

BABERGH DISTRICT COUNCIL

TO: Overview & Scrutiny Committee	REPORT NUMBER: BOS/23/05
FROM: Councillor John Ward, Cabinet Member for Finance	DATE OF MEETING: 22 January 2024
OFFICER: Melissa Evans – Director Corporate Resources	KEY DECISION REF NO. Item No.

Review of the 2024/25 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 budgets for 2024/25 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 2024.
- 1.2 Overview and Scrutiny Committee undertook a review of the 2024/25 budget assumptions in November 2023, 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 2024/25 budget will be presented to Cabinet for approval on 6 February 2024 and to Full Council on 20 February 2024. 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 2024/25 shows a budget gap of £1.823m for the General Fund based on a 2.99% increase to a Band D Council Tax and a deficit for the HRA of £9.369m based on an increase to rents of 7.7%.

2. RECOMMENDATIONS

- 2.1 That the draft revenue budgets set out in the report, for the 2024/25 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 challenges are likely to continue in 2024/25.

- 3.2 The 2023/24 financial forecast at quarter 2 shows a deficit of £962k for the General Fund. This is primarily due to several inflationary pressures, including pay award, and a significant reduction in planning income.
- 3.3 The HRA is forecasting a deficit of £1.545m at quarter 2, This is mainly due to inflationary pressures, including pay award, CPI increases on a number of contracts and an increase in costs associated with the backlog of void and responsive repairs work.
- 3.4 The Finance Team have worked closely with budget managers and the Senior Leadership Team to update the Councils budget requirements for 2024/25. Taking into account known pressures and political priorities 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 2023/24 was a surplus of £22k 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 £1.823m as shown in table 1 below.

Table 1 - General Fund Overall budget changes

	£'000	£'000
2023/24 Surplus		(22)
Pressures	4,269	
Savings/additional income	(1,700)	
Funding Changes	(724)	
Total Net increase		1,845
2024/25 Draft funding Gap		1,823

- 4.1 The Council is required by law to set a balanced budget, the current draft position for 2024/25 shows an overall funding gap of £1.823m.
- 4.2 This is a draft position at this stage, the final budget will be presented to Cabinet and Council in February. Whilst officers and Cabinet Members are still reviewing possible savings and efficiencies that can be included in the 2024/25 budget it will be necessary to use reserves to fund most of this 2024/25 deficit as well as the current year's forecast overspend. A robust and planned programme of identifying further savings and efficiencies to put the Council's finances in a sustainable and balanced position will need to be started as soon as the 2024/25 budget has been agreed by Council in February 2023.
- 4.3 The Councils Net Cost of Services has increased by £2.59m or 21%, and funding has increased by £747k or 6%, as shown in table 2 below.

Table 2 - General Fund Summary

Service Area		Budget 2023/24	Budget 2024/25	Movement 2023/24 to 2024/25
		£'000	£'000	£'000
Service Expenditure	Employees	11,613	12,369	756
	Premises	1,197	1,192	(5)
	Supplies & Services	4,800	5,293	493
	Transport	353	418	65
	Contracts	4,612	4,828	217
Grants & Income	Grants and Contributions	(1,461)	(1,507)	(46)
	Sales, Fees & Charges	(4,075)	(3,837)	238
	Savings from Savings Programme	-	(557)	(557)
	Rental & Other Income (incl. PV panels)	(1,848)	(1,937)	(89)
Housing Benefits	HB Transfer Payments	11,769	12,401	632
	HB Grants and Contributions	(11,885)	(12,398)	(513)
Net expenditure on services as above		15,074	16,266	1,192
Recharges	Charge to HRA/Capital	(1,937)	(1,843)	94
Capital Financing Costs	Interest Payable - CIFCO	208	198	(10)
	Interest Payable - Other	1,271	2,457	1,186
	MRP Babergh Growth Impairment			-
	Minimum Revenue Provision (MRP)	1,708	1,665	(43)
	Pooled Funds Net Income	(569)	(569)	-
Investment Income	Interest Receivable - CIFCO	(2,187)	(1,955)	232
	Interest Receivable - Babergh Growth Ltd	(15)	-	15
Reserves	Transfers to / (from) Reserves	(1,025)	(1,100)	(74)
Total Net Cost of Services		12,528	15,120	2,592
Government Grants	New Homes Bonus	(825)	(910)	(85)
	Revenue Support Grant (RSG)	(130)	(119)	11
	Services Grant	(86)	(14)	73
	Rural Services Delivery Grant	(266)	(266)	-
	Funding Guarantee	(68)	(95)	(27)
Business Rates	Baseline Business Rates	(705)	(948)	(243)
	Business Rates Pool share of Growth Benefit	(457)	(364)	93
	Business Rates Pool - Removal of Top Slicing		(300)	(300)
	S31 Business Rates Grant	(3,283)	(3,415)	(132)
	Enterprise Zone income	(319)	(237)	82
Council Tax	B/R Prior Year Deficit/(Surplus)	25	57	32
	Council Tax	(6,416)	(6,671)	(255)
	Council Tax Prior Year Deficit/(Surplus)	(21)	(15)	6
Total Funding		(12,551)	(13,297)	(747)
Net Position Before Reserves		(22)	1,823	1,845

General Fund Pressures

- 4.4 The major pressures identified for the General Fund 2024/25 budget totals £4.269m as shown in the table below.
- 4.5 Officers are currently reviewing, with the council's advisers Arlingclose, whether there could be a revenue budget pressure arising from the forecast loss on the housing development at the former HQ in Hadleigh anticipated by Babergh Growth Limited and reported to Cabinet at its meeting in December 2023. This potential pressure has not therefore been included in the table below.

Table 3 - General Fund Pressures

	£'000
Interest Payable due to rise in interest rates.	1,186
Salary Costs Increases	756
Reduction in Planning Fees	358
Investment in Savings Programme	300
Reduction in CIFCO Interest	232
Housing Benefits	119
Serco Contract uplift	94
Charges to HRA/Capital	94
Decrease in Transfers from Reserves in Housing Services	91
Increase in IT Contract Costs	78
Equipment & Vehicle Hire in Public Realm	76
External Audit Fees	62
Reduction in Neighbourhood Plan Income	60
Interim Staff cover in Commissioning & Procurement	49
Increases in Member Allowances & responsibilities.	48
Fixed Term roles in Planning no longer funded	42
Reduction in Building Control Fees	41
Additional transfer to reserves for Neighbourhood Plans	39
Climate Change posts added to core budget	39
Reduction in Land Charges Income	35
Increase in Shared Revenues Partnership Contract	34
Health & Safety posts moved to core budget	33
HR & organisational Development Costs	31
Increased Fuel Costs	31
Fixed Term roles in Economic Development to be funded from BRRP	29
Gas, Electricity & Water	27
Increase in Transport Costs in Housing Solutions	26
Rent & Rates on old HQ Building	22
Other Pressures	236
	4,269

General Fund Savings and additional Income

- 4.6 The major savings and additional income identified for the General Fund 2024/25 budget totals £1.70m 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 submitted for approval by Cabinet.

Table 4 - General Fund Savings/Increase in income

	£'000
Savings Realised from Savings Programme	(557)
Transfers From Reserves	(300)
Increase in Fees and Charges for Garden Waste, Bulky Items & Bins for	(135)
Use of Commuted Maintenance Reserve	(95)
Revenue improvements from the Car Parking Strategy	(70)
Increase in Homelessness & Rough Sleeping Grants	(68)
Dog & Litter Bins, Licencing & Footpaths	(60)
Drawdown on Waste Reserve to offset contract increases	(56)
Discount realised on Car Parks Non-Domestic Rates	(51)
Reduction in MRP reflecting Slippage in Capital Programme	(43)
Funding for usage of Guaranteed Rents Scheme	(34)
Roles in Communities to be mitigated by external funding	(33)
EVCP Income	(32)
Increase in Housing Benefits	(32)
Other Savings	(135)
	(1,700)

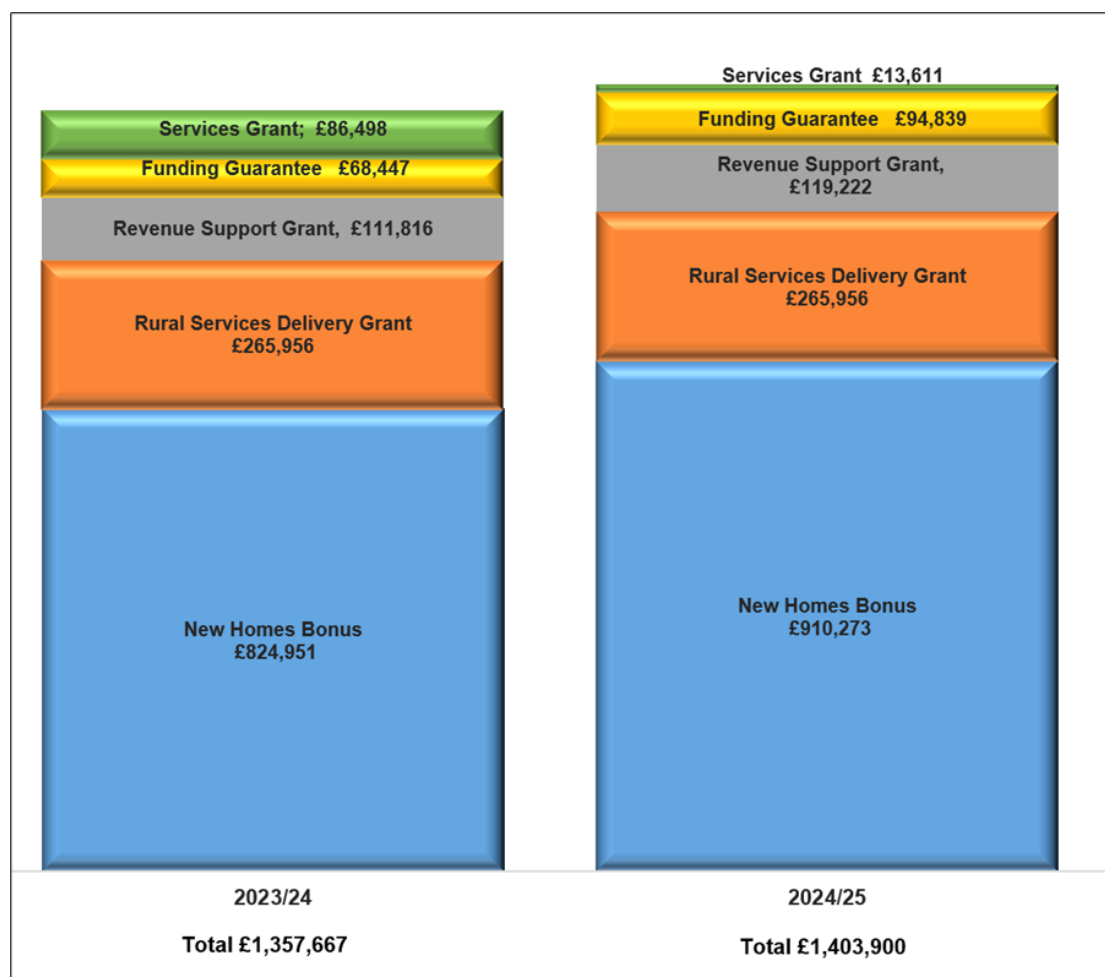
General Fund Funding

- 4.7 The Council's funding including Government Grants, Business Rates, and Council Tax has increased by £747k as shown in the funding section of table 2 above.
- 4.8 The Business Rates figures are provisional and are likely to change as 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 £194k to the Council, whilst the 0.08% growth in Taxbase generates an additional £5k. The overall impact (£199k) equates to only 13% of the increase to the Council's net cost of service.
- 4.10 The provisional local government finance settlement for 2024/25 was announced on 18 December 2023. The key headlines are as follows:
- For the sixth time, the settlement is for one-year only.
 - The small business rates multiplier will be frozen at 49.9p. The standard business multiplier will rise by CPI to 54.6p. The Government will compensate local authorities for the loss of income for this decision up to the level of the September 2023 Consumer Prices Index (CPI), meaning that, taken together, the increase in the Baseline Funding Level (BFL) and the multiplier under-indexation grant for 2024/25 provide an increase of 6.7 per cent.
 - For District Councils' council tax can be increased by the higher of 2.99% or £5

- The current approach to the New Homes Bonus (NHB) is being applied to 2024/25 with a further one-year allocation for housing growth between October 2022 and October 2023. There will be no legacy payments as was the case in 2023/24.
- Revenue Support Grant (RSG) to be increased by CPI (6.7%).
- Rural Services Delivery Grant is being maintained at the same level as 2023/24.
- The Services Grant will decrease from its 2023/24 level of £483.3 million to £76.9 million for 2024/25. This will be distributed through the Settlement Funding Assessment, in the same way as in 2023/24
- The Government has announced that as in 2023/24 it will pay a Funding Guarantee to ensure that all councils will see at least a 3% increase in their Core Spending Power before any decisions about organisational efficiencies, use of reserves or council tax levels. The Funding Guarantee will be funded through the Services Grant

4.11 The Councils 2024/25 provisional grant allocations have increased by £46.2k (3.4%) compared to 2023/24

Chart 1 - General Fund Government grant allocations 2023/24 and Provisional 2024/25



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 £1.23m of expenditure is forecast to be funded from reserves next year to fund net service expenditure. This table currently excludes the need to fund the 2023/24 forecast budget overspend of £962k and the likely need to fund most of the forecast 2024/25 budget gap of £1.823m. Taking these into account the overall forecast level of reserves remaining at the end of 2024/25 is £4,569m. Future presentations of this table will show this overall position and the consequential impact on individual reserves.

Table 5 - General Fund Earmarked Reserves

Reserve	Forecast	To	From	Estimated
Business Rates & Council Tax	1,353,389	-	-	1,353,389
Business Rates Retention Pilot (BRRP)	784,477	-	-43,789	740,687
Carry Forwards	147,258	-	-	147,258
Climate Change and Biodiversity	100,291	11,301	-	111,591
Community Housing Fund	122,309	-	-31,480	90,829
Commuted Maintenance Payments	1,384,831	-	-123,050	1,261,781
COVID 19	1,443,758	-	-17,742	1,426,016
Elections Equipment	35,000	-	-	35,000
Elections Fund	-	30,000	-	30,000
Government Grants	259,376	-	-	259,376
Homelessness	170,999	-	-28,404	142,595
Neighbourhood Planning Grants	75,739	90,000	-26,523	139,216
Planning (Legal)	597,805	-	-128,000	469,805
Planning Enforcement	92,848	-	-	92,848
Rough Sleepers	16,592	-	-	16,592
Strategic Planning / Joint Local Plan	85,000	-	-10,000	75,000
Strategic Priorities	1,317,187	-	-565,423	751,764
Temporary Accommodation	226,981	-	-56,657	170,324
Waste	235,932	-	-200,000	35,932
Well-being	4,223	-	-	4,223
TOTAL EXCLUDING USE TO BALANCE	8,453,994	131,301	-1,231,069	7,354,226

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 £1,545. 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

The original budget for 2023/24 agreed by Council in February 2023 was a deficit of £602k. The proposed budget for 2024/25 is a deficit of £10.136m which is due to ongoing financial pressures described above and proposals to use the Strategic Reserve to increase the Revenue Contribution to capital budget and to repay and not refinance an upcoming loan repayment of £6m. Both of these latter two proposals will mean that the HRA avoids further borrowing at a time of historically high interest rates which benefits the revenue budget position in terms of financing costs.

Table 6 - HRA Overall budget changes

	£'000	£'000
2023/24 Deficit		602
Pressures	1,761	
Savings/additional income	(2,706)	
Revenue Contribution to Capital increase	4,480	
Loan Repayment	6,000	
Total Net increase		9,535
2024/25 Draft Deficit		10,136

5.3 This is a draft position at this stage, the final budget will be presented to Cabinet and Council in February.

5.4 The Councils Total Cost of Services has increased by £1.162m (10%), and income has increased by £2.43m (12%), as shown in table 7 below.

Table 7 - HRA Summary

	Budget 2023/24 £'000	Budget 2024/25 £'000	Movement 23/24 vs Budget 24/25 £'000
Dwelling Rents	(18,875)	(21,053)	(2,178)
Service Charges	(659)	(907)	(248)
Non-Dwelling Income	(238)	(238)	
Other Income	(75)	(79)	(4)
Total Income	(19,847)	(22,277)	(2,430)
Housing Management	5,353	5,075	(277)
Building Services	4,999	6,369	1,369
Repairs and Maintenance (all areas except Trades Team)	1,030	1,087	724
Bad Debt Provision	100	113	13
Total cost of service	11,482	12,644	1,162
Depreciation	4,817	4,913	96
Interest payable	3,068	3,283	215
Loan Repayment		6,000	6,000

	Budget 2023/24 £'000	Budget 2024/25 £'000	Movement 23/24 vs Budget 24/25 £'000
Revenue Contribution to Capital	1,092	5,572	4,480
Interest Received	(10)		10
Deficit / (Surplus) for Year	602	10,136	9,535

HRA Pressures

5.5 The major pressures identified for the HRA 2024/25 budget totals £12.241m as shown in the table below.

Table 8 - HRA Pressures

	£'000
Loan Repayment	6,000
Revenue Contribution to Capital	4,480
Repairs inc. voids (inflation and increase based on outturn)	603
Building Services Transformation	454
Interest charges	225
4% Pay increase	183
Depreciation	96
Planned maintenance - heating (inflation)	90
Renewable Heat Incentive no longer received	50
Fire Prevention increased due to 2023/24 increased actual spend	44
Contracted Services (inflation)	15
Total Draft Pressures	12,241

HRA Savings and additional Income

5.6 The major savings and additional income identified for the HRA 2024/25 budget totals £2.706m as shown in table 9 below.

Table 9 - HRA Savings/Increase in income

	£'000
Rental income – based on 7.7% increase	(2,178)
Service Charges	(248)
Recharges	(90)
Other savings on reduced one off costs and expenses	(190)

Total Draft Savings/additional Income	(2,706)
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- 5.7 Rents for Council Housing are increased by 7.7% which is equivalent to an average rent increase of £7.92 a week for social rents and £11.13 a week for affordable rents.
- 5.8 It has been assumed that there will be 17 properties purchased by the tenant through the Right to Buy mechanism for 2024/25. The number of voids is based on a rate of 1%. All these assumptions generate £2.178m additional income.
- 5.9 Sheltered Housing costs have increased significantly over the past few years and therefore, service charges and utilities have risen to fully cover these costs by an average of 37%.
- 5.10 Garages increased by RPI, 8.9%.
- 5.11 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 resulted in the Government making a change to the rent settlement last year. 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 against the backdrop of aging stock which requires urgent investment.

HRA Reserves

- 5.12 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.
- 5.13 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.
- 5.14 The 2024/25 budget position means that the Council will reduce its Strategic Priorities Reserve by £9.369m. The balance in the reserve at 31 March 2024, as a result of the budget proposals, is forecast to be £5.352m, which equates to around £1,510 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

Reserves	Balance at 31 March 2023 £'000	Forecast Balance at 31 March 2024 £'000	2024/25 Budget Deficit £'000	2024/25 Capital interest £'000	Forecast Balance at 31 March 2025 £'000
Strategic Reserves	(15,093)	(14,721)	10,136	(767)	(5,352)
Big 20 Reserve	(96)	(96)	0		(96)
Building Council Homes Programme	(20)	(20)	0		(20)
Working Balance	(1,000)	(1,000)			(1,000)
Total Reserves	(16,209)	(15,837)	10,136	(767)	(6,468)

5.15 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 Our Plan for Babergh 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	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	Significant Risk Register SRR004BDC
Babergh Council may fail to be financially stable	3	3	Sharing of integrated workforce with Mid Suffolk Single efficient office space Shared policies and procedures	Significant Risk Register SRR008BDC
BDC may suffer a significant overspend that needs to be funded from reserves	3	3	Quarterly budget monitoring reports to Cabinet Quarterly review of level of reserves	Significant Risk Register SRR0013BDC

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 4th 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 included engagement around how the Council currently spends its money by presenting the budget by % spend in different areas.
- 10.4 The consultation closed on the 15th of November and the responses to the survey have helped to ensure the Councils budget aligns to the new 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/23/27 General Fund Financial Monitoring 2023/24 Quarter 2

BCa/23/27 Housing Revenue Account Fund Financial Monitoring 2023/24 Quarter 2

BCa/23/32 Fees and charges 2024/25

Draft General Fund (GF) and Housing Revenue Account (HRA) 2024/25

[**BC/22/41 General Fund Budget 2023/24 and four year outlook**](#)

[**BC/22/42 Housing Revenue Account \(HRA\) 2023/24 Budget**](#)