

MID SUFFOLK DISTRICT COUNCIL

TO:	Overview & Scrutiny Committee	REPORT NUMBER: MOS/23/01
FROM:	Councillor Rachel Eburne, 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 surplus of £1.7m 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 forecast at quarter 1 showed a forecast surplus of £2.502m which is £1.076m less than budgeted. The largest variance reported is a forecast reduction in planning fees income which has reduced by £824k from the original estimate of £1.57m. 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 2 below.
- 3.2 In February the Council set the 2023/24 budget and the Medium-Term Financial Plan showed reducing 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 2023/24 was the maximum increase for district councils permitted by Central Government without the need to hold a referendum.

Table 1 MTFS forecasts as at February 2023

	2024/25	2025/26	2026/27	Total
Cumulative budget surplus if zero increase in Council Tax	£3.4m	£0.8m	£0.2m	£4.4m
Cumulative budget surplus if £5 increase Council Tax	£3.6m	£1.2m	£0.9m	£5.7m

3.3 Work is underway on updating these projections and the latest budget assumptions for 2024/25 are shown in tables 2 and 3 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 2 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			12,441	
Employee costs				
Pay Award, increments and pay review		2023/24 Pay award, increments, and pay review. 2024/25 pay award assumed 4% - 1% = £119k	12,578	1,141
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.	(550)	
Supplies & services				
Gas/Electricity		Based on current usage and projections assumes no change in use of the council's assets	282	29
Fuel costs		Budget set on current run rate with inflationary pressure largely realised in 2023/24 budget.	128	65
Insurance Premiums	6%	Contract renewed annually in January. Assumption of 6% increase in cost in Jan 24 compared to Jan 23.	299	18
Shared Legal Service	4%	Based on previous years and uplift for salaries and other costs likely to increase.	401	15

	Assumption	Explanation	2023/24 budget £'000	Impact 2024/25 £'000
Contracts				
Refuse contract	5%	Cost pressure in 2023/24 based on 5% uplift based on monitoring of BICS indexation.	3,066	143
Shared Revenues Partnership	3%	The Increase to the cost of SRP has predominately been on pay, most other costs have remained the same and vacancies savings have been delivered to help mitigate this impact	1,096	241
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.	(1,649)	870
	2023/24 forecast	Projection for Building Control Based on run rate from 2023/24 Outturn position	(380)	11
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 £29.5m. 1% = £270k	1,090	533
Long-term borrowing	Rate 2.5%	Fixed rates - reduction is due to repayments	416	(20)
TOTAL ASSUMED INCREASE IN NET COST OF SERVICE 2024/25				3,046

Table 3 Draft General Fund Budget Assumptions for 2024/25 – Funding

	Assumption	Explanation	2023/24 budget £'000	Impact 2024/25 £'000
FUNDING 2023/24			(16,019)	
Council Tax				
Taxbase growth	CTB1	Per CTB1 at Oct 23 gives an increase of £196k	(6,886)	(196)
Band D increase	Zero	An increase on Council Tax of 2.99% would yield an increase of £212K, £5 increase would yield £206k. 1% increase would yield £71k.		

	Assumption	Explanation	2023/24 budget £'000	Impact 2024/25 £'000
Business Rates				
Business Rates	Same as 2023/24	Baseline Business Rates	(2,316)	
		Growth / Pooling Benefit	(678)	
		S31 Business Rates Grant	(3,416)	
		Renewable Energy	(616)	
Suffolk Business Rates Pool	No top slicing of growth	Suffolk Leaders to consider the proposal to not to top slice from the pooled business rates.		(1,000)
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.	(1,427)	
Service Grant	Same as 2023/24	No indication from Government, assumed rollover from 2023/24. Finance Settlement will be received late December	(92)	
Rural Services Grant			(508)	
Revenue Support Grant			(132)	
Funding Guarantee			(450)	
CURRENT FORECAST INCREASE IN FUNDING 2024/25				(1,196)
DRAFT FORECAST BUDGET SURPLUS 2024/25				(1,728)

- 3.5 Based on the assumptions set out in tables 2 and 3, the Council has a projected budget surplus of £1.7m 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, reviewing income from the Council's investments, saving proposals and the Council's capital programme including major projects and the associated financing costs.
- 3.6 Business rates income of £7m represents almost 44% of the Council's overall funding. Whilst table 3 shows no change in this from the 2023/24 position, this of course will not be the case. The reliefs given to Businesses and the compensating income to the Council, shown as S31 business rates grants will be updated to reflect the proposed reliefs for 2024/25. The other significant positive impact to be factored into the business rates forecast is the income from Gateway 14. The timing of this is very much dependent on the Valuation Office rating the sites as they are occupied, but this will certainly be a significant source of income to the Council over the medium term.
- 3.7 This committee will review this draft budget along with the final savings and pressures and fees and charges in January 2024.

3.8 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.

3.9 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 £1.4m and £2m 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 £1.4m).

4.2 If Governments proposals for resetting the Business Rates baseline come to fruition, Mid Suffolk 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. However as mentioned in paragraph 3.6 the Council will have the benefit of their share of the retained rates from Gateway 14 to help mitigate some of this.

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 and ensuring the financial position supports the delivery of the corporate priorities.

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

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 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 Key risks are set out below:

Key Risk Description	Likelihood	Impact	Key Mitigation Measures	Risk Register and Reference
Mid Suffolk 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 SRR004MSDC
Mid Suffolk District Council may fail to be financially sustainable	4	4	Robust Medium term financial strategy, shared integrated workforce with Babergh	Strategic Risk Register SRR08MSDC

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

MCa/23/11 Financial Monitoring 2023/24 – Quarter 1

MC/22/35 General Fund Budget 2023/24 and Four-Year Outlook