

MID SUFFOLK DISTRICT COUNCIL

TO: Overview & Scrutiny Committee	REPORT NUMBER: MOS/22/02
FROM: Councillor John Whitehead, Cabinet Member for Finance	DATE OF MEETING: 23 January 2023
OFFICER: Melissa Evans – Director Corporate Resources	KEY DECISION REF NO. Item 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 23 February 2023. Before the proposals are considered by Cabinet, this meeting will enable the Overview and Scrutiny Committee, on behalf of the residents of Mid Suffolk, to provide constructive challenge.
- 1.4 The current draft budgets for 2023/24 shows a budget surplus of £3.054m for the General Fund based on no increase to a Band D Council Tax and a deficit for the HRA of £409k 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 position for the General Fund of £893k, however, the Council is still expected to have just over £5m surplus to be able to transfer to reserves. The HRA is forecasting a deficit of £675k. 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 £5.916m 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 of the surplus next year has reduced by £2.992m as shown in table 1 below.

Table 1 - General Fund Overall budget changes

	£'000	£'000
2022/23 Surplus		(5,916)
Pressures	4,400	
Savings/additional income	(2,248)	
Movement in Reserves	1,480	
Funding Changes	(770)	
Total Net increase		2,862
2023/24 Draft Surplus		(3,054)

- 4.1 Subject to any further changes the recommendation will be to transfer the £3.054m to earmarked reserves, see paragraph 4.15 for further details.
- 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 £3.63m or 41%, and funding has increased by £770k or 5%, 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

MID SUFFOLK		2022/23	2023/24	Movement
		Budget	Budget	2022/23 to
		£'000	£'000	2023/24
				£'000
Service Expenditure	Employees	11,224	13,128	1,903
	Premises	1,107	1,255	148
	Supplies & Services	4,377	5,181	804
	Transport	390	409	19
	Contracts	4,133	4,573	439
Service Income	Grants and Contributions	(1,264)	(1,715)	(451)
	Sales, Fees & Charges	(5,151)	(5,407)	(256)
	Other income (incl. rental & PV panel income)	(1,588)	(1,698)	(111)
Housing Benefits	HB Transfer Payments	10,184	9,239	(945)
	HB Grants and Contributions	(10,334)	(9,366)	969
Net Service Expenditure		13,078	15,599	2,520
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,511)	(1,792)	(281)
Capital Financing Charges	Interest Payable - CIFCO Long-term loans	545	416	(129)
	Interest Payable - Other	290	1,090	800
	Minimum Revenue Provision (MRP)	1,333	1,475	142
Investment Income	Pooled Funds Net Income	(566)	(566)	-
	Interest Receivable - CIFCO	(2,169)	(2,187)	(18)
	Interest Receivable - Gateway 14	(1,865)	(97)	1,769
	Interest Receivable - Other	(31)	(31)	-
Reserves	Transfers to/from Reserves	(336)	(1,499)	(1,163)
Total Net Cost of Services		8,769	12,410	3,641
Government Grants	New Homes Bonus	(1,779)	(1,427)	352
	Revenue Support Grant (RSG)	-	(113)	(113)
	Services Grant	(157)	(88)	68
	Rural Services Delivery Grant	(454)	(454)	-
	Funding Guarantee	-	(507)	(507)
	Lower Tier Services Grant	(102)	-	102
Business Rates	Business Rates	(4,310)	(5,332)	(1,022)
	Growth / Pooling Benefit	(486)	(496)	(10)
	Business Rates Collection Fund (surplus) / deficit	(438)	(14)	424
Council Tax	Council Tax	(6,667)	(6,846)	(179)
	Council Tax Collection Fund (surplus) / deficit	(293)	(177)	116
Total Funding		(14,685)	(15,455)	(770)
	Commercial Development Risk Reserve	1,865	-	(1,865)
	Growth & Efficiency Fund	4,051	-	(4,051)
Shortfall / (Surplus Funds)		0	(3,045)	(3,045)

General Fund Pressures

- 4.5 The major pressures identified for the General Fund 2023/24 budget totals £4.4m as shown in the table below.

Table 3 - General Fund Pressures

	£'000
Pay award, increments and pay review (of which £1m is reserve/grant funded)	2,450
Short term borrowing – due to higher interest rates	650
Minimum Revenue Provision – capital spend on refuse freighters	140
Waste contract and disposal costs increase	550
Reduction to planning income	170
Insurance premiums - current costs + 10% inflation	50
Shared Revenues Partnership - increase to contract costs	50
Removal of Savings contingency	90
Bank charges increase	40
Additional training budget	50
ICT contract increase	50
Increase in Postage costs	40
Revenue costs associated with the implementation of the Parking Strategy	40
Residents Survey	30
Total Draft Pressures	4,400

General Fund Savings and additional Income

- 4.6 The major savings and additional income identified for the General Fund 2023/24 budget totals £2.118m 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 MCa/22/35 contains details of these increases.

Table 4 - General Fund Savings/Increase in income

	£'000
Pension lump sum	(630)
Reprofiling of Leisure contract – per agreement	(250)
Recharge to HRA / Capital	(260)
Income from garden waste and recycling credits	(330)
Additional Homelessness Grant	(130)
Joint Local Plan – reduction in Professional fees	(130)
Removal of security costs Needham Offices	(60)
Savings Endeavour House	(50)
Increase in chargeable amount for CIL admin	(50)
Vacancy Management Factor – 5% but increased due to pay award	(100)
Car Parking costs recovering	(80)
Other	(178)
Total Draft Savings/Additional Income	(2,248)

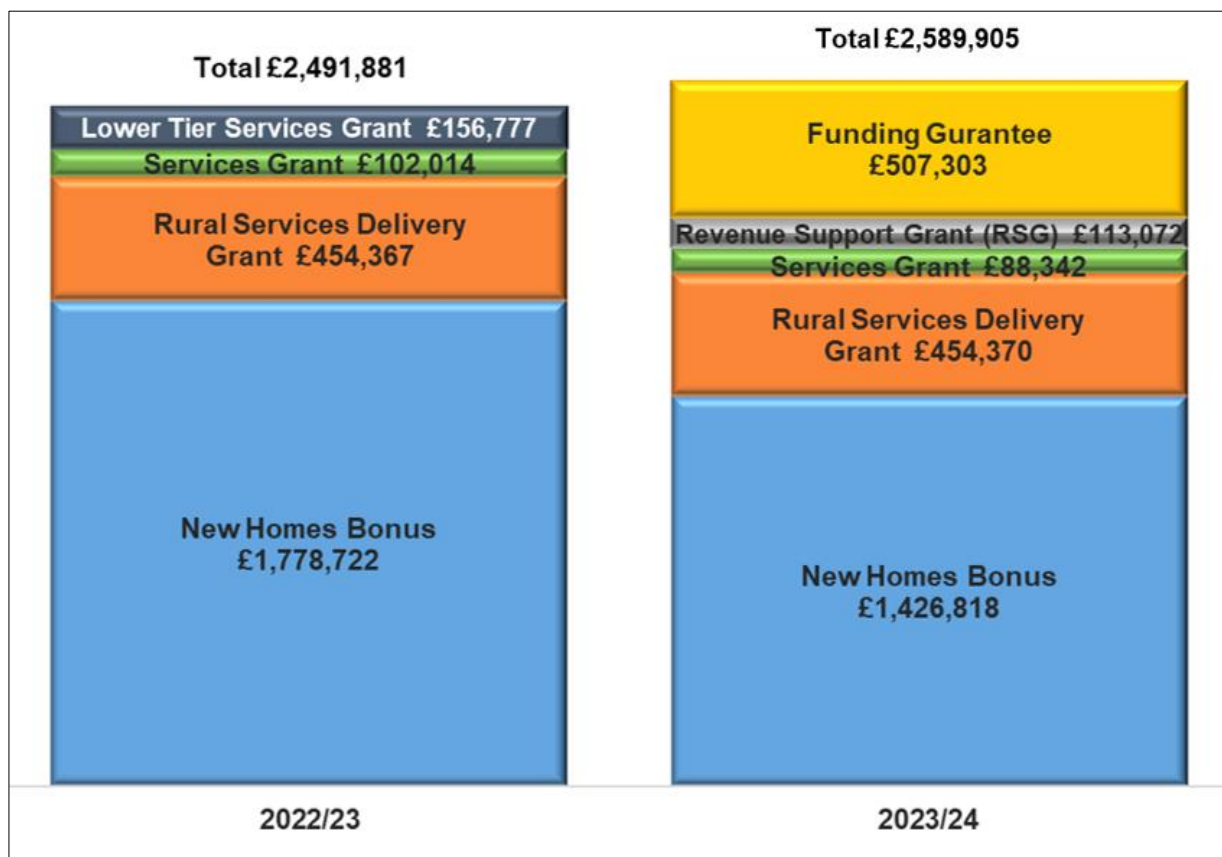
General Fund Funding

- 4.7 The Council's funding including Government Grants, Business Rates, and Council Tax has increased by £770k as shown in the funding section of table 2 above. Two thirds 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 from calculated using analysis provided by the Funding Advisory Service at Pixel the final figures will be confirmed once the NNDR1 return to Government has been completed at the end of January.
- 4.9 The 2.05% growth in Taxbase is generating an additional £179k.
- 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 £23.4k (3.9%) compared to 2022/23

Chart 1: General Fund Government grant allocations 2022/23 and 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 £1.7m of expenditure is forecast to be funded from reserves next year.
- 4.15 The COVID reserve with a balance of £776k, will help to fund initiatives in response to the cost of living crisis. The Commercial Development Risk Management reserve was established at the inception of the Gateway 14 development to help mitigate the risks of the annual accrued interest.
- 4.16 During December 2022, the Council received the first capital receipt for the site and a second tranche is expected in January 2023. As a result, the risk associated with the £5.8m accrued interest will be fully mitigated and the reserve can be repurposed for investment. The Cabinet will combine this reserve with the balance of the Growth and Efficiency reserve (£2.4m) to create a new Strategic Infrastructure Fund. This will be used to fund feasibility and investment in the Councils projects.
- 4.17 Some of the key projects that may benefit from this fund are SHELF and the Skills and Innovation Centre on Gateway 14.

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	4,166			4,166
Business Rates Retention Pilot (BRRP)	61		(89)	(27)
Climate Change and Biodiversity	855		(62)	792
Commercial Development Risk Management	5,818	97		5,915
Community Housing Fund	159		(25)	134
Commuted Maintenance Payments	546		(85)	462
COVID 19	957		(180)	776
Elections Equipment	35			35
Elections Fund	139	20		159
Government Grants	330		(25)	305
Growth and Efficiency Fund	3,442		(781)	2,661
Homelessness	370		(71)	299
Neighbourhood Planning Grants	222	2	(27)	198
Planning (Legal)	1,112		(107)	1,005
Planning Enforcement	45			45
Repair & Renewals	293			293
Rough Sleepers	19			19
Strategic Planning	81			81
Temporary Accommodation	380	88	(52)	416
Waste	269		(197)	72
Welfare Benefits Reform	7			7
Well-being	83		(6)	77
TOTAL	19,389	207	(1,706)	17,890
General Fund Reserve	1,052			1,052

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 £675k. 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 £95k 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 £504k as shown in table 6 below.

Table 6 - HRA Overall budget changes

	£'000	£'000
2022/23 Surplus		(95)
Pressures	3,651	
Savings/additional income	(3,147)	
Total Net increase		504
2023/24 Draft Deficit		409

- 5.4 The current draft position for 2023/24 shows an overall deficit of £409k.
- 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 £3.03m or 41%, and income has increased by £1.365m or 9%, 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	(14,969)	(16,235)	(1,266)
Service Charges	(675)	(723)	(47)
Non-Dwelling Income	(352)	(396)	(43)
Other Income	(43)	(51)	(7)
Interest Received	(9)	(10)	(1)
Total Income	(16,049)	(17,415)	(1,365)
Housing Management	3,234	4,723	1,489
Building Services Surveyors and Compliance	1,194	1,840	646
Housing Trade Team	2,369	3,079	710
Repairs and Maintenance (all areas except Trades Team)	588	765	177
Bad Debt Provision	92	100	8
Total cost of service	7,477	10,507	3,030
Depreciation	4,452	4,617	165
Interest payable	2,968	2,700	(268)
Revenue Contribution to Capital	1,058		(1,058)
Deficit / (Surplus) for Year	(95)	409	504

HRA Pressures

- 5.8 The major pressures identified for the HRA 2023/24 budget totals £3.651m as shown in the table below.

Table 8 - HRA Pressures

	£'000
Pay award, increments, pay review (funded from reserves/grants £25k)	1,088
Repairs inc. voids (inflation and increase based on outturn)	961
Sheltered schemes (utility costs)	354
Depreciation	165
Recharge from General Fund for grounds maintenance	346
Stock conditions survey	125
Software Licenses (inflation)	124
Property Servicing (heating) – remedial works & ongoing service requirements	82
Equipment, Tools and Materials	72
Fixtures and Fittings for Sheltered Housing improvements	89
Community Alarm Costs	48
Other small items (net)	197
Total Draft Pressures	3,561

HRA Savings and additional Income

- 5.9 The major savings and additional income identified for the HRA 2023/24 budget totals £3.147m as shown in table 4 below.

Table 9 - HRA Savings/Increase in income

	£'000
Rental income – based on 7% increase	(1,297)
Garage Rents increase by 10%	(43)
Removal of Revenue contribution to capital	(1,060)
Increased Building Services Recharges – work on GF assets	(279)
Pension Lump sum saving	(152)
Updated interest calculation	(268)
Service charge income - based on 10.1% (CPI) increase	(48)
Total Draft Savings/additional Income	(3,147)

- 5.10 Rents for Council Housing are increased by 7% which is equivalent to an average rent increase of £6.16 a week for social rents and £9.03 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 £1.293m 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 us at risk of not being able to meet our 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 £409k. The balance in the reserve at 31 March 2024, as a result of the budget proposals, is forecast to be £4.653m, which equates to around £1,437 per

property. This is dependent on the new build and acquisition programme being delivered on target in the current financial year.

Table 10 - HRA Earmarked Reserves

MSDC 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	(5,737)	(5,062)	0	409	(4,653)
Leaseholders Repairs Reserve	(26)	(26)	0	0	(26)
Building Council Homes Programme	(20)	(20)	0	0	(20)
Total Reserves	(5,783)	(5,108)	0	409	(4,699)

5.16 In addition to this, the Council continues to hold £1.209m in the working balance. This equates to less than £400 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	External audit review of going concern assessment Inflationary risk reserve established to cover the impacts in 2022/23 Quarterly budget monitoring to Cabinets Reserves review Finance Transformation Plan Balance sheet review and monitoring Internal audit review of budget monitoring arrangements during 2021/22 Unqualified opinion from external audit including value for money"	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

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

MCa/22/29 General Fund Financial Monitoring 2022/23 Quarter 2

MCa/22/30 Housing Revenue Account Fund Financial Monitoring 2022/23 Quarter 2

MCa/22/35 Fees and Charges 2023/24

MOS/22/01 Draft General Fund (GF) and Housing Revenue Account (HRA) 2022/23