

## **MSDC CABINET – 7 FEBRUARY 2024**

### **ADDITIONAL INFORMATION 2024/25 GENERAL FUND BUDGET**

#### **1. INTRODUCTION**

1.1 Agenda item 8 (report reference MCa/23/42) states under section 3.3:

- That, as at the time of writing this report, several budget items are not yet final estimates: namely, financing charges (see paragraph 5.10), costs arising from likely regulatory changes in accounting for loan impairments (paragraph 5.13) and final grant income figures from central government (paragraph 5.18). Officers will aim to table final estimates to Cabinet at its meeting for endorsement.

1.2 This additional report fulfils those undertakings with the exception of the final grant figures from central government for 2024/25. The Final Financial Settlement was received in the afternoon of 6 February 2024 which did not allow enough time to incorporate the figures into this report.

#### **2. RECOMMENDATIONS**

2.1 That Cabinet endorses for recommendation to Cabinet:

- a) The creation of an Expected Credit Loss Reserve of £538k as explained in paragraphs 3.4 to 3.11 to be funded by using some of the 2024/25 forecast surplus in the revenue budget for this purpose.

#### **3. FINAL ESTIMATES**

##### **Financing charges**

3.1 The Finance Team has done a preliminary review of the existing model for estimating the financing costs arising from the council undertaking external borrowing for funding the capital programme, refinancing any loan repayments that are due, and for short term cash needed to keep the council liquid.

3.2 The team recommends that the model can be enhanced to give more accurate estimates by incorporating additional detailed cash flow forecasts into the model. These improvements will however take some time to undertake and cannot be done in time for setting the 2024/25 budget, and therefore this work will progress in-year.

3.3 However, the preliminary review has established that whilst the HRA (Housing Revenue Account) has been charged its share of interest costs arising from the estimated short-term borrowing needed to keep the council liquid, the General Fund estimates currently do not contain the corresponding credit amount. Therefore, interest costs in the General Fund 2024/25 budget will be decreased

by £1,306.410. (The same situation has occurred for the 2023/24 budget and the Quarter 3 revenue budget forecast therefore will show a decrease in interest costs of £1.7m).

### **Accounting for loan impairments**

- 3.4 Where local authorities finance capital expenditure from borrowing, including any borrowing undertaken to finance capital loans to third parties, they must set aside an amount of money each year to ensure that the loan amount can be repaid in the future. This amount of money is called the Minimum Revenue Provision (MRP). In practice, the application is more complex, but the 2003 Local Authority (Capital Finance & Accounting) regulations were introduced with the aim of ensuring that councils do not borrow more than they can afford. This is because MRP is a cost that must be met from a council's revenue budget which has to be balanced each year. Therefore, in deciding whether any new capital expenditure is to be funded by borrowing a council must consider whether it can afford the cost of the associated MRP (and interest charged on the borrowing) from its revenue budget.
- 3.5 In recent years, central government has been concerned that many councils employ practices which result, in its view, in the underpayment of MRP. They are therefore currently consulting on changes to the regulations governing MRP. Given that this is the third consultation undertaken over the last couple of years on this issue – it is highly likely that their final proposals will be introduced in April 2024.
- 3.6 The changes likely to be introduced include regulations relating to the treatment of a loan impairment, more properly called an Expected Credit Loss (ECL). The word “expected” in this term comes from probability theory: it is the arithmetic mean of the possible values a random variable can take, weighted by the probability of those outcomes. It doesn't mean that the expected value will definitely happen.
- 3.7 Councils already account for expected or actual losses of loans not being repaid in their annual Statement of Accounts. If these are not capital loans that have been funded by council borrowing, then under existing rules these are “reversed out” of the accounts so that they do not impact on the revenue budget.
- 3.8 If the loan is a capital loan funded by the council undertaking borrowing, then under the existing regulations councils are required to make an MRP charge of at least equal to the expected credit loss or actual loss and charge this to the revenue budget over the estimated useful life of the asset starting in the year after the asset/s become operable.
- 3.9 Under the government's revised proposals any expected credit loss or actual loss arising from a loan lent to a third party must be charged to the revenue budget in the year the loss is recognised, with no option to spread the cost over future years. The amount charged however only needs to be equal to any increase from the previous year's calculated loss and not the total cumulative loss. If the calculated ECL has decreased from the previous year, then the credit

can be applied to the Capital Funding Requirement (the amount of indebtedness the council holds) to reduce future MRP payments to the revenue budget.

- 3.10 The proposed changes from government in accounting for ECLs have implications for the council in terms of the lending it has undertaken to CIFCO Ltd. Arlingclose has undertaken ECL calculations and advise that, given current assumptions regarding the agreed deferment of interest income owing to the council in 2022/23 and 2023/24 from CIFCO Ltd, a sum of £538k needs to be set aside to fund the ECL if the proposed regulations come into effect in 2024/25.
- 3.11 They further advise that the council could minimise its risks if it sets aside this amount in the current, i.e. 2023/24, financial year with the objective of making a voluntary MRP payment at year-end as part of the annual Statement of Accounts preparation. It may be known then whether government has introduced the regulatory changes and whether there are any transitional arrangements to dampen the impact of the changes. In order to do this the council will be asked to change its MRP Policy for both this financial year and for next at its meeting on 22 February 2024. (The MRP Policy is part of the annual Treasury Management, Investment and Capital Strategy report).

#### **4. AMENDED 2024/25 BUDGET POSITION**

- 4.1 The consequential impact of including the revised estimates for financing charges and the recommendations of this report are shown in the following tables:
- Table 1: 2024/25 General Fund budget
  - Table 2: Earmarked Reserves (the figures presented include the increase in reserves from the quarter 2 forecast surplus for 2023/24 as well as the 2024/25 budgeted surplus shown in table 1).

**Table 1: 2024/25 General Fund budget**

Service Area		Budget 2023/24	Budget 2024/25	Movement 2023/24 to 2024/25
		£'000	£'000	£'000
<b>Service Expenditure</b>	Employees	13,128	13,698	570
	Premises Expenses	1,255	1,337	82
	Supplies & Services	5,181	6,717	1,536
	Transport Expenses	409	504	95
	Third Party Payments	4,573	4,827	254
<b>Grants &amp; Income</b>	Grants and Contributions	(1,715)	(1,705)	10
	Sales, Fees & Charges	(5,407)	(4,827)	580
	Rental & Other Income (incl. PV panels)	(1,698)	(1,894)	(195)
<b>Housing Benefits</b>	HB Transfer Payments	9,239	9,239	-
	HB Grants and Contributions	(9,366)	(9,366)	-
<b>Net expenditure on services as above</b>		<b>15,599</b>	<b>18,532</b>	<b>2,933</b>
<b>Recharges</b>	Charge to HRA/Capital	(1,761)	(1,792)	(32)
<b>Capital Financing Costs</b>	Interest Payable - CIFCO	416	396	(21)
	Interest Payable - Other	1,090	951	(139)
	Minimum Revenue Provision (MRP)	1,475	1,324	(151)
<b>Investment Income</b>	Pooled Funds Net Income	(566)	(566)	-
	Interest Receivable - CIFCO	(2,187)	(2,172)	14
	Interest Receivable - Gateway 14	(97)	-	97
	Interest Receivable - Other	(31)	(31)	-
	Dividend from Gateway 14 Ltd		(20,000)	(20,000)
<b>Reserves</b>	Transfers to / (from) Reserves	(1,499)	(2,411)	(912)
	Transfer of Gateway 14 Dividend into reserves		20,000	20,000
<b>Total Net Cost of Services</b>		<b>12,441</b>	<b>14,230</b>	<b>1,789</b>
<b>Government Grants</b>	New Homes Bonus	(1,427)	(1,683)	(256)
	Revenue Support Grant (RSG)	(132)	(121)	12
	Services Grant	(92)	(14)	78
	Rural Services Delivery Grant	(508)	(508)	-
	Funding Guarantee	(450)	(305)	145
<b>Business Rates</b>	Business Rates	(6,387)	(9,479)	(3,092)
<b>Council Tax</b>	Council Tax	(6,846)	(7,276)	(430)
	Council Tax Prior Year Deficit/(Surplus)	(177)	(98)	79
<b>Total Funding</b>		<b>(16,019)</b>	<b>(19,484)</b>	<b>(3,465)</b>
<b>Net Position Before Reserves</b>		<b>(3,578)</b>	<b>(5,254)</b>	<b>(1,675)</b>

**Table 2: Earmarked Reserves**

Reserve	Budget Balance as at 31/03/24	Forecast Balance as at 31/03/24	To Reserve 2024/25	From Reserve 2024/25	Estimated Balance at 31/03/25	Committed 2025/26	Committed 2026/27	Committed 2027/28	Balance with known commitments as at 31st March 2028
<b>Business Rates &amp;</b>	5,201,905	4,081,920	0	0	4,081,920	0	0	0	4,081,920
<b>Business Rates</b>	394,335	380,463	0	-48,855	331,608	-40,569	0	0	291,039
<b>Carry Forwards</b>	128,799	128,799	0	0	128,799	0	0	0	128,799
<b>Climate Change and</b>	849,433	629,141	0	0	629,141	0	0	0	629,141
<b>Commercial</b>	5,364,025	0	0	0	0	0	0	0	0
<b>Community</b>		500,000	0	0	500,000	0	0	0	500,000
<b>Community Housing</b>	140,827	140,827	0	-28,441	112,387	-29,294	-30,173	-31,078	21,842
<b>Commuted</b>	390,323	436,080	0	-113,979	322,101	-74,455	-74,455	-74,455	98,736
<b>COVID 19</b>	841,624	848,616	0	-17,742	830,874	0	0	0	830,874
<b>Elections Equipment</b>	35,000	35,000	0	0	35,000	0	0	0	35,000
<b>Elections Fund</b>	158,895	20,000	40,000	0	60,000	41,200	42,436	43,709	187,345
<b>Expected Credit Loss</b>	-	0	538,000		538,000	0	0	0	538,000
<b>Financial Resilience</b>	-	0	1,000,000	0	1,000,000	0	0	0	1,000,000
<b>Government Grants</b>	326,851	326,851	0	0	326,851	0	0	0	326,851
<b>Thriving Communities</b>	8,303,779	15,043,901	4,740,610	-5,001,426	14,783,086	-4,947,386	-570,000	-250,000	9,015,700
<b>Homelessness</b>	337,019	378,124	0	-86,934	291,190	-86,934	-86,934	-86,934	30,388
<b>Strategic Planning</b>	310,715	40,942	0	-10,000	30,942	-10,000	-10,000	0	10,942
<b>Neighbourhood</b>	72,523	72,268	0	0	72,268	-26,523	-26,523	-26,523	-7,301
<b>Planning (Legal)</b>	1,259,913	1,259,913	0	-107,000	1,152,913	-107,000	-107,000	-107,000	831,913
<b>Planning Enforcement</b>	45,000	45,000	0	0	45,000	0	0	0	45,000
<b>Repair &amp; Renewals</b>	292,690	292,690	0	0	292,690	0	0	0	292,690
<b>Rough Sleepers</b>	25,665	25,665	0	0	25,665	0	0	0	25,665
<b>Strategic Efficiencies</b>	250,000	750,000	0	0	750,000	0	0	0	750,000
<b>Temporary</b>	362,585	362,585	77,850	-85,918	354,518	-8,068	-8,068	-9,316	329,066
<b>Waste</b>	186,148	186,148	0	-186,148	0	0	0	0	0
<b>Welfare Benefits</b>	6,573	6,573	0	0	6,573	0	0	0	6,573
<b>Well-being</b>	89,387	18,763	0	0	18,763	0	0	0	18,763
<b>Gateway 14 Dividend</b>	-	0	20,000,000	-1,594,332	18,405,668	-3,883,639	0	0	14,522,030
<b>Skills &amp; Innovation</b>	-	0	3,188,664	-3,188,664	0	0	0	0	0
<b>TOTAL</b>	<b>29,297,652</b>	<b>26,010,269</b>	<b>29,585,124</b>	<b>-10,469,439</b>	<b>45,125,954</b>	<b>-9,172,667</b>	<b>-870,716</b>	<b>-541,597</b>	<b>34,540,974</b>

Total To/From Reserves 2024/25 (29.5m-10.4m)	19,115,685
Dividend Gateway 14	-20,000,000
Movement to Capital from Thriving Communities	1,594,332
Movement to Capital from Dividend	1,594,332
<b>Total as per General Fund Summary</b>	<b>-2,411,651</b>