holding a minimum of £5.25m in General Fund Working Balances, made up of an absolute minimum of £2m for cash flow purposes in order for the Council to meet its immediate liabilities, plus £3.25m for general purposes to protect the organisation from immediate economic or demand shocks. The council has also adopted earmarked reserves intended to bolster its financial resilience and provide for specific areas of expenditure commitment or limit future risk exposure.
- 6.3 The council could choose to review its agreed level of Working Balances for the General Fund as well as re-evaluating future expenditure commitments planned to be funded from reserves and risk tolerance thresholds where reserves are held to limit risk exposure. It is important to emphasise, however, that any decision to reduce working balance or reserve levels would need to be finely balanced to ensure that the council maintained an appropriate level of financial resilience to respond to unforeseen financial pressures in the future.
- 6.4 Any decision to release amounts from the agreed level of Working Balances or held in reserves would provide a one-off, in-year benefit and not address the overall budgetary gap faced by the council. For this reason, it is essential that the council follows a programme to manage spend within approved budget amounts whilst taking proactive action to further reduce its expenditure and increase income where it is possible to do so.

7. Responding to these pressures

7.1 The **Medium Term Financial Strategy** includes the objective to ensure that the council remains resilient for the longer term. In February 2023, the council adopted a revised five-year Medium Term Financial Strategy (MTFS), which set out the need to deliver £4.3m of initiatives within the General Fund by 2026/27 to ensure that it would continue to have a robust and stable financial basis on which to deliver quality council services. Activity has commenced but this now needs to be brought forwards at a faster pace to ensure the council is in the best position possible to set a balanced budget for 2024/25 and maintain a level of working balances that can continue to respond to the current volatility in service delivery and the macroeconomy.

7.2 The MTFS set out the actions to be taken to address the budget pressures facing the council and the following bullet points set out the actions to be taken by the council in the coming months as a means to accelerate this programme to restore financial stability:

- **Budget Rationalisation** - Ahead of budget setting for 2024/25, the council will undertake specific exercises to challenge spend and budgetary provisions and review its reserves to ensure these remain fit for purpose, particularly given the changing operations of and demands on the organisation.
- **Fees & Charges** - The council recognises that fees and charges are a key source of revenue income and will be seeking to ensure that fees and charges are set at an appropriate level to ensure that these continue to meet the principal objectives of its Charging Strategy, whilst endeavouring to identify new income streams to support the delivery of council services. To commence this exercise, the council has reviewed its parking charges and proposals to increase parking fees are set out at Appendix One to this report. Members are asked to consider the proposals and agree to the recommended uplifts if they are minded to.
- **Asset Optimisation** - The council owns and operates a number of assets and work will commence to ensure it maintains its optimum asset portfolio and is obtaining the best value from the assets it holds.
- **Trading and Commercialisation** - The council will be looking for its Local Authority Trading Company, Rosherville Limited to develop its activity as a means of delivering financial returns to the council which can be directed to underpin council services to local residents.

7.2.1 **Continuous Improvement Reviews** – the council has commenced a programme of Continuous Improvement Reviews. Building on the Service Review Programme developed in 2016, the reviews will formulate a number of options for both officers and Members to consider to generate income, reduce expenditure and ensure that services are working as efficiently as they can. The first report from the review programme is included on this Cabinet agenda for Member consideration.

7.3 Progress in delivering these actions will be reported as part of the Budget Setting proposals for 2024/25.

8. Appendices

8.1 Appendix One – Proposal for Uplift in Car Parking Fees

9. Background Documents

9.1 The following background documents were used:

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Secondary Implications	
Risk Assessment	The risks and opportunities associated with the current financial position of the council are set out within the main body of the report.
Data Protection Impact Assessment	<i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i>
	a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data ? A definition of each type of data can be found on the Information Commissioner’s Office website via the above links. N/A
	b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice? N/A
	c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk . N/A
Equality Impact Assessment	a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer. N/A

	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>N/A</p> <p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>
Crime and Disorder	There are no direct crime and disorder implications arising from this report.
Digital and website implications	There are no direct digital or website implications arising from this report.
Safeguarding children and vulnerable adults	There are no direct safeguarding implications arising from this report.