

## MID SUFFOLK DISTRICT COUNCIL

<b>TO:</b>	<b>Overview &amp; Scrutiny Committee</b>	<b>REPORT NUMBER: MOS/22/01</b>
<b>FROM:</b>	<b>Councillor John Whitehead, Cabinet Member for Finance</b>	<b>DATE OF MEETING: 22 November 2022</b>
<b>OFFICER:</b>	<b>Melissa Evans – Director Corporate Resources</b>	<b>KEY DECISION REF NO.</b>

### **Review of the 2023/24 General Fund and Housing Revenue Account (HRA) draft budget assumptions**

#### **1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to provide the opportunity for the Overview & Scrutiny Committee to review the draft budget assumptions for 2023/24 for both the General Fund and the HRA. The Committee are asked to review and assess these assumptions.
- 1.2 A surplus of £2.1m is currently forecast for the General Fund and a deficit of just under £700k for the HRA for 2023/24 based on current economic data and the assumptions set out in this report.
- 1.3 Work is continuing to develop the budget proposals for 2023/24. These proposals will be presented to the Overview & Scrutiny Committee in January 2023 before Cabinet decides in February what to recommend for approval by Full Council later in February 2023.

#### **2. RECOMMENDATIONS**

- 2.1 That the draft budget assumptions as set out in the report, for the 2023/24 General Fund and Housing Revenue Account budgets be noted.
- 2.2 The Committee may make further recommendations as it deems appropriate.

#### **REASON FOR DECISION**

Overview and Scrutiny Committee can contribute to and influence the budget assumptions that are considered by Cabinet and Full Council.

#### **3. KEY INFORMATION**

- 3.1 Global events, rising inflation and interest rates have significantly increased the costs for the Council for both the General Fund and the Housing Revenue Account. The Council has been reporting the impacts of this financial challenge throughout the year as part of the quarterly financial reports to Cabinet.

#### 4. General Fund

- 4.1 The 2022/23 financial forecast at quarter 1 shows expenditure above budget of £785k due to a number of inflationary pressures, including pay award, increases in fuel and energy costs, as well as CPI increases on a number of contracts and other costs. This forecast also includes a reduction in income against budget, in particular planning income. The quarter 2 update will be reported to Cabinet in December 2022. These pressures are likely to continue into 2023/24.
- 4.2 In February the Council set the 2022/23 budget and the Medium-Term Financial Plan showed forecast surpluses for the next three years. Two scenarios were modelled, one with a Council Tax freeze and the other increasing Council Tax by £5 for a Band D equivalent, which for 2022/23 was the maximum increase for district councils permitted by Central Government without the need to hold a referendum.

Table 1 MTFS forecasts as of February 2022

	2023/24	2024/25	2025/26	Total
<b>Cumulative budget surplus if zero increase in Council Tax</b>	<b>£4.1m</b>	<b>£3.2m</b>	<b>£1.7m</b>	<b>£9m</b>
<b>Cumulative budget surplus if £5 increase Council Tax</b>	<b>£4.3m</b>	<b>£3.6m</b>	<b>£2.3m</b>	<b>£10.2m</b>

- 4.3 These forecasts were based on assumptions at a time when inflation was 2% and the Bank of England base rate was 0.5% compared to now, where inflation is 10.1% Bank of England base rate is at 3%.
- 4.4 These assumptions have now been updated and shown in table 2 and 3 below; they reflect the outturn position for quarter 2 and the current economic data.
- 4.5 The Committee are asked to review and challenge these assumptions to test their adequacy as the basis for setting the 2023/24 budget.

Table 2 Draft General Fund Budget Assumptions for 2023/24 – Net Cost of Service

	Assumption	Explanation	2022/23 budget	Impact 2023/24 £'000
<b>NET COST OF SERVICE 2022/23</b>			<b>8,769</b>	
<b>Employee costs</b>				
Pay award 2022/23	£1,925 per FTE	This is an average increase of 8% per employee, which is higher than the 2% increase which was built into the 2022/23 budget	9,157	258
Pay award 2023/24	4%	In the current economic climate, it is even more difficult than in previous years to forecast future inflationary impact on pay. Suffolk authorities are therefore proposing to assume 4% for 2023/24		513
Pay review		In 2022 Councillors and the Chief Executive committed to conducting a council wide review of pay (separate from the inflationary award above) to ensure the Council is paying a fair and competitive wage for its different roles. This work is ongoing. At this stage it is proposed to assume a cost impact of £500k to be funded from the contingency budget		550
Pension	26% & remove lump sum	Following discussion with Suffolk County Council and considering the position of the overall fund	2,459	(353)
Vacancy Management Factor	5%	Due to retirements, resignations, creation of new posts and turnover the Council never has 100% of staff in post all the time. It is proposed to assume the same budget saving from vacancies as in 2022/23. (NB each 1% = £129k)	(550)	(97)
<b>Supplies &amp; services</b>				
Electricity	£0.24/kwh	Based on increase from £0.14/kwh to £0.24/kwh & assumes no change in use of the council's assets	219	255
Gas		Current contract fixed until end of Sept '23. Current price is £0.02 / unit. Price cap is £0.075. As this mainly applies to usage in our Leisure centres any increase should be recovered through the contract with our provider	45	-
Fuel costs		£50k budget for Public Realm vehicles - 2022/23 outturn in line with budget Recycling & waste 2022/23 budget £60k, actual fuel costs lower than budget - 5% increase will show no increase	131	-
Insurance Premiums	10%	Contract renewed annually in January. Assumption of 10% increase in cost in Jan 23 compared to Jan 22. Forecast for 22/23 is £286k (£60k above budget) and includes a quarter of a year at assumed 10% increase.	236	50

	Assumption	Explanation	2022/23 budget	Impact 2023/24 £'000
Shared Legal Service	11%	Based on previous years + uplift for salaries and other costs likely to increase.	255	27
<b>Contracts</b>				
Refuse contract	4% uplift	Cost pressure in 2022/23 for increase in staff costs £50k, contract discussions still to be finalised – 1% increase = £27k – assumed 4% for time being	2,677	156
Shared Revenues Partnership	5% increase	Estimate based on inflationary increases	1,043	61
<b>Sales, Fees &amp; Charges</b>				
Planning income	22/23 forecast	Reduced income forecast based upon the level of uncertainty in the housing market, based on 2022/23 outturn	(1,700)	130
Garden & Trade Waste income	22/23 forecast	Increase in Trade waste - increase based on the 2022/23 forecast outturn Garden waste subscriptions assumed minimal growth as per the 2022/23 forecast outturn	(1,542)	(58)
Building Control	22/23 budget	There is lots of uncertainty in the market and significant change of regulations, but it is proposed to retain the budget at the 2022/23 levels	(456)	
<b>Interest</b>				
Short-term borrowing	Rate: 4.5%	The Council's cost of borrowing is assumed to increase based upon Arlingclose gilt yield forecasts. No new borrowing is included	221	919
Long-term borrowing	Rate 2.5%	Fixed rates - reduction is due to repayments	454	(38)
<b>TOTAL ASSUMED INCREASE IN NET COST OF SERVICE 2023/24</b>				<b>2,363</b>

Table 3 Draft General Fund Budget Assumptions for 2023/24 – Funding

	Assumption	Explanation	2022/23 budget	Impact 2023/24 £'000
<b>FUNDING 2022/23</b>			<b>(13,496)</b>	
<b>Council Tax</b>				
Taxbase growth	3.37%	CTB1 form and 2.05 % growth figures from planning	(6,667)	(176)
Band D increase	nil	Modelled zero increase -2% £137k, £5 £200k		
<b>Business Rates</b>				
Baseline Business Rates	Same as 2022/23	Difficult to estimate what the Government may choose to do and impact of economy on rate collection so assume flat at this stage.	(2,901)	-
Growth / Pooling Benefit	2%	No figures at this stage so estimate of 2% growth included.	(486)	(10)
<b>Central Government Grants</b>				
New Homes Bonus	Rollover of 22/23 scheme	Most likely option is roll over of current scheme - but with no legacy payments that were received in previous years. Estimate calculated using CTB1 for October 2022.	(1,779)	399
<b>Service Grant Rural Services Delivery Grant Lower Tier services Grant</b>				
	Same as 2022/23	No indication of Government's intentions. Cost pressures in Local Government but talk of efficiencies in Government Departments. Same as 2022/23 at this stage.	(157) (454) (102)	-
<b>TOTAL ASSUMED DECREASE IN FUNDING 2023/24</b>				<b>213</b>
<b>DRAFT BUDGET SURPLUS 2023/24</b>				<b>(2,150)</b>

- 4.6 Based on the assumptions set out in table 1 and 2, the Council has a projected budget surplus of just over £2m for 2023/24.
- 4.7 There has been no indication from Central Government as to whether any additional support will be provided to cover the increasing costs associated with delivering vital council services. The Chancellor will publish his Autumn Statement on 17 November 2022 however the more detailed funding allocations are unlikely to be communicated until late December 2022 in the form of the Local Government Provisional Settlement.
- 4.8 Work is well underway on finalising the budget proposals and investment opportunities and these will be presented to this committee in January 2023.
- 4.9 A review of reserves is also being undertaken to ensure the Council is using their reserves appropriately to fund non-recurring spend and investment proposals as a well as risk mitigating funds to manage any uncertainties going forward.

## **5. HOUSING REVENUE ACCOUNT**

- 5.1 The Councils Housing Revenue Account (HRA) is in a very different financial position to the General fund and is facing significant financial challenges. The largest areas of the spend for the HRA are staffing, contracts and materials costs which are all currently subject to significant inflationary pressures.
- 5.2 The 2022/23 financial forecast at quarter 1 shows a deficit of £400k compared to the budgeted surplus of £95k. This is due to a number of inflationary pressures, including pay award, increases in fuel and energy costs as well as CPI increases on spend for repairs and maintenance, material and supplies. The quarter 2 update will be reported to Cabinet in December 2022. These pressures are likely to continue into 2023/24.
- 5.3 The assumptions for 2023/24 have now been updated and shown in table 4 below, reflecting the outturn position for quarter 2 and the current economic data.
- 5.4 The Committee are asked to review and challenge these assumptions to test their adequacy as the basis for setting the 2023/24 budget.

Table 4 Draft HRA Budget Assumptions for 2023/24

	Assumption	Explanation	2022/23 budget £'000	Impact 2023/24 £'000
<b>2022/23 Budget Surplus</b>			<b>(95)</b>	
<b>Expenditure</b>				
Pay Award 2022/23	£1,925 per FTE	This is an average increase of 8% per employee, which is higher than the 2% increase which was built into the 2022/23 budget		115
Pay award 2023/24	4%	In the current economic climate, it is even more difficult than in previous years to forecast future inflationary impact on pay. Suffolk authorities are therefore proposing to assume 4% for 2023/24	2,458	105
Pay review		In 2022 Councillors and the Chief Executive committed to conducting a council wide review of pay (separate from the inflationary award above) to ensure the Council is paying a fair and competitive wage for its different roles. This work is ongoing. At this stage it is proposed to assume a cost impact of £150k to be funded from the contingency budget		150
Pension	26% & remove lump sum	Following discussion with Suffolk County Council and considering the position of the overall fund	630	(152)
Premises costs - repairs and maintenance	CPI 10%	Based on quarter 2 forecast and CPI inflation continuing into 2023/24	2,010	1,060
Contractors	10%	Based on 2022 cost plus 10% inflationary increase	158	37
Supplies, equipment, tools and materials	10%	Based on 2022 cost plus 10% inflationary increase	358	94
Gas and electricity	100%	100% inflationary increase expected	218	326
Water	10%	Based on 2022 cost plus 10% inflationary increase	47	34
<b>TOTAL ASSUMED INCREASE IN EXPENDITURE</b>			<b>1,769</b>	
<b>Income</b>				
Rental income	5%	Government is currently considering whether to apply a rent cap (i.e., a maximum increase by the Council). Based upon the Government's consultation 5% has been assumed (see paragraph 5.6 below). It is also assumed that there will be no increase in the overall stock	(14,969)	(959)
Garage rents	0%	No increase to garage rents (based on current stock and Q2 position)	(352)	(7)
Service Charges	5% Service Charge 8% Heating Charge 11% Water Charge	Service charge to cover increase in costs	(675)	(14)
<b>TOTAL ASSUMED INCREASE IN INCOME</b>			<b>(981)</b>	
<b>DRAFT BUDGET DEFICIT 2023/24</b>			<b>693</b>	

- 5.5 Based on the assumptions set out in table 4 above, the Council has a projected budget deficit of just under £700k for 2023/24 compared to the budget surplus of £95k for 2022/23 budget.
- 5.6 From April 2020 councils were allowed to increase rents by the maximum of the Consumer Price Index (CPI) +1% for a period of five years. However, with CPI currently at 10.1% Government consulted in October 2022 on possible options for a rent cap for 2023/24 of 3%, 5% or 7%. We are expecting an announcement in December 2022 from the Government on any legislative changes to rent increases as a result of this, but for the time being 5% has been modelled but this does not cover the increased costs the Council are incurring.
- 5.7 Work continues to identify savings, efficiencies, and income generation opportunities to reduce the impact of these increasing costs within the HRA. In addition to this other transformation work within the HRA is underway. However, this is likely to identify areas where further investment is needed in the Councils housing stock and building services. Increased compliance regulations are also likely to put further pressure on the budget in the short term. None of this has been built into the budget assumptions set out above.
- 5.8 A review of the Council's reserve levels is a priority to ensure they are used to deliver and meet the needs of the service transformation plan and prioritising the spend where it is most needed. This may mean a reprioritisation of the aspirations of the capital programme and 30-year business plan, which was predicated on increasing the Councils stock as well as an aspirational retrofit programme

## 6. NEXT STEPS

- 6.1 Officers and Cabinet members will continue to review the initial estimate positions and take forward the work programmes outlined above, with a view to identifying mitigations that will address the financial shortfall in the HRA.
- 6.2 The timeline for budget setting is as follows:

16 <sup>th</sup> December 2022	All Member Briefing	Review savings and investment proposals, and the updated position – General Fund and HRA
9 <sup>th</sup> January 2023	Cabinet	Approve the 2023/24 Fees & charges Local Council Tax Reduction Scheme – review consultation and approval of scheme for 2023/24
23 <sup>rd</sup> January 2023	Overview & Scrutiny	Review savings and investment proposals, and the updated position – General Fund and HRA
26 <sup>th</sup> January 2023	Council	Local Council Tax Reduction Scheme – review consultation and approval of scheme for 2023/24
30 <sup>th</sup> January 2023	Joint Audit and Standards Committee	Treasury Management, Capital, and Investment strategies 2023/24
6 <sup>th</sup> February 2023	Cabinet	Approve the 2023/24 Draft Budget - General Fund & HRA
23 <sup>rd</sup> February 2023	Council	Approve the 2023/24 Final Budget - General Fund & HRA Approve the Treasury Management, Capital, and Investment strategies 2023/24



## 7. LINKS TO CORPORATE PLAN

- 7.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan and aligns to the corporate outcomes against a backdrop of efficiency, and sound financial robustness. The underlying principle of the Medium-Term Financial Strategy and HRA 30-year business plan is to be financially sustainable.

## 8. FINANCIAL IMPLICATIONS

- 8.1 These are detailed in the report.

## 9. LEGAL IMPLICATIONS

- 9.1 The provisions of the Local Government Finance Act 1992 (LGFA 1992) require the Council to set a balanced budget and take regard to the advice of its Chief Finance Officer (Section 151).

## 10. RISK MANAGEMENT

- 10.1 This report is most closely linked with the Council's Significant Business Risk No. SRR004MSDC – "We may be unable to react in a timely and effective way to financial demands". Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If Government funding does not keep pace with demand and other pressures, then the Council will have to consider how it continues to fund existing service levels	3 - Probable	3 - Bad	The Council will continue to lobby Government both directly and via networks such as the District Councils' Network (DCN) and the Rural Services Network (RSN)
If demand pressures and cost inflation exceed forecasts, then the Council could be in an overspend position at the year-end	3 - Probable	3 - Bad	A prudent approach to the assumptions within this report along with a clear budget strategy and robust financial monitoring and reporting to identify issues early. Reserves levels are sufficient to mitigate these impacts

If income levels are below forecast, then the Council could be in an overspend position at the year-end	3 - Probable	3 - Bad	As above as well as close debt monitoring and robust provisions for bad debts
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## 11. CONSULTATIONS

- 11.1 Consultations have taken place with Directors, Corporate Managers, and other Budget Managers as appropriate.

## 12. EQUALITY ANALYSIS

No decisions on the budget or changes to services are being made at this stage.

## 13. ENVIRONMENTAL IMPLICATIONS

- 13.1 No decisions on the budget with environmental impacts are being made at this stage.

## 14. BACKGROUND DOCUMENTS

MCa/22/15 General Fund Financial Monitoring 2022/23 – Quarter 1

MCa/22/16 Housing Revenue Account Financial Monitoring 2022/23 – Quarter 1

MC/21/26 General Fund Budget 2022/23 and Four-Year Outlook

MC/21/27 Housing Revenue Account 2022/23 Budget