

BABERGH DISTRICT COUNCIL

TO:	Overview & Scrutiny Committee	REPORT NUMBER: BOS/23/01
FROM:	Councillor John Ward, Cabinet Member for Finance	DATE OF MEETING: 20 November 2023
OFFICER:	Melissa Evans – Director Corporate Resources	KEY DECISION REF NO. <u>Item No.</u>

Review of the 2024/25 General Fund 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 the 2024/25 General Fund. The Committee are asked to review and assess these assumptions.
- 1.2 A deficit of £1.5m is currently forecast for the General Fund for 2024/25 based on current economic data and the assumptions set out in this report.
- 1.3 Work is continuing to develop the budget proposals for 2024/25. These proposals will be presented to the Overview & Scrutiny Committee in January 2024 before Cabinet decides in February what to recommend for approval by Full Council later in February 2024.

2. RECOMMENDATIONS
2.1 That the draft budget assumptions as set out in the report, for the 2024/25 General Fund budget 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 The General Fund 2023/24 financial position at quarter 1 showed a forecast net overspend of £681k. The largest variance reported is a forecast reduction in planning fees income which has reduced by £462k from the original estimate of £880k. The quarter 2 update will be reported to Cabinet in December 2023. This reduction in income is likely to continue into 2024/25 as shown in table 1 below.
- 3.2 In February the Council set the 2023/24 budget and the Medium-Term Financial Plan showed increasing forecast deficits for 2024/25 and the following two years of £921k, £2.514m and £3.06m respectively.

- 3.3 Work is underway on updating these projections and the latest budget assumptions for 2024/25 are shown in tables 1 and 2 below; they reflect the draft outturn position for quarter 2 and the current economic data.
- 3.4 The Committee are asked to review and challenge these assumptions to test their adequacy as the basis for setting the 2024/25 budget.

Table 1 Draft General Fund Budget Assumptions for 2024/25 – Net Cost of Service

	Assumption	Explanation	2023/24 budget £'000	Impact 2024/25 £'000
NET COST OF SERVICE 2023/24			12,528	
Employee costs				
Pay Award, increments and pay review		2023/24 Pay award, increments, and pay review. 2024/25 pay award assumed 4% - 1% = £119k	12,183	1,281
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 2023/24.	(500)	
Supplies & services				
Gas/Electricity		Based on current usage and projections assumes no change in use of the council's assets	257	29
Fuel costs		Budget set on current run rate with inflationary pressures largely realised in 2023/24 budget.	117	38
Insurance Premiums	6%	Contract renewed annually in January. Assumption of 6% increase in cost in Jan 24 compared to Jan 23.	307	18
Shared Legal Service	4%	Based on previous years and uplift for salaries and other costs likely to increase.	464	18
Contracts				
Refuse contract	5%	Cost pressure in 2023/24 based on 5% uplift based on monitoring of BICS indexation.	2,826	149
Shared Revenues Partnership	3%	The increase to the cost of the service has predominantly been on pay, most other costs have remained the same and vacancies savings have been delivered to help mitigate this impact	1,131	9

	Assumption	Explanation	2023/24 budget £'000	Impact 2024/25 £'000
Planning				
Planning Income	2023/24 forecast	Reduced income for Development Management forecast based upon the level of uncertainty in the housing market, based on 2023/24 forecast outturn. This will be mitigated by a potential 25% Fee increase that will take effect prior to the start of the year, subject to approval as part of the Sales Fees & Charges Report.	(973)	462
	2023/24 forecast	Projection for Building Control Based on run rate from 2023/24 Outturn position	(386)	44
Interest				
Short-term borrowing	Rate: 5.5%	The Council's cost of borrowing is assumed to increase based upon Arlingclose gilt yield forecasts. 2023/24 was 4.5% No new borrowing is included. Current level of Borrowing £27m. 1% = £270k	1,271	214
Long-term borrowing	Rate 2.5%	Fixed rates - reduction is due to repayments	208	(10)
TOTAL ASSUMED INCREASE IN NET COST OF SERVICE 2024/25				2,252

Table 2 Draft General Fund Budget Assumptions for 2024/25 – Funding

	Assumption	Explanation	2023/24 budget £'000	Impact 2024/25 £'000
FUNDING 2023/24			(12,551)	
Council Tax				
Taxbase growth	CTB1	Per CTB1 as at Oct 23 gives an increase of £69k		
Band D increase	Zero	An increase on Council Tax of 2.99% would yield an increase of £195K, £5 increase would yield £177k. 1% increase would yield £65k.	(6,472)	(69)
Business Rates	Same as 2023/24	Baseline Business Rates	(705)	
		Growth / Pooling Benefit	(457)	
		S31 Business Rates Grant	(3,283)	
		Enterprise Zone income	(238)	
		Renewable Energy	(81)	
		Suffolk Leaders to consider the proposal to not to top slice from the pooled business rates.		

	Assumption	Explanation	2023/24 budget £'000	Impact 2024/25 £'000
Central Government Grants				
New Homes Bonus	Rollover of 2023/24 scheme	Most likely option is roll over of current scheme - but with no legacy payments that were received in previous years. Estimate is currently being reviewed by the Finance team.	(825)	
Service Grant	Same as 2023/24	No indication from Government, assumed rollover from 2023/24. Finance Settlement will be received late December 2023	(86)	
Rural Services Grant			(266)	
Revenue Support Grant			(130)	
Funding Guarantee			(68)	
CURRENT FORECAST INCREASE IN FUNDING 2024/25				(700)
DRAFT FORECAST BUDGET DEFICIT 2024/25				1,529

- 3.5 Based on the assumptions set out in tables 1 and 2, the Council has a projected budget deficit of £1.5m for 2024/25. Further work is underway on finalising the draft budget for 2024/25 and the medium-term position. The focus is on eliminating the financial pressures and ensuring the Council can set a balanced budget for 2024/25. Further work includes reviewing fees and charges, saving proposals and the Council's capital programme including the associated financing costs.
- 3.6 This committee will review this draft budget along with the final savings and pressures and fees and charges in January 2024.
- 3.7 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 22 November 2023 however the more detailed funding allocations are unlikely to be communicated until late December 2023 in the form of the Local Government Provisional Settlement. With no consultation on New Homes Bonus, it can be expected that a further year's funding will be provided to local authorities.
- 3.8 A review of reserves is also being undertaken to ensure the Council is using their reserves appropriately to fund non-recurring spend and has sufficient risk mitigating funds to cover future uncertainties.
- 4. MEDIUM TERM FINANCIAL POSITION**
- 4.1 Preliminary figures for the overall financial position of the General Fund in 2025/26 and 2026/27 shows deficit positions of some £2.5m and £3m respectively. The main drivers for this deficit position are the rising costs of salaries, given that they represent some 50% of the Council's expenditure, and the anticipated loss of New Homes Bonus in 2025/26 (currently worth £825k).

- 4.2 The current assumptions are that no changes will be made to the amount of Business Rates income the council retains. If Governments proposals for resetting the Business Rates baseline came to fruition, Babergh is likely to lose significant Business Rates income. The forecast impact on district councils could be significant as resources are redistributed across the funding system.
- 4.3 The uncertainty around the Local Government Finance reforms, which have already been delayed several times and the prospect of a general election no later than January 2025, makes it more challenging to forecast the Councils financial prospects over the medium-term.

5. NEXT STEPS

- 5.1 Over the coming months Officers and Cabinet members will continue to review and finalise the 2024/25 draft budgets focussing on setting realistic estimates whilst also working towards addressing the current forecast budget gap.
- 5.2 The timeline for budget setting is as follows:

December 2023	All Member Briefing	Review savings and pressures, and the updated position – General Fund
9 th January 2024	Cabinet	Approve 2024/25 fees and charges
22 nd January 2024	Overview & Scrutiny	Review savings and pressures, and the updated position – General Fund and HRA
29 th January 2024	Joint Audit and Standards	2024/25 Treasury Management, Capital, and Investment strategies
6 th February 2024	Cabinet	Approve the 2024/25 Draft Budget - General Fund & HRA
20 th February 2024	Council	Approve the 2024/25 Final Budget - General Fund & HRA Approve the 2024/25 Treasury Management, Capital, and Investment strategies

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 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 Key risks are set out below:

Key Risk Description	Likelihood	Impact	Key Mitigation Measures	Risk Register and Reference
Babergh District Council may be unable to react in a timely and effective way to financial demands	3	3	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	Strategic Risk Register SRR004BDC
Babergh District Council may fail to be financially sustainable	4	4	Robust Medium term financial strategy, shared integrated workforce with Mid Suffolk.	Strategic Risk Register SRR08BDC

10. CONSULTATIONS

- 10.1 Consultations have taken place with Directors, Corporate Managers, and other Budget Managers as appropriate.
- 10.2 The Council launched a 6-week consultation on the 4^h October 2023 to give people the opportunity to provide feedback on the Councils long term vision and strategic priorities for the district.
- 10.3 The consultation also includes engagement around how the Council currently spends its money by presenting the budget by % spend in different areas.
- 10.4 The consultation closes on the 15th November and the responses to the survey will help to ensure the Councils budgets align to the corporate priorities.

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/23/8 Financial Monitoring Report 2023/24 – Quarter 1

BC/22/41 General Fund Budget 2023/24 and Four-Year Outlook