

GENERAL REVENUE BUDGET SERVICE AND FINANCIAL PLANNING – GUIDELINES FOR 2023/24

REPORT OF: INTERIM HEAD OF CORPORATE RESOURCES
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Wards Affected: All
Key Decision: Yes
Report to: Cabinet
12th September 2022

Purpose of Report

1. This report sets out the service and financial context within which the authority will operate over the next two years and sets out guidelines for developing the Corporate Plan and Budget for 2023/24. It is intended to set a direction for the authority when considering future service and financial decisions, against a background of post-pandemic recovery.

Summary

2. Subject to discussion at Cabinet, the content of this report will guide the preparation of service plans and budget proposals through the autumn and will enable a draft Corporate Plan and Budget to be published for Members' consideration in December.

Recommendations

3. **The Cabinet is recommended to:**
 - (i) **Endorse the guidelines set out within this report and use these principles in preparing the 2023/24 Corporate Plan and Budget**
 - (ii) **Note the need to increase Council tax levels by the maximum permissible level, without needing a referendum**
 - (iii) **Instruct officers to undertake a detailed review of reserves and revenue balances**
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Background

The national picture

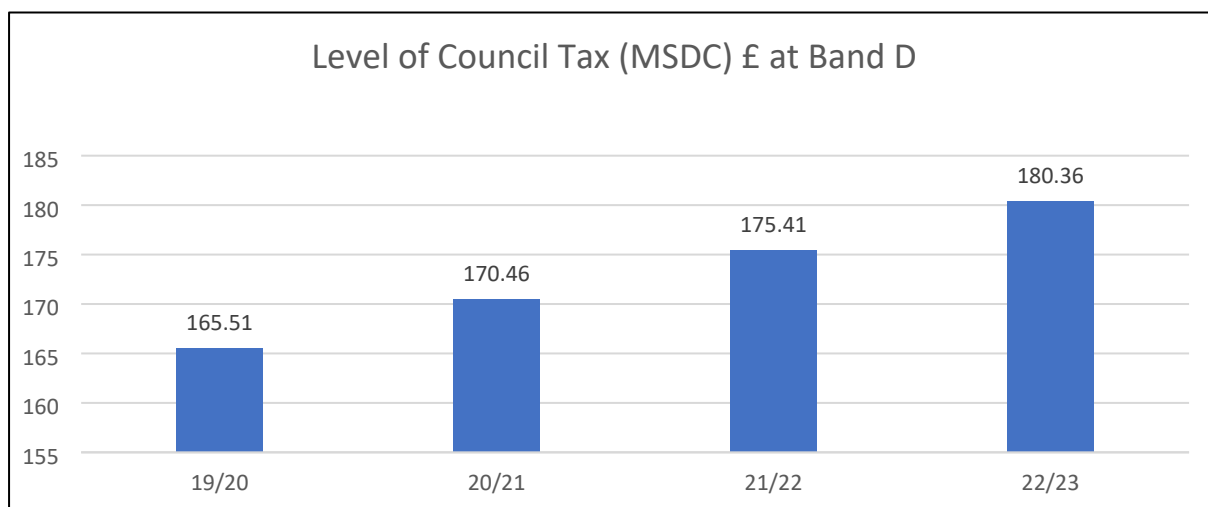
4. Local Government has played a key role in the delivery of local services during the period of the pandemic. In support of this, after a ten-year period of expenditure constraint in 2022/23 there was a significant increase in core spending power (the basis on which central government support is distributed to local authorities) which has seen a growth in support to district councils generally and Mid Sussex District Council (MSDC) in particular.
5. Overall, funding settlements for MSDC have been much better than for shire districts as a whole – but districts have done much less well than authorities with social care responsibilities. Since 2015/16 Core Spending Power (CSP) to MSDC has increased by 4.2% compared with a reduction of 8.6% for Shire Districts as a whole.
6. Related to this at the Local Government Association Conference on 28 June 2022 the then Secretary of State for Levelling Up Housing and Communities (LUHC), Michael Gove MP announced that the next local authority finance settlement would cover two financial years 2023/24 and 2024/25. This settlement would be in December 2022 and would be a welcome initiative to local authorities as it would provide a degree of stability in the

medium term. Since that announcement has been made Greg Clark MP has replaced Michael Gove MP as Secretary of State and it is yet to be clarified whether the two-year settlement will continue to be Government policy.

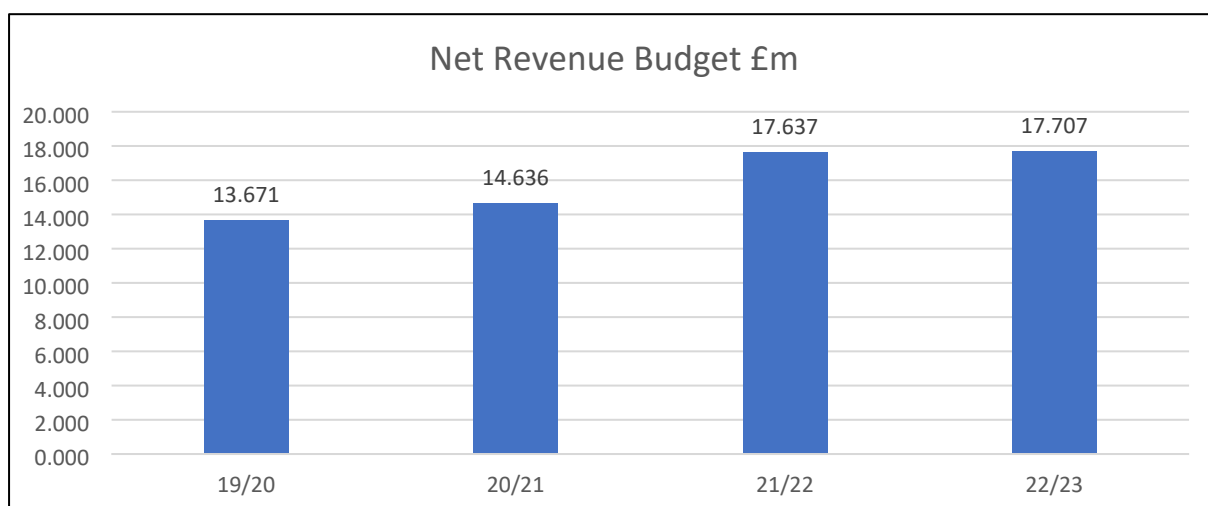
7. Relating to this, the Council will be making comprehensive representations prior to the settlement announcement.

MSDC Historical Position

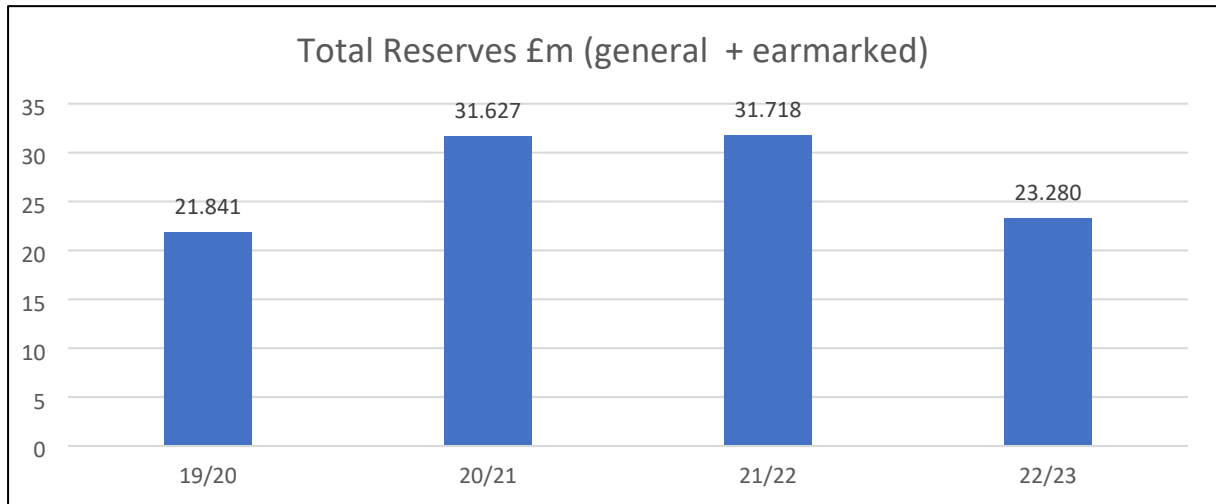
8. MSDC has a positive history of stable financial management. In terms of council tax MSDC has, in recent years set the maximum increase that central Government allow before the triggering of a referendum. The chart below shows the movement in the council tax at band D level over the last four years:



9. The increase in the council tax is one of the factors which has enabled the maintenance and development of services during what has been an especially challenging time for local government. The movement in the level of the revenue budget over the past four years is shown below:



10. To support the revenue budget and provide reliance the council has put aside significant revenue reserves. The movement in reserves over the past four years is shown in the chart below:



11. Members should be aware that the high level of reserves in 2020/21 and 21/22 was inflated by funding provided by the government to support costs associated with the Covid 19 pandemic. MSDC reserves are at 26.4% of net revenue expenditure about the shire district average.
12. MSDC is consistent with the shire district average which is materially above the levels for England local authorities.
13. Overall, the historical position of MSDC is financially sustainable, however in the current turbulent financial environment there are significant challenges and risks for 2023/24 and beyond.

Income from fees and charges

14. A significant amount of MSDC income is from fees and charges. The table below shows our projection on the key income streams forecast for 2023/24.

Key income items					
INCOME	2021/22	2022/23	2022/23	2023/24	To Note: *2022/23 Budget Unadjusted For Covid-19* £'000
	Original Budget £'000	Original Budget £'000	Forecast Outturn £'000	Forecast Budget £'000	
Car Park Charges	(1,481)	(1,831)	(1,831)	(1,831)	(2,151)
Development Management Fees	(1,209)	(1,216)	(1,216)	(1,216)	(1,494)
Building Control Fees	(446)	(447)	(447)	(447)	(447)
Land Charges	(153)	(107)	(107)	(107)	(107)
Licensing Act Fees	(145)	(146)	(161)	(146)	(146)
Hackney Carriage Fees	(139)	(139)	(114)	(139)	(139)
Outdoor Facilities Income	(279)	(276)	(333)	(276)	(276)
Garden Waste	(1,638)	(1,548)	(1,548)	(1,548)	(1,548)
Leisure Contract Income	0	(600)	(600)	(1,444)	(1,444)
Industrial Estates Rents	(1,340)	(1,340)	(1,399)	(1,340)	(1,340)
Town Centre Rents	(2,063)	(2,231)	(2,165)	(2,231)	(2,231)
Depot Rent	(77)	(81)	(87)	(81)	(81)
General/Miscellaneous Property	(293)	(309)	(339)	(309)	(309)
Total Income	(9,263)	(10,271)	(10,347)	(11,115)	(11,713)

New Homes Bonus (NHB)

15. The long-term future of the NHB has been consulted upon. Decisions on the future of the scheme have not yet been issued. The Government can continue the scheme as is, modify or end the scheme.
16. As the position is currently certain we are currently budgeting only for a legacy payment from previous years. This shows a material reduction from previous years.
17. Past practice in MSDC has been to use NHB to contribute to the general reserve. However, the government guidance on the use of NHB is that it can be used for any purpose that the government considers appropriate, including either revenue or capital spend.

New Homes Bonus (NHB)			
Year	2021/22 £000s	2022/23 £000s	2023/24 £000s
8	878		
9	548	548	
10 (Rollover settlement one-year payment only)			
11 (Rollover settlement one-year payment only)	885		
12 (Rollover settlement one-year payment only)		1,680	
Total	2,311	2,228	TBC

Business Rate Retention (BRR) scheme

18. This is an area that has proved successful for Mid Sussex, due to the levels of economic growth in the area.
19. We have seen our rate base debit rise from £47.276m to £62.687m over the period from 2013 with corresponding increases in the level of retained income. Significantly, MSDC has also benefited from the Rampion Windfarm substation being situated in the district, since this adds some £983k pa to our income, and is protected by specific legislation, designating that income as for MSDC and now other public authority.
20. Although the pandemic adversely affecting the retail and office sectors of the economy, we, can be forecast income, for 22/23 as shown below. Of course, this will need reviewing later in the process to ensure it remains prudent but does act as a good estimate for these strategy purposes.

Year	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Retained income	3.4	5.2	5.1	6.1	4.4	4.6

21. Thus, income from retained business rates looks to be stable for 2023/24. The following year there is predicted to be a fall income. This is due to a potential reset of the business rate baseline. As with NHB it is unclear if this will happen and if it will be in 2024/25.

Status of national reviews

22. For some years central government has been discussing a revenue of resource distribution. This has is known as the Fair Funding Review. Greg Clark MP has yet to announce his intentions as to the future of this review and when, if at all it will be implemented. This is linked with the overall, “Levelling up Agenda” of national government. It is undoubtedly the case that it presents risks for MSDC and other local authorities with similar geographic, social, and economic characteristics, however, attempts to predict the outcome on the review are pure speculation at this stage.

Council tax base

23. The Council will set the tax base at the December meeting. Our forecast is an increase of 1.4% for next year but this will be kept under review for 24/25 and future years.

Council tax levels

24. The limit on the increase of Council Tax levels for District Councils has been limited to either 1.99% or £5 at band D before the requirement for a referendum. MSDC has increased tax at Band D by £5 per annum, each year since 2010. This has enabled a measured increase in the net revenue budget each year, in support of the delivery and development of high-quality services over recent years.

25. The underlying assumption of the Medium-Term Financial Strategy (MTFS) is that MSDC will set the maximum increase for 2023/24 and this is a key recommendation of this report. If this is excepted, it would give MSDC at Council Tax at band D of £185.31 for 2023/24.

2022/23 in-year position

26. The forecast revenue outturn position for 2022/23 at the end of July is showing a projected net overspend of £701,000 against the original budget. The last report Cabinet on 18 July 2022 highlighted the forthcoming challenges facing the Council in relation to both rising energy costs and inflation on the Council’s budget for 2022/23.

27. As previously explained, although modest inflationary increases were budgeted in the Corporate Plan and Budget report approved at Council in March 2022, prices have risen sharply since the start of the year. The Consumer Price Index (CPI) rose to 10.1% by the end of July. As a result, further work to quantify the projected inflationary pressures for the year has now been undertaken showing these are currently predicted to be circ. £762,000. These are partly offset by the net on-going 2021/22 savings previously reported to Members in the last Budget Management Report.

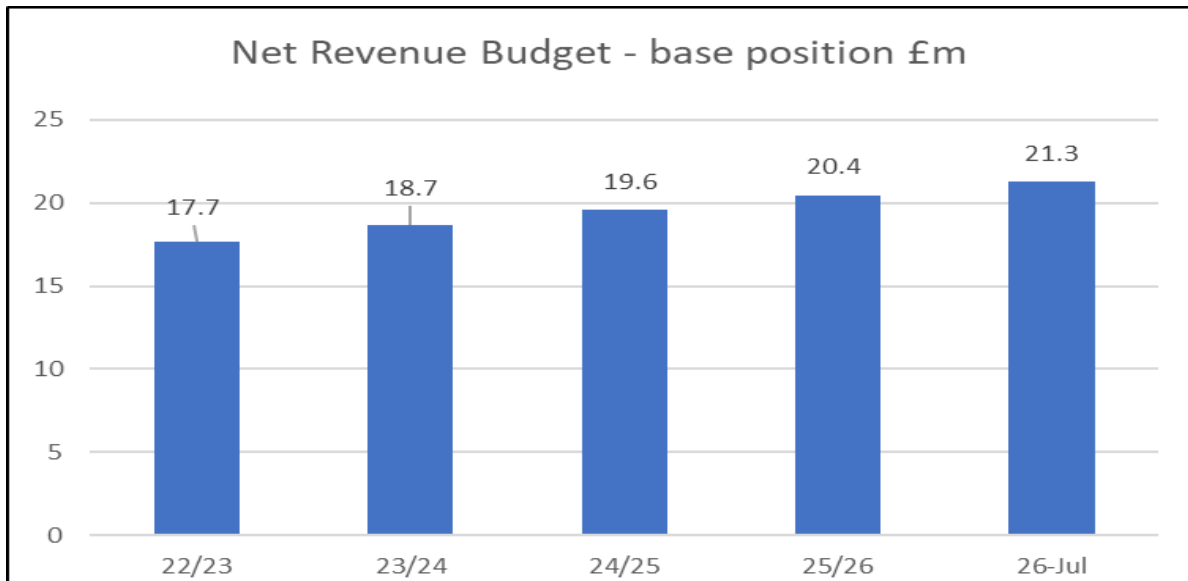
Inflation

28. Inflation in table below shows our current assumptions for inflation in the current MTFS:

Year	2023/24	2024/25	2025/26	2026/27
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Inflation	1.2	2.0.	2.7	3.5

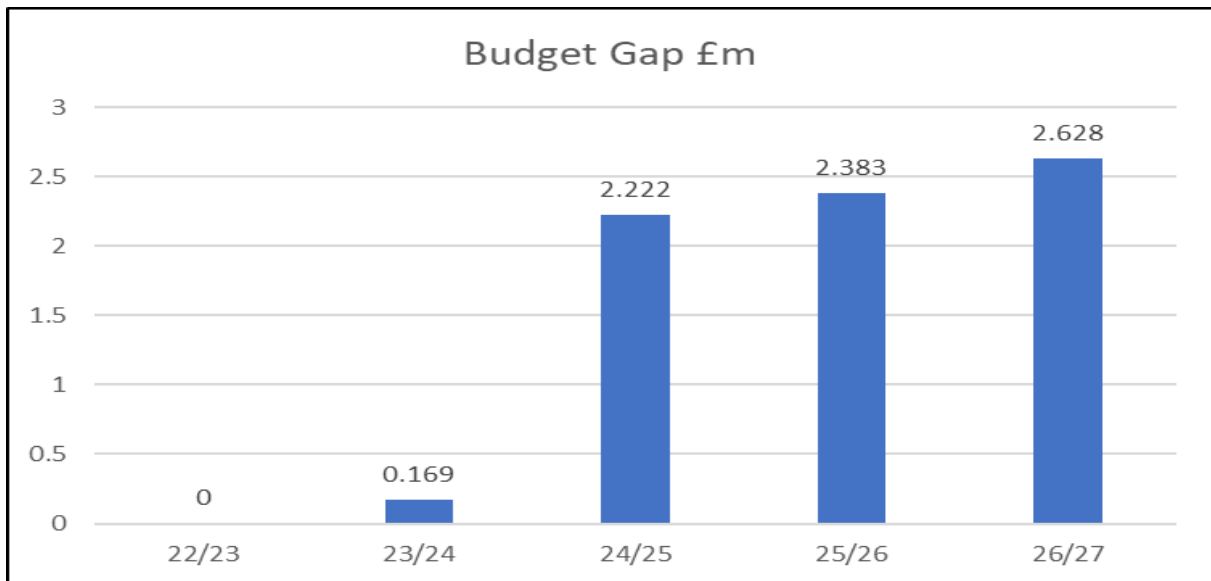
The 2023/24 base position

29. The chart below shows the base position going forward to 2026/27 taking account of known inflationary pressures.



The budget gap 2023/24 and beyond

30. Considering the assumptions, we have made over the next four years; we have a total budget gap of £7.4m spread as shown in the chart below. The underlying figures are detailed in Appendix A.



To meet the deficit shown in this budget gap MSDC will either have to make savings, increase income or draw down from reserves.

Growth

31. At this point is time we can already report some growth items that were not included in the budget when it was set in March 2022. These are set out in the table below:

	2023/24	2024/25	2025/26	2026/27

	£'000	£'000	£'000	£'000
Hackney Carriage Income	25	25	25	25
Revenues and Benefits Card charges	14	14	14	14
Cashless parking transaction processing	27	27	27	27
Corporate Estates & Facilities Salaries	33	33	33	33
	99	99	99	99

Savings

32. There are also some ongoing legacy savings that were not reported in the March budget report:

Licencing Income	(15)	(15)	(15)	(15)
Environmental Health Staff	(27)	(27)	(27)	(27)
NNDR	(27)	(27)	(27)	(27)
Pay award 2021/22 1.75%	(42)	(42)	(42)	(42)
Rateable Value finder consultancy	(27)	(27)	(27)	(27)
Housing support	(20)	(20)	(20)	(20)
Car Park repairs	(21)	(21)	(21)	(21)
Additional Playgroup Income	(47)	(47)	(47)	(47)
Outdoor Facilities Ground Rent	(10)	(10)	(10)	(10)
Bulky waste Income	(19)	(19)	(19)	(19)
Depots rent	(6)	(6)	(6)	(6)

Operational Properties rents & licences	(30)	(30)	(30)	(30)
Industrial Estates rents	(42)	(42)	(42)	(42)
Total	(333)	(333)	(333)	(333)

Leisure Contract

33. As a result of Covid 19 the leisure contract has been underperforming in its contribution to MSDC. So far as the plans for 2023/24 are concerned the full contractual contribution of £1.4m is assumed in the based position.

Pension Fund

34. The triennial revaluation of the West Sussex County Council pension fund (which provides pensions for MSDC) took place on in March 2022. The results of this are that the funding levels are reasonably stable. The implications for the MSDC have been considered and taken account of in the financial plans outlined in this report.

Reserves

35. Members were last updated on the Council's position when adopting the Corporate Plan in March 2022. At that time the medium-term financial plan net position was as shown below:

Year	2022/23	2023/24	2024/25
	<i>£'000s</i>	<i>£'000s</i>	<i>£'000s</i>
Deficit to be financed from General Reserve	181	1,395	1,330

36. We will need to review the Reserves position including the split between ring fenced and earmarked reserves considering the 2022/23 in-year spend and the budget gap for 2023/24 and beyond.

The journey to a balanced budget

37. This paper updates members on the budget guidelines and lays out the process. Appendix B of this report is the timetable for the setting of the budget going forward.

Policy Context

38. Setting a financial strategy and understanding the environment within which the authority operates is a fundamental requirement in preparing the annual Corporate Plan and Budget. The strategy and supporting service plans will be informed by the Councils' agreed corporate policies in the usual way.

Other Options Considered

39. MSDC has a limited financial flexibility within the local government financial system that exists at present. The major policy option would be not to increase the Council Tax. In

2023/24 each £1 of council tax forgone loses the council £64,116 in one year. Therefore a 0% increase in the council tax would forego £317,000 in one year and £1,268,000 over four years. A decision not to put up the tax to the maximum would increase financial risks to the council over the long term. It is also worth noting that the MSDC element of the tax only amounts to 8.8% of the overall tax so the gain to the taxpayer of not taking the whole tax will be minimal.

Financial Implications

40. The entire report deals with financial issues.

Risk Management Implications

41. The forecasts contained are based on the best information available to the Council at this time and have been subjected to an appropriate level of due diligence to ascertain that the financial position is as described.

Equality and Customer Service Implications

42. The impact assessment has been on the subjects covered by this report; these will be drawn up and considered when such decisions are implemented.

Sustainability Implications

43. None

Background Papers

None

APPENDIX A

Cabinet 12 September 2022 (inflation at latest CPI)

Revenue Spending	Year 0 2022/23 £'000	Year 1 2023/24 £'000	Year 2 2024/25 £'000	Year 3 2025/26 £'000	Year 4 2026/27 £'000
Base Net Expenditure	17,024	16,266	16,353	16,410	16,441
Benefits	(119)	(119)	(119)	(119)	(119)
Drainage levies	-	-	-	-	-
Base Revenue Spending	16,905	16,147	16,234	16,291	16,322
Balance Unallocated	20	20	20	20	20
Council Net Expenditure	16,925	16,167	16,254	16,311	16,342
Contribution to Development Plan Reserve	300	300	300	300	300
Contribution to Job Evaluation Reserve	532	594	594	594	594
Net On-going savings from 2021/22	-	(234)	(234)	(234)	(234)
Increase on 2022/23 budgeted inflation to be built into base net expenditure	-	870	870	870	870
Other known growth items	-	103	103	103	103
Net General inflation	-	1,170	1,957	2,744	3,531
Savings from efficiency programme	(50)	(250)	(250)	(250)	(250)
Total Revenue Spending	17,707	18,720	19,594	20,438	21,256
External Funding (RSG)	-	-	-	-	-
Rates Retention Scheme (RRS) funding	(5,146)	(6,115)	(4,448)	(4,631)	(4,693)
HB Admin Grant / LCTS Grant	(315)	(315)	(315)	(315)	(315)
Services Grant 22/23 only	(148)	-	-	-	-
Lower Tier Services Grant 21/22 and 22/23 only	(98)	-	-	-	-
Council Tax Requirement @ 2.75% in 23/24	(11,404)	(11,881)	(12,369)	(12,869)	(13,380)
Dividend income LAPF	(240)	(240)	(240)	(240)	(240)
Collection Fund:					
- Council Tax deficit / (surplus)	(175)	-	-	-	-
-Rates Retention Scheme deficit / (surplus)	4,440	481	-	-	-
Contribution from Rate Retention Scheme Equalisation Reserve including s31 Grant	(4,440)	(481)	-	-	-
Use of General Reserve to balance budget	(181)	-	-	-	-
Cumulative Balance deficit; / (surplus)	(0)	169	2,222	2,383	2,628
Difference year on year		169	2,053	162	245

Financing Revenue Spending	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26	Year 4 2026/27
Council Taxbase	63,230.6	64,116	65,013	65,924	66,847
Change in Taxbase	1.62%	1.40%	1.40%	1.40%	1.40%
	£'000	£'000	£'000	£'000	£'000
Revenue Budget	17,707	18,720	19,594	20,438	21,256
Rates Retention Scheme (RRS) funding	(5,146)	(6,115)	(4,448)	(4,631)	(4,693)
HB Admin Grant / LCTS Grant	(315)	(315)	(315)	(315)	(315)
Services Grant 22/23 only	(148)	-	-	-	-
Lower Tier Services Grant 21/22 and 22/23 only	(98)	-	-	-	-
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-Rates Retention Scheme deficit / (surplus)	4,440	481	-	-	-
Contribution from Rate Retention Scheme Equalisation Reserve including s31 Grant	(4,440)	(481)	-	-	-
Use of General Reserve to balance budget	(181)	-	-	-	-
Total Financing	(17,707)	(18,551)	(17,372)	(18,055)	(18,628)
<i>Balance [(deficit); /surplus]</i>	0	(169)	(2,222)	(2,383)	(2,628)
	(17,707)	(18,720)	(19,594)	(20,438)	(21,256)
Council Tax at Band D	£ 180.36	£ 185.31	£ 190.26	£ 195.21	£ 200.16
Change from previous year	2.80%	2.75%	2.65%	2.60%	2.55%

APPENDIX B

2023/24 Budget Time-Table

Service and Financial Planning Guidelines for 2023/24 report to **Cabinet 12 Sept 2022**

Scrutiny Committee Leader Finance & Performance to consider Draft Corporate Plan and Budget 2023/24 consultation process on **9 November 2022**

Council to consider Council Tax base 2023/24 at meeting on **7 December 2022**

Draft Corporate Plan and Budget 2023/24 published **16 December 2022**

Scrutiny consider Draft Corporate Plan & Budget report on **11 January 2023**

Cabinet consider Draft Corporate Plan & Budget report on **6 February 2023**

Council to agree report on **1 March 2023**