

BABERGH DISTRICT COUNCIL

TO:	Overview & Scrutiny Committee	REPORT NUMBER: BOS/22/02
FROM:	Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 23 January 2023
OFFICER:	Melissa Evans – Director Corporate Resources	KEY DECISION REF NO.

Review of the 2023/24 General Fund and Housing Revenue Account (HRA) draft revenue budgets

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 for 2023/24 for both the General Fund and the HRA. The Committee are asked to consider the draft budget proposals before Cabinet decides in February what to recommend for approval by Full Council later in February and implementation from 1st April.
- 1.2 Overview and Scrutiny Committee undertook a review of the 2023/24 budget assumptions in November 2022, therefore, these will not be repeated within this report.
- 1.3 Progress against the budget is reported to Cabinet on a quarterly basis throughout the year. This year, proposals for the 2023/24 budget will be presented to Cabinet for approval on 6 February 2023 and to Full Council on 21 February 2023. Before the proposals are considered by Cabinet, this meeting will enable the Overview and Scrutiny Committee, on behalf of the residents of Babergh, to provide constructive challenge.
- 1.4 The current draft budgets for 2023/24 shows a budget gap of £213k for the General Fund based on a 2.99% increase to a Band D Council Tax and a deficit for the HRA of £214k based an increase to rents of 7%.

2. RECOMMENDATIONS

- 2.1 That the draft revenue budgets 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 proposals that are considered by Cabinet and Full Council.

3. KEY INFORMATION

- 3.1 Global events, rising inflation and interest rates have created an unprecedented financial challenge 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 and these are likely to continue in 2023/24.

- 3.2 The 2022/23 financial forecast at quarter 2 shows a deficit of £700k for the General Fund and £313k for the HRA. This is 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.
- 3.3 The Finance Team have worked closely with budget managers and the Senior Leadership Team to update the Councils budget requirements for 2023/24. Taking into account known pressures and identifying efficiencies and savings to help offset this without negatively impacting on service delivery.

4. GENERAL FUND

General Fund - Summary Position

The budget for 2022/23 was a surplus of £527k however due to a continuation of financial pressures outlined in paragraph 3.2 above, and a shortfall in funding to meet the overall increasing costs, the position for next year has worsened by £740k as shown in table 1 below.

Table 1 - General Fund Overall budget changes

	£'000	£'000
2022/23 Surplus		(527)
Pressures	4,523	
Savings/additional income	(2,083)	
Movement in Reserves	(430)	
Funding Changes	(1,270)	
Total Net increase		740
2023/24 Draft funding Gap		213

- 4.1 The Council is required by law to set a balanced budget, the current draft position for 2023/24 shows an overall funding gap of £213k. Subject to any further changes the recommendation will be to fund this from the Covid-19 reserve.
- 4.2 This is a draft position at this stage, the final budget will be presented to Cabinet and Council in February.
- 4.3 The Councils Net Cost of Services has increased by £2.01m or 19%, and funding has increased by £1.27m or 11%, as shown in table 2 below.
- 4.4 The main assumptions for 2023/24 budget were set out in the report presented to this committee in November, therefore have not been repeated here.

Table 2 - General Fund Summary

Description		2022/33 Budget £'000	2023/24 Budget £'000	Movement 2022/23 to 2023/24 £'000
Service Expenditure	Employees	9,983	11,613	1,630
	Premises	1,536	1,197	(339)
	Supplies & Services	3,917	4,791	875
	Transport	352	353	1
	Contracts	4,270	4,612	342
Service Income	Grants and Contributions	(1,381)	(1,461)	(80)
	Sales, Fees & Charges	(4,109)	(4,075)	34
	Other income (incl. rental & PV panel income)	(1,771)	(1,848)	(78)
Housing Benefits	HB Transfer Payments	12,972	11,769	(1,203)
	HB Grants and Contributions	(13,107)	(11,885)	1,222
Net Service Expenditure		12,663	15,065	2,403
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,347)	(2,017)	(669)
Capital Financing Charges	Interest Payable - CIFCO long term	380	208	(172)
	Interest Payable - Other	60	1,271	1,211
	Minimum Revenue Provision (MRP)	1,445	1,708	263
Investment Income	Pooled Funds Net Income	(569)	(569)	-
	Interest Receivable - CIFCO	(2,169)	(2,187)	(18)
	Interest Receivable - Other	(15)	(15)	-
Reserves	Transfers to/from Reserves	(18)	(1,025)	(1,007)
Total Net Cost of Services		10,430	12,440	2,010
Government Grants	New Homes Bonus	(802)	(825)	(23)
	Revenue Support Grant (RSG)	-	(112)	(112)
	Services Grant	(147)	(83)	64
	Rural Services Delivery Grant	(238)	(238)	-
	Funding Guarantee	-	(100)	(100)
	Lower Tier Services Grant	(96)	-	96
Business Rates	Business Rates	(3,041)	(3,849)	(808)
	Growth / Pooling Benefit	(333)	(340)	(7)
	Enterprise Zone income	(216)	(238)	(22)
	Business Rates (surplus) / deficit	218	(6)	(224)
Council Tax	Council Tax	(6,185)	(6,416)	(230)
	Council Tax (surplus) / deficit	(116)	(21)	95
Total Funding		(10,957)	(12,227)	(1,270)
	Strategic Priorities Reserve	527		(527)
Shortfall / (Surplus Funds)		0	213	213

General Fund Pressures

- 4.5 The major pressures identified for the General Fund 2023/24 budget totals £4.523m as shown in the table below.

Table 3 - General Fund Pressures

	£'000
Pay award, increments, and pay review (of which £790k is reserve/grant funded)	1,900
Short term borrowing – due to higher interest rates	1,040
Minimum Revenue Provision – capital spend on refuse freighters	260
Waste contract inflation and disposal costs increase	390
Reduction to planning income	230
Insurance premiums - current costs + 10% inflation	80
Shared Revenues Partnership - increase to contract costs	70
Removal of Savings contingency	70
Bank charges increase	70
Additional Training budget requirement	50
ICT contract increase	50
Increase in Postage costs	40
Revenue costs associated with the implementation of the Parking Strategy	40
Residents Survey	30
Other smaller items	203
Total Draft Pressures	4,523

General Fund Savings and additional Income

- 4.6 The major savings and additional income identified for the General Fund 2023/24 budget totals £2.083m as shown in table 4 below. These are as a result of reviewing the Councils costs and income, they have no detrimental impact on service delivery. Proposals to Increase fees and charges have been reviewed and approved by Cabinet on 9 January 2023, report BCa/22/39 contains details of these increases.

Table 4 - General Fund Savings/Increase in income

	£'000
Removal of Pension lump sum	(400)
Recharge to HRA for Grounds maintenance	(420)
Income from garden waste and recycling credits	(180)
Recharge to HRA / Capital	(330)
Additional Homelessness Grant	(130)
Joint Local Plan – reduction in Professional fees	(130)
Removal of security costs Hadleigh Offices	(110)
Savings Endeavour House	(50)
Increase in chargeable amount for CIL admin	(50)
Vacancy Management Factor – 5% but increased due to pay award	(70)
Licensing income growth and additional fees	(40)
Other items	(173)
Total Draft Savings/Additional Income	(2,083)

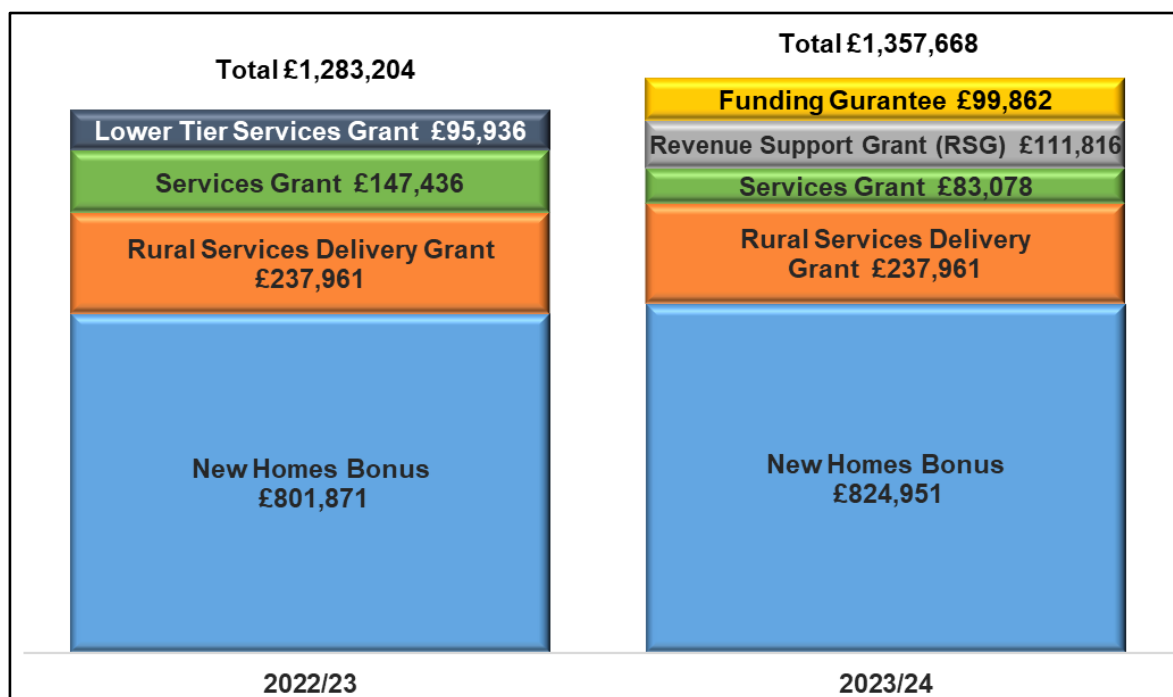
General Fund Funding

- 4.7 The Council's funding including Government Grants, Business Rates, and Council Tax has increased by £1.27m as shown in the funding section of table 2 above. Half of this coming from Business Rates, in the form of S31 grants from Government to compensate for the freeze in the business rates multiplier and reliefs granted to businesses.
- 4.8 The Business Rates figures have been calculated using analysis provided by the Funding Advisory Service at Pixel. Final figures will be confirmed once the NNDR1 return to Government has been completed at the end of January.
- 4.9 A 2.99% increase in Band D Council Tax generates additional income of £190k to the Council, whilst the 2.05% growth in Taxbase generates an additional £100k. The overall impact (£290k) equates to only 14% of the increase to the Councils net cost of service.
- 4.10 The provisional local government finance settlement for 2023/24 was announced on 19 December 2022. The key headlines are as follows:
- The settlement is for one-year only.
 - The business rates multiplier will be frozen. Compensation for this will be provided based on the Consumer price Index (CPI) at 10.1% via an uplift to Baseline Funding Level of 3.74%, with the remainder paid via section 31 grant.
 - For District Councils' council tax can be increased by the higher of 3% or £5

- The current approach to the New Homes Bonus (NHB) is being applied to 2023/24 with a further one-year allocation for housing growth between October 2021 and October 2022. There will be no further legacy payments with the final one being made in 2022/23. A decision on whether NHB will continue into 2024/25 will be made before next year's settlement.
- Revenue Support Grant (RSG) will be received in 2023/24. This is due to family Annex Council Tax Discount Grant and LCTS Administration Grant being rolled up into the settlement. These were previously accounted for within service income, so this change does not impact the overall budget position.
- Rural Services Delivery Grant is being maintained at the same level as 2022/23.
- Services Grant has reduced. Part of the reduction is the removal of funding for the National Insurance Contribution increase.
- Lower Tier Services Grant has been abolished from 2023/24 onwards.
- A new grant has been created to ensure every authority has an increase in Core Spending Power (CSP) of at least 3%. This Funding Guarantee Grant will be funded from the Lower Tier Services Grant (LTSG) and the reduced cost of New Homes Bonus (NHB).

4.11 The Councils 2023/24 provisional grant allocations have increased by £74.5k (5.8%) compared to 2022/23

Chart 1 - General Fund Government grant allocations 2022/23 and Provisional 2023/24



General Fund Reserves

4.12 A review of reserves has been undertaken to ensure the Council is using their reserves appropriately to fund non-recurring spend and invest to save proposals.

- 4.13 Most of the reserves shown in the table below are earmarked for specific purposes, they are used to smooth out fluctuating spend that occurs over more than one year or are grants that have certain conditions attached to them regarding their use.
- 4.14 £1.1m of expenditure is forecast to be funded from reserves next year, excluding the draft funding gap of £213k.
- 4.15 The COVID reserve with a £1m balance, will help to fund initiatives in response to the cost of living crisis and could be used to fund the budget gap, leaving the Strategic Priorities reserve for invest to save projects for the Council.

Table 5 - General Fund Earmarked Reserves

	Forecast balance 31 March 2023 £'000	To reserves £'000	From reserves £'000	Estimated balance 31 March 2024 £'000
Business Rates & Council Tax	1,547			1,547
Business Rates Retention Pilot (BRRP)	546		(60)	486
Climate Change and Biodiversity	239		(61)	178
Community Housing Fund	119		(28)	90
Commuted Maintenance Payments	937		(28)	908
COVID 19	1,221		(223)	998
Elections Equipment	35			35
Elections Fund	90	20		110
Government Grants	254		(25)	229
Homelessness	176		(100)	76
Neighbourhood Planning Grants	272	51	(27)	297
Planning (Legal)	698		(141)	557
Planning Enforcement	133			133
Rough Sleepers	57			57
Strategic Planning	93			93
Strategic Priorities	689		(217)	472
Temporary Accommodation	163		(59)	104
Waste	195		(122)	73
Well-being	274		(6)	267
TOTAL	7,737	71	(1,097)	6,712
General Fund Reserve	1,000			1,000

5. HOUSING REVENUE ACCOUNT

- 5.1 The Councils Housing Revenue Account (HRA) is facing similar financial challenges to the General Fund. The largest areas of spend for the HRA are staffing and contract and materials costs both of which are subject to the significant inflationary pressures as a result of the economic situation.
- 5.2 The quarter 2 budget monitoring showed a forecast deficit of £313k. The key factor in this position is the additional costs being incurred to address the backlog in void and responsive repairs, through both the volume of materials being purchased and sub-contractor costs to work alongside the Trades Team.

HRA Summary Position

- 5.3 The budget for 2022/23 was a surplus of £511k however due to a continuation of financial pressures described above and in the quarter 2 financial monitoring the position for next year has worsened by £725k as shown in table 6 below.

Table 6 - HRA Overall budget changes

	£'000	£'000
2022/23 Surplus		(511)
Pressures	4,708	
Savings/additional income	(3,983)	
Total Net increase		725
2023/24 Draft Deficit		214

- 5.4 The current draft position for 2023/24 shows an overall deficit of £214k.
- 5.5 This is a draft position at this stage, the final budget will be presented to Cabinet and Council in February.
- 5.6 The Councils Total Cost of Services has increased by £3.653m or 50%, and income has increased by £1.563m or 8%, as shown in table 7 below.
- 5.7 The main assumptions for 2023/24 budget were set out in the report presented to this committee in November, therefore have not been repeated here.

Table 7 - HRA Summary

	Budget 2022/23 £'000	Budget 2023/24 £'000	Movement 22/23 vs Budget 23/24 £'000
Dwelling Rents	(17,273)	(18,740)	(1,467)
Service Charges	(598)	(619)	(21)
Non-Dwelling Income	(183)	(238)	(55)
Other Income	(48)	(67)	(19)
Interest Received	(10)	(10)	
Total Income	(18,111)	(19,674)	(1,563)
Housing Management	3,096	4,749	1,654
Building Services Surveyors and Compliance	1,178	1,902	724
Housing Trade Team	2,361	3,130	769
Repairs and Maintenance (all areas except Trades Team)	484	1,030	545
Bad Debt Provision	139	100	(39)
Total cost of service	7,258	10,911	3,653
Depreciation	4,548	4,817	269
Interest payable	3,161	3,068	(93)
Revenue Contribution to Capital	2,633	1,092	(1,541)
Deficit / (Surplus) for Year	(511)	214	725

HRA Pressures

- 5.8 The major pressures identified for the HRA 2023/24 budget totals £4.708m as shown in the table below.

Table 8 - HRA Pressures

	£'000
Pay award, increments, pay review (Reserve/grant funded £25k)	1,325
Repairs inc. voids (inflation and increase based on outturn)	1,735
Sheltered schemes (utility costs)	351
Depreciation	269
Recharge from General Fund for grounds maintenance	448
Stock conditions survey	125
Software Licenses (inflation)	116
Equipment, Tools and Materials (inflation)	92
Fixtures and Fittings for Sheltered Housing improvements	41
Property Servicing (heating) – remedial works & ongoing service requirements	82
Other small items (net)	124
Total Draft Pressures	4,708

HRA Savings and additional Income

- 5.9 The major savings and additional income identified for the HRA 2023/24 budget totals £3.983m as shown in table 4 below.

Table 9 - HRA Savings/Increase in income

	£'000
Rental income – based on 7% increase	(1,483)
Garage Rents Increased by 10%	(55)
Increased Building Services Recharges – work on GF assets	(811)
Interest payable	(93)
Reducing in Revenue contribution to capital	(1,541)
Total Draft Savings/additional Income	(3,983)

- 5.10 Rents for Council Housing are increased by 7% which is equivalent to an average rent increase of £6.68 a week for social rents and £9.41 a week for affordable rents.

- 5.11 It has been assumed that there will be no properties purchased by the tenant through the Right to Buy mechanism for 2023/24. The number of voids is based on the 2022/23 rate of 7%. All of these assumptions generate £1.483m additional income.
- 5.12 Following a period of five years that saw annual 1% rent reductions, which ended in March 2020, councils are allowed to increase rents by the maximum of the Consumer Price Index (CPI) +1% for a period of five years from April 2020. Subject to compliance with the Regulator of Social Housing's Rent Standard, this has begun to mitigate the impact of the 1% reduction on the 30-year plan. However, the cost-of-living crisis has resulted in the Government making a change to the rent settlement. This is a significant risk to the HRA as the recent reductions and now the rent cap, leaves the council at risk of not being able to meet its legal obligations. This is again the backdrop of aging stock which requires urgent investment.

HRA Reserves

- 5.13 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.
- 5.14 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.
- 5.15 The 2023/24 budget position means that the Council will reduce its Strategic Priorities Reserve by £1,478k. The balance in the reserve at 31 March 2024, as a result of the budget proposals, is forecast to be £10.723m, which equates to around £3,072 per property. This is very much dependent on the new build and acquisition programme being delivered on target in the current financial year.

Table 10 - HRA Earmarked Reserves

BDC Reserves	Balance at 31 March 2022 £'000	Forecast Balance at 31 March 2023 £'000	2023/24 Budget Capital Programme Financing £'000	2023/24 Budget Deficit £'000	Forecast Balance at 31 March 2024 £'000
Strategic Reserves	(16,096)	(12,087)	1,264	214	(10,609)
Big 20 Reserve	(94)	(94)	0	0	(94)
Building Council Homes Programme	(20)	(20)	0	0	(20)
Total Reserves	(16,210)	(12,201)	1,264	214	(10,723)

- 5.16 In addition to this, the Council continues to hold £1m in the working balance. This equates to less than £300 per property.

6. LINKS TO CORPORATE PLAN

- 6.1 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.

7. FINANCIAL IMPLICATIONS

7.1 These are detailed in the report.

8. LEGAL IMPLICATIONS

8.1 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).

9. RISK MANAGEMENT

9.1 This report is most closely linked with the Council's Corporate / Significant Business. Key risks are set out below:

Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
We may be unable to react in a timely and effective way to financial demands	3	3	<p>External audit review of going concern assessment</p> <p>Inflationary risk reserve established to cover the impacts in 2022/23</p> <p>Quarterly budget monitoring to Cabinets</p> <p>Reserves review</p> <p>Finance Transformation Plan</p> <p>Balance sheet review and monitoring</p> <p>Internal audit review of budget monitoring arrangements during 2021/22</p> <p>Unqualified opinion from external audit including value for money"</p>	Significant Risk Register SRR004BDC

10. CONSULTATIONS

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

11. EQUALITY ANALYSIS

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

12. ENVIRONMENTAL IMPLICATIONS

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

13. BACKGROUND DOCUMENTS

BCa/22/32 General Fund Financial Monitoring 2022/23 Quarter 2

BCa/22/33 Housing Revenue Account Fund Financial Monitoring 2022/23 Quarter 2

BCa/22/39 Fees and charges 2023/24

BOS/22/01 Draft General Fund (GF) and Housing Revenue Account (HRA) 2023/24