

ARUN DISTRICT COUNCIL BUDGET 2022/23

REPORT BY THE INTERIM GROUP HEAD OF CORPORATE SUPPORT

1.0 Introduction

- 1.1 2022/23 is the first year of budget preparation under the Committee form of governance introduced by the Council on 19 May 2021. Under Committee governance, Service Committees have considered and recommended budgets for the services they provide to the Policy and Finance Committee to allow a recommendation to be made to Full Council on the overall budget to be set for 2022/23.
- 1.2 The Covid-19 pandemic which affected the country since March 2020 is still ongoing and has had significant consequences on the 2020/21 outturn and the expected outturn for 2021/22. At the time of compiling this report, the impact of the Omicron variant was increasing and appeared likely to cause further problems. The wider reforms of local government funding (the Fair Funding Review) were expected to be shelved as the government viewed them as in conflict with the Levelling Up agenda. The Council therefore again had to set its budget against a background of considerable uncertainty.
- 1.3 The 2022/23 provisional local government finance settlement was issued on 16 December 2021. The details are covered in this report. The consultation period on this concluded on 13 January 2022 and the final settlement is anticipated late January or early February 2022.
- 1.4 This report sets out the Capital, Housing Revenue and General Fund Revenue budget for 2022/23. These budgets have been prepared taking account of the following:
- The Medium Term Financial Strategy 2021/22 to 2025/26 considered at Finance and Policy Committee on 14 October 2021.
 - Housing Revenue Account Business Plan update 2021/22 considered at Housing and Wellbeing Committee on 2 December 2021.
- 1.5 The Local Government Act 2003 requires the Chief Financial Officer to report on the robustness of the estimates made for the purposes of calculating Council Tax and housing rent levels, and the adequacy of the proposed financial balances. I am satisfied that the estimates, as presented in the draft budget, are sufficiently robust and that the reserve balances proposed for 2022/23 are adequate. However, there is a significant risk in the medium term for the General Fund when the Council's Funding Resilience Reserve is anticipated to be depleted. In addition, the HRA Business Plan and future years budgets need to be closely monitored to ensure that the stock acquisition programme and enhanced repairs and improvements programme remain affordable.

2.0 Local Government Finance Settlement and Council Tax

2.1 The provisional settlement for 2022/23 was another one year settlement. The reasoning behind this being the ongoing uncertainty as a result of the COVID19 pandemic and the government's stated desire to pursue its Levelling Up agenda. The significant headlines from the announcement were:

- A one-year settlement announced for 2022-23;
- Priority in the settlement is “stability in the immediate term”, with a more fundamental review of local government funding starting in 2022;
- Overall Core Spending Power (CSP) increased by over 4% in real terms (£3.5bn cash), including funding for social care reform and cap compensation;
- The 2022-23 settlement rolled forward many aspects of the 2021/22 settlement;
- A new one-off 2022-23 Services Grant created to fund general responsibilities (2013-14 SFA used to distribute funding);
- The council tax referendum thresholds set at 1.99% maximum “core” increase, 1% adult social care precept, £5 maximum for district councils and £10 maximum for Police and Crime Commissioners. A new £5 maximum precept increase for the lowest-funded fire authorities available;
- Of the £1.5bn made available in SR21, £70m will be used to apply inflation to RSG, £636m for additional social care grants, and £822m for the new Services Grant;
- 42% of the £1.5bn allocated to social care;
- Another additional New Homes Bonus payment (Year 12, £333m), on top of the final “legacy” payment of £221m;
- Funding for the social care reforms (£162m in 2022-23) will use the existing Adult RNF, and is for the Fair Pricing reforms;
- Compensation for under-indexing the multiplier (which will be frozen in 2022-23) is based on the Consumer Price Index (CPI) but will use Retail Price Index (RPI) in the final settlement (which will result in about £225m additional funding);
- Once again, no changes made for those authorities in a “negative RSG” position – and these authorities will receive increased funding via the 2022-23 Services Grant.

2.2 The provisional settlement included the following available to the Council for 2022/23:

Funding	£'000
New Homes Bonus	1,292
Lower Tier Grant	164
Services Grant	253
Total	1,709

2.3 The New Homes Bonus (NHB) was introduced in 2011/12. The aim of the grant was to create an incentive to reward local authorities delivering sustainable housing growth in their areas. The NHB is shared between Arun (80%) and WSCC (20%). The scheme has undergone major reviews and changes having started off with 6 years of payments, which was reduced to 4 years and was now only expected to guarantee legacy payments, declining to zero in 2023/24.

2.4 The NHB for 2022/23 is £1.292m and is based on year 9 legacy payment of £470k and an additional year 12 payment of £822k (an increase of £0.252m over 2021/22). The additional payment was unexpected and not included in the MTFP presented to Policy and Finance Committee on 14 October 2021. The level of NHB is summarised in the table below and, again the expected withdrawal of this funding stream from 2023/24 constitutes a significant depletion of the Council's finances, unless an alternative funding stream is introduced:

NHB Payment relating to:	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
2011/12	509	509	509	509	509	509	0	0	0	0	0	0
2012/13		556	556	556	556	556	0	0	0	0	0	0
2013/14			1,000	1,000	1,000	1,000	1,000	0	0	0	0	0
2014/15				484	484	484	484	0	0	0	0	0
2015/16					539	539	539	539	0	0	0	0
2016/17						926	926	926	926	0	0	0
2017/18							728	728	728	728	0	0
2018/19								540	540	540	540	0
2019/20									470	470	470	470
2020/21										557	0	0
2021/22											30	0
2022/23												822
Total	509	1,065	2,065	2,549	3,088	4,014	3,677	2,733	2,664	2,295	1,040	1,292

2.5 The New Homes Bonus, which is anticipated to be zero by 2023/24 is summarised and projected in the chart below:



2.6 The confirmation letter from DLUHC of NHB allocations for 2022/23 made the following comment on the future of NHB:

Future of the New Homes Bonus

We consulted on the future of the New Homes Bonus earlier this year and will publish our response early next year. We are committed to reform and will use the additional year to carefully consider how we can ensure the incentive is more focused and targeted on ambitious housing delivery and which complements wider government priorities.

- 2.7 The provisional settlement for 2022/23 again included the Lower Tier Services Grant, of £164k (£677k in 2021/22) designed to ensure that no authority receives a reduction in CSP (Core Spending Power). This grant is heavily weighted towards district councils, like Arun, that are losing funding due to the changes in the NHB. It is expected that this grant will be rolled up in the Funding Formula potentially implemented from 2023/24.
- 2.8 The settlement also included a new one-off 2022-23 Services Grant created to fund general responsibilities (2013-14 SFA was used to distribute funding). For Arun, this provided £253k in 2022/23.
- 2.9 In 2021/22 the Council received income from the allocations for tranche 5 of the Covid-19 support grant of £831k. There was no such funding in 2022/23.
- 2.10 The negative RSG (payment to the Government) anticipated from 2019/20 continues to be funded by Government
- 2.11 The Business Rate Retention scheme was introduced in April 2013. The scheme focuses on promoting economic growth through the local retention of business rates. The scheme has also transferred a considerable risk to the council by linking MHCLG (now DLUHC) support directly to the local economy. This is a strong incentive for the Council to ensure that the business ratings list is fully inclusive and to encourage a buoyant local economy. It is also important to note that any significant negative changes in the value of the ratings list will directly reduce the level of funding received in future, such as valuation appeals which can be backdated.
- 2.12 The Council has benefitted from comparatively large increases in its business rates base due to the substantial growth in the area. There has been a delay, due to Covid-19, in the introduction of the new system, which has significantly benefited the Council. As previously mentioned, latest information from DLUHC indicates the expected reforms will be shelved.
- 2.13 A business rates pool consisting of West Sussex County Council, Adur, Arun, Horsham and Mid Sussex has been approved for 2022/23. Analysis showed that this was the most beneficial pooling for the County area. Notice of approval was received from DLUHC on 16 December 2021.

2.14 Non ringfenced grant income is summarised in the table below:

Non-Ringfenced Grant Income			
	Budget	Budget	Change
	2021/22	2022/23	Change
	£'000	£'000	£'000
Retained Business Rates including s31 grant from earmarked reser	5,866	6,176	310
New Homes Bonus:	1,040	1,292	252
Other non-ringfenced grants:			
Lower Tier Services Grant	677	164	(513)
Services Grant	0	253	253
Covid-19 Tranche 5	831	0	(831)
Local Council Tax Support (LCTS) Grant	209	0	(209)
Housing Benefits Administration Grant	373	384	11
Localising Council Tax Support Administration Grant	143	155	12
Business rates collection allowance	183	184	1
Total Other Non-ringfenced grants:	2,416	1,140	(1,276)
Total non-ringfenced grant income	9,322	8,608	(714)

*restated: including s31 grants, Tariff and Levy and earmarked reserve contributions

2.15 An earmarked reserve contribution of £442K has also been included in the budget for 2021/22 to 2023/24 to help smooth out the impact of the phasing of certain other elements of the collection fund deficit over 3 years (the phasing is a statutory requirement). A transfer of £1.326m to earmarked reserves was actioned in 2020/21 to fund the contribution in 2021/22 and subsequent years.

2.16 Council Tax Income – Arun excluding Parish Councils is summarised below:

Actual 2020/21	Arun excluding Parish Councils	Budget 2021/22	Budget 2022/23	Change
62,244	Tax base *	62,628	63,011	383
£186.57	Band D Tax	£191.52	£196.47	£4.95
	Percentage increase			2.58%
£11,613,000	Council Tax Income (excluding parishes)	£11,995,000	£12,380,000	£385,000

*the tax base represents the number of Band D equivalent dwellings in the district adjusted for exemptions, discounts, council tax reduction and the collection rate percentage

The Council Tax income of £12.380m for Arun (excluding Parish/Town Councils) referred to in the General Fund Summary (Appendix 1) is based on an Arun Band D Council Tax of £196.47, which represents an increase of £4.95 or 2.58% (£4.95 or 2.65% 2021/22). Arun's tax base for 2022/23 shows an increase of 383 from 2021/22

(384 previous year). This is mainly due to the completion of new dwellings in the District. The government's calculation of the Council's spending power is based on a £5 increase in band D Council Tax.

3.0 Budget Assumptions

- 3.1 The budget for 2022/23 assumes a pay award of 1.75% for 2021/22. This is the Employers' latest offer for 2021/22 which remains under negotiation. For 2022/23, pay inflation of 2.5% has been assumed. As in previous years, no provision has been made for price increases in goods, services and contracts except where there is clear evidence of the need for it.
- 3.2 With regard to fees and charges, increases have been applied either in accordance with statutory provisions, or, where the Council has discretion, by inflation, having regard to specific service circumstances. No allowance has been made in service budgets for any continuing impact of covid-19 on income in 2022/23.
- 3.3 HRA rents have been set at an increase of 4.1% (CPI plus1%). Garage rents have been set at an increase of 5% over 2021/22.

4.0 General Fund Revenue Budget

- 4.1 A summary of the General Fund Revenue budget showing 2021/22 Original Budget and 2022/23 proposed budget, summarised by Service Committee is shown in Appendix 1. Service Committees have recommended budgets for inclusion in the overall budget at their meetings in January 2022. A summary of the projected movement on General Fund Reserve is shown in the table below:

General Fund Reserve Movement	2021/22 Original Budget £'000	2021/22 Current Budget £'000	2022/23 Budget £'000
Net Budget Requirement	25,987	26,438	25,727
Financed by:			
Government Grants and Retained Business Rates	(9,322)	(9,495)	(8,608)
Council Tax (including collection fund surplus/deficit)	(16,665)	(16,665)	(17,119)
Taken From / (Added to) Balances	0	278	0
General Fund Balance 1 April	7,076	7,076	5,000
Supplementary Estimates		(278)	
Transfer to earmarked reserves		(280)	
Current Budget Variation Estimated Outturn 2020/21*		1,178	
Transfer (to)/from Funding Resilience Reserve		(2,696)	0
Total (Taken From) / Added to Balances	0	(2,076)	0
General Fund Balance 31 March	7,076	5,000	5,000

* January 2022

- 4.2 At 1 April 2021, the Council held a General Fund Revenue Balance of £7.076m and Funding Resilience Reserve of £6.659m. Following assessment, the Section 151 Officer is of the view that a balance of £5m should be kept in General Fund (£4m with a £1m contingency for unforeseen events) and any surplus balance above this be transferred to the Funding Resilience Reserve in 2021/22. Any change in the General Fund Balance will be recommended to Members before being actioned.
- 4.3 The original budget for 2021/22 assumed a balanced budget with no drawdown from General Fund Reserve. This was achieved by the use of support from the government to offset additional expenditure as a result of the COVID19 pandemic. Without this, the Council would have faced significant financial problems. Full Council has approved supplementary estimates totalling £278k (table 4.4 below). Offsetting this is a favourable variation, as at December 2021, of (£1,178k) (providing this continues). This will allow a transfer of approximately £2.7m to the Funding Resilience Reserve subject to the positive current budget variation continuing. It should be noted that the budget for 2022/23 requires a transfer of £817k from the Funding Resilience reserve. Further explanation of the reserve transfer is provided in paragraph 5.2.

The Covid-19 pandemic has caused a significant shift in the way the Council has had to utilise its resources during 2020/21 and 2021/22. The continuing changes to the Covid-19 restrictions has made additional costs and loss of income extremely difficult to forecast.

- 4.4 The table below summarises the supplementary estimates. These will be offset by the current budget variation as shown in table 4.1

Summary of Supplementary Estimates	£'000
Fitzalan Road acoustic fencing FC 14/07/2021	25
Planning Appeal P/58/19/PL	26
Planning Appeal BN/142/20/OUT	50
West Bank Strategic Allocation FC 15/09/2021	50
Recruitment of permanent CEO FC 13/10/2021 380 (3)	30
Recruitment of an interim CEO FC 13/10/2021 384 (3)	97
Total Supplementary Approvals to end of December 2021	278

4.5 Because of the projected out turn in 2021/22, the following transfers to earmarked reserves are recommended to be undertaken:

Earmarked Reserve	£'000	Note
Community Flood Fund	180	1
Contingency Reserve	100	2
Total	280	

Notes

1. This was recommended by Environment Committee to be undertaken in 2022/23. It is recommended in 2021/22.
2. This is a new reserve, to allow the S151 Officer to fund unforeseen financial pressures.

4.6 The transfers to earmarked reserves are included in the estimated outturn and shown in the table at 4.1 above.

4.7 The Council is anticipating the receipt of significant one-off S106 sums for maintenance in perpetuity in respect of a number of sites. However, the receipt of these sums will also lead to the requirement for additional revenue expenditure in respect of maintaining the relevant sites. These sums are not included in the budget for 2022/23 or the estimated outturn for 2021/22 as the timing of the receipts is not certain. These receipts will be used for the future development / maintenance of the Council's assets.

4.8 A summary of headline changes is given in the table below:

General Fund Budget 2022/23 Changes	£'000
Establishment - pay awards for 2021/22	240
Establishment - pay awards for 2022/23	363
Establishment - resource switching	237
Establishment - increase in Employer National Insurance Contributions	94
Major contracts (including Leisure contract inflation)	110
Local Plan	(173)
Increased HRA recharges	(119)
Reduction in Housing Benefit	101
Increase in Car Park income	(96)
Increase in Planning income	(185)
Committee Bids	1,255
Fall out of 2021/22 contingency items	(1,008)
Corporate Asset Management Revenue Budget (Economy Committee)	1,421
Capital Expenditure Financed From Revenue 2021/22	(1,711)
New Homes Bonus	(252)
Council Tax	(385)
Retained Business Rates	(310)
Reduction in Covid-19 support for 2021/22	1,040
Reduction in other non-ringfenced grants	236
Other net variations	(41)
Contribution from Funding Resilience Reserve	(817)
Net change in budgeted reserve movement	0

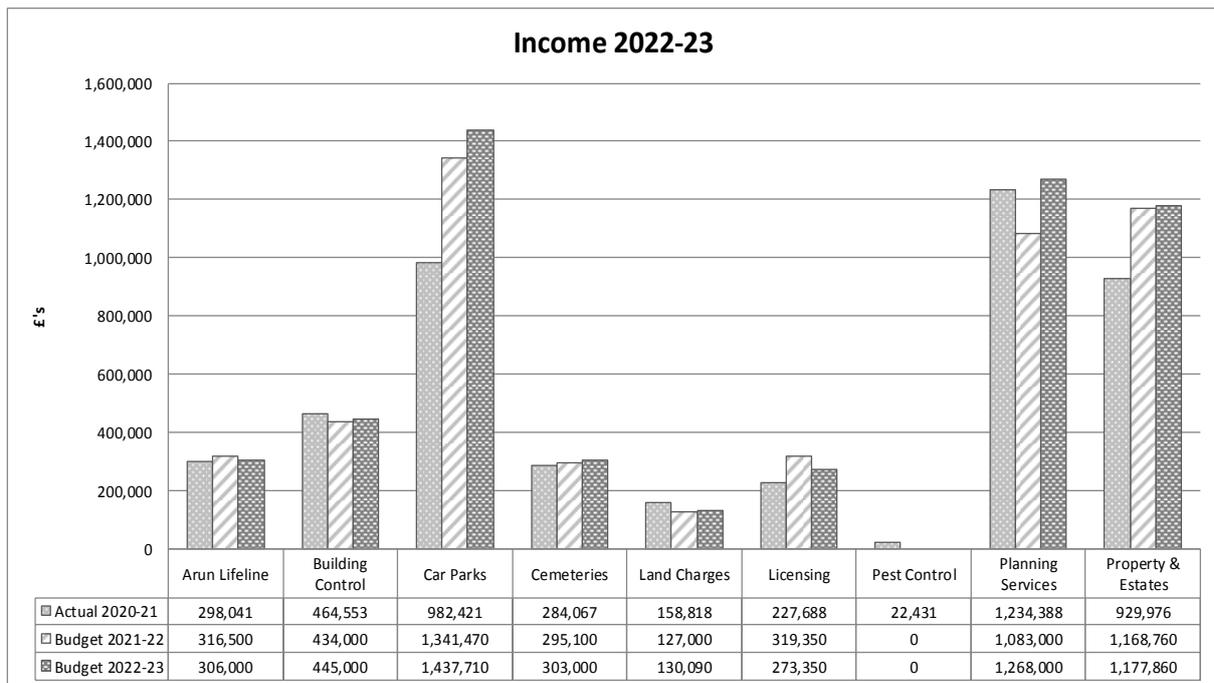
- 4.9 The budget for 2021/22 included provision for a pay award for all staff. The actual pay award is still under negotiation and a final offer of 1.75% has been made. In addition, 2.5% has been assumed as a pay award for 2022/23, in addition to a 1.25% increase in employers national insurance contribution rate resulting in increased cost of £697k.
- 4.10 The Council's service contracts all have inflation clauses included. The net figure of £110k includes (£82k) increase in the Leisure Contract management fee and £192k growth in other major contracts.
- 4.11 The Planning Policy Committee recommended on 6 October 2021 to pause the preparation of a revised local plan for the District. The 2021/22 budget was £321k, reduced to £148k in 2022/23; a reduction of (£173k). This will be reviewed in April 2022.
- 4.12 The continuing roll out of Universal Credit has resulted in lower recoveries from ongoing benefit as claimants transfer to the Department for Work and Pensions (DWP). There is also a continuing trend from 2021/22 for the use of accommodation with additional services, for which the Council cannot claim subsidy. These factors have resulted in a £101k increase in the net Rent Allowances budget.
- 4.13 Additional car parking income of (£96k) is expected in 2022/23 over that in 2021/22. This mainly arises from additional car parks use as visitor numbers have increased during the COVID19 pandemic.

- 4.14 Increased Development Control income of (£185k) is expected in 2022/23. This estimate is based on actual income to date in 2021/22. There may be delayed applications due to the pandemic and these cannot be anticipated.
- 4.15 .For 2022/23, the Asset Management Revenue Budget has been restated to align the budget with accounting regulations. This change means that revenue maintenance on the Council's property is shown in the Revenue Budget, resulting in an increase of £1,421k. In previous years, it has been included in the Capital and Asset Management Programme, funded by Revenue Contribution. The removal of this & other items funded this way has reduced the Revenue Budget by £(1,711k).
- 4.16 Changes in government funding are discussed elsewhere in the report. No funding in respect of COVID19 is anticipated in 2022/23.
- 4.17 The Contingencies and Special Items budget is assessed each year as a provision for known possible service changes that have not been sufficiently developed to fully cost into the budget. For 2022/23, all service changes have been assessed and allocated to the relevant Committee. As a result, there is no contingency budget for the year, leading to improved financial management.
- 4.18 In considering budgets, the service Committees were all requested to consider increased service requests as growth items totalling £1.255m. All the requested items were approved and are now included in the General Fund budget:

Committee	Growth Items	£'000
Economy	Additional support for high street recovery	150
Economy	Events for Bognor Regis and Littlehampton	150
Economy	Vision documents for Bognor Regis and Littlehampton	100
Economy	Town Centre Events	60
Economy	Sussex by the Sea Festival	40
Economy	Energy Bills	25
Economy	Insurance Valuations	20
Environment	Empty Homes PT Technical Support Officer	18
Environment	Changing Places additional reserve	17
Environment	Bersted Brooks Country Park	10
Environment	Trees for Towns and Parishes	10
Housing & Wellbeing	Littlehampton Community Warden Project	100
Housing & Wellbeing	Arun Inspires - Artwork	15
Planning Policy	Restructure of Planning and Development Section	120
Policy & Finance	LUF Project Management	220
Policy & Finance	Carbon Reduction Strategy	200
Total		1255

- 4.19 Income from fees, charges and rents are included within net cost of service. In total this amounts to overall financing of £5.341m (£5.085m 2021/22), an increase of £256k.

The main reasons for the increase are increased income from car parking of (£96k) and planning fees of (£185k). Income is a key risk area to the budget as it is predominantly externally influenced, without a direct link to service cost and each source is unique. It is anticipated that all discretionary fees and charges will be increased by at least the rate of inflation unless there is good reason not to in order for the Council to become more self-sufficient. The graph below shows income by source and value and demonstrates trend. The income estimates included in 2022/23 are reasonable and not over-stated.



5.0 Earmarked Reserves

- 5.1 Earmarked Reserves are amounts of money specifically identified for operational purposes and held alongside the General Fund for drawdown as required. The total value of earmarked reserves at the end of 2020/21 financial year was £29.162m (£15.768m previous year). The increase is mainly due to the Business Rates Collection Fund COVID19 statutory 3 year deficit spread funding earmarked by the Council in 2020/21. The carry forward balance into 2022/23 will therefore be a minimum of £13.928m, depending upon the amount of budget variation during 2021/22. It should be noted that the increase in 2020/21 was mainly in relation to the S.31 grant which was received to cover the Collection Fund loss in 2021/22. Budget expenditure relating to these reserves is isolated from the cost of service for General Fund financing purposes. Earmarked reserves are drawn down into the budget as required through the virement approval process.
- 5.2 The Council has a Funding Resilience Reserve (balance £6.659m 1 April 2021), which was established to mitigate against the risk of a significant drop in government funding (Fair Funding Review, Review and reset of Business Rates and New Homes Bonus) to ensure that the General Fund balance does not drop below the recommended minimum balance. The decision to hold the General Fund Balance at £5m is explained

in paragraph 4.2 above. Any surplus will therefore be transferred to the Funding Resilience Reserve at the end of the Financial Year. It is anticipated that the balance of the FRR will increase to approximately £9.3m at 31 March 2022. A transfer of £817k is required to achieve a balanced budget for 2022/23 resulting in an estimated balance of approximately £8.5m at 31 March 2023. The anticipated FRR appropriations are summarised in the table below:

Funding Resilience Reserve	£'000
Balance at 31 March 2021	6,659
Increase in balance 2021/22	2,696
Balance at 31 March 2022	9,355
Withdrawal from reserve 2022/23	(817)
Balance at 31 March 2023	8,538

5.3 During 2021/22, the following contributions to earmarked reserves were requested to be included in the 2022/23 budget. A revenue budget underspend is anticipated in 2021/22 and deficit expected for 2022/23. It is therefore recommended that the requested contributions be made in 2021/22 financial year:

- £180k Flood Fund;
- £100k Contingency budget to replace the £50k annual budget to be topped up annually.

These transfers are included in the estimated outturn for 2021/22 and are explained at paragraph 4.5 above.

5.4 The Corporate Asset Management Programme budget (Economy Committee) of £1.421m is part funded by a contribution of £674k from the Asset Management Reserve.

6.0 Risk analysis

6.1 Corporate and Operational risk registers have been reviewed for financial implications as part of the budget process on the criteria of probability of occurrence and materiality of impact upon balances.

6.2 There continues to be huge uncertainty over the impact of the Covid-19 pandemic on the Councils income and expenditure. This includes the Leisure operator as mentioned in the report and Homelessness (6.9). This will have to continue to be monitored closely in 2021/22. In addition, the increase in infections arising from the Omicron variant resulted in some restrictions being re-introduced. The implications of this remain unclear and could affect the Council's financial projections.

6.3 Income: the budget includes £5.341m (£5.085m previous year) from fees, charges and rents; these have been set on the basis of achievement of the level of predicted income and previous outturn, including known changes in environment. At present,

the main risks to this are a poor summer resulting in lower car park income and income from planning fees declining if the economy contracts.

- 6.4 The budget contains an assumption of a pay increase of 1.75% in 2021/22 and 2.5% in 2022/23. Any increase above these levels will place additional strain on the Council's budgets.
- 6.5 NHB now appears certain to be discontinued from April 2023. As stated earlier, the government has said:

We consulted on the future of the New Homes Bonus earlier this year and will publish our response early next year. We are committed to reform and will use the additional year to carefully consider how we can ensure the incentive is more focused and targeted on ambitious housing delivery and which complements wider government priorities.

At this stage it is not clear what the government will introduce. The obvious risk is that the Council is adversely affected by the outcome.

- 6.6 The reset of the retained business rates baseline has been postponed again and looks likely to be shelved. Until this is officially confirmed it remains a risk. This could effectively wipe out all or a proportion of the past gains through growth, built up since the inception of the scheme. The significant adverse effect of a full baseline reset is mentioned in 2.8 above. However, the magnitude of the change will be subject to potential damping.
- 6.7 The Council's cleansing contract is currently due for renewal. The outcome of negotiations and/or a tender could be a significant cost increase for the Council. This must be closely monitored and increases kept as low as possible.
- 6.8 The vacancy management factor has been kept at £500k.
- 6.9 Income from the Council's Leisure Management Contractor has largely ceased in 2021/22. The Contractor is confident of a return to pre-pandemic levels by April 2022. Negotiations continue around recovering lost income over the remaining contract period. There is a risk that this may not be recoverable.
- 6.10 The Capital Programme includes a scheme to refurbish the wet change facilities at Arun Leisure Centre. S106 income is dependent on delivery of significant housing projects and can be susceptible to slippage. There is no guarantee of the income being received when anticipated. Assuming this scheme progresses, it is shown as funded from borrowing. The S106 monies will be applied to reducing debt when received. This leaves a minimum £320k to fund. If the S106 monies are not received, the Council will have to fund the whole cost of the scheme (£987k) from other sources which may affect the level of revenue balances.

7.0 Housing Revenue Account Budget

- 7.1 A summary of the Housing Revenue Account (HRA) budget, including Major Repairs Reserve, is shown at Appendix 2.
- 7.2 The Revenue Budget is shown at Appendix 2. The budget has been prepared using the most up to date information available. A housing rent increase of 4.1% has been assumed for 2022/23. In addition, a garage rent increase of 5% for 2022/23 has been assumed giving an average rent of £13.58 per week (excluding VAT). The draft HRA budget for 2022/23 shows an expected deficit of £1.396m, leaving a balance carried forward at 31 March 2023 of £3.525m.
- 7.3 The 2022/23 budget reflects the priorities of the HRA Business Plan 2021 update. The HRA Business Plan identifies how the Council intends to deliver its strategic target of 250 new affordable homes over a ten year period. The additional properties will help improve the quality, supply and affordability of accommodation available to the residents on the Council's waiting list in urgent need of accommodation.
- 7.4 A budget of £15.000m was approved in 2018/19 for the acquisition/new build programme, with a further £9.341m being approved in 2020/21. This level of budgetary provision will allow the necessary amount of flexibility in terms of planning the programme of new affordable homes. Another £6m is planned to be spent over a period of 3 years from 2022/23 on Sheltered accommodation. This is proposed to be funded from external borrowings. Financing cost of this borrowing has been included in the draft 2022/23 budget.
- 7.5 However, it should be noted that each new scheme will be subject to a full financial appraisal and Member approval before it can proceed, and contractual commitments made. This is to ensure that the relevant schemes are affordable in terms of maintaining the minimum recommended level of HRA balance of £2m. The issue of affordability is critical especially in the light of the declining level of right-to-buy receipts which could lead to Arun meeting up to 100%, rather than 60%, of the cost of some of the new schemes.
- 7.6 The replacement of Housing management system commenced in 2021/22 with an initial cost estimated at £600k. This is now estimated at £1.058m over the period of its implementation and a 4-year contract. Additional £182k has been provided in the budget for 2022/23 with a further provision required in 2023/24.

8.0 Capital, Asset Management and other projects Budget

- 8.1 A summary of the Capital, Asset Management and other projects budget is shown at Appendix 3.
- 8.2 Full council will be asked to approve the capital strategy on 9 March 2022 (after consideration by Policy and Finance Committee on 10 February 2022). The capital strategy forms the policy framework for capital investment decision over the next three years informing the detailed annual capital budgets over this period. The strategy aims to balance capital expenditure needs and expectations with the scarcity of available resources

- 8.3 For 2022/23, the Revenue Budget has been restated to align the budget with accounting regulations. This change means that revenue maintenance on the Council's property is shown in the Revenue Budget. In previous years, it has been included in the Capital and Asset Management Programme. The change will streamline budget monitoring and accounting practices and reduce queries on budget variances in future
- 8.4 The capital programme for 2022/23, together with the proposed method of financing, is set out in the table below.

Capital Programme 2022/23	
General Fund:	£'000
Capital/Project Programme	2,539
Disabled Facilities Grants	1,400
Total General Fund	3,939
Housing Revenue Account:	
Housing IT	285
Public Housing Services	5,466
Sheltered Accommodation	2,600
Total Housing Revenue Account	8,351
Total Programme	12,290
Financed by:	
Capital Grants	1,400
Capital Receipts	1,500
Charge to General Fund (RCCO)	52
Borrowing	987
Major Repairs Reserve	5,336
Charge to Housing Revenue Account	515
Prudential Borrowing (HRA)	2,500
Total Financing	12,290

- 8.5 The capital budget for 2022/23 and future years is limited by the funding that is available. If all capital receipts in hand are applied, then other funding will need to be considered, such as borrowing or revenue funding. Both would place pressure on the revenue account. The budget will apply £1.5m of capital receipts to finance the programme, in previous years this has been part financed from revenue contributions.

8.6 The Arun Leisure Centre Wet Change project, currently funded from borrowing is part funded from S106 monies which are not receivable until later years. Members are advised that S106 income is dependent on delivery of significant housing projects and can be susceptible to slippage. There is no guarantee of the income being received when anticipated. The S106 monies will be applied to reducing debt when received.

9.0 Capital Receipts

9.1 Capital receipts are an important source of funding for the Council's capital programme. There are two categories of capital receipts: "1 for 1 replacement" receipts and general receipts. "1 for 1 replacement" receipts are those accrued under the terms of Arun's agreement with the Government to retain the additional receipts generated by the relaxation of the Right to Buy discount rules. Under the terms of this agreement these receipts can only be used for the provision of new social housing and Arun must match every £40 of receipts used with £60 of its own funding. A further condition of the agreement is that receipts must be spent within three years, failing which they must be returned to the Government plus interest at 4% above base rate. There are very few restrictions relating to the use of general receipts. On the whole these can be used for any capital purpose and there are no time constraints relating to their use. The budget assumes the use of £1.5m of these receipts.

9.2 The Council's available capital receipts totalled £1.933m at 31 March 2021 (£2.815m previous year). The total is comprised of £0.549m "1 for 1 replacement" receipts and £1.384m general receipts. The retained right-to-buy receipts ("1 for 1" receipts) can only be spent on the provision of new social housing, failing which they must be returned to the Government. One of the approved priorities of the Council's Housing Revenue Account Business Plan is a significant new development programme and the implementation and phasing of this programme will be a key factor in determining whether or not the Council spends its unused receipts within the required time scale. These receipts held, together with any new receipts accruing during 2021/22 and 2022/23 (net of amounts paid to the Government under pooling), will be used to support the Council's capital programme. The "1 for 1 replacement" receipts will be used towards funding the HRA acquisition/new build programme. General capital receipts can be applied for any capital purpose. The 2022/23 budget assumes £1.5m of capital receipts will be applied. This is dependent on actual receipts and capital expenditure. Should all usable receipts be applied, alternative funding will have to be used.

9.0 Conclusions

10.1 The General Fund revenue budget and Capital budgets are set within the medium term financial strategy. However, the budget for 2022/23 is subject to a significant level of uncertainty caused by the Covid-19 pandemic. The Council has significant reserves to ensure financial resilience, however, balances are anticipated to reduce significantly in the medium term. The Council's Corporate Management Team (CMT) are working with members to identify efficiencies and income generating ideas, which will continue to be worked on during 2022/23.

10.2 For 2022/23, the General Fund Revenue Budget is balanced by a transfer of £817k from the funding resilience reserve.

10.3 The Housing Revenue Account shows a deficit of £1.396m for 2022/23. It is important that the HRA is balanced in future years to ensure it remains financially sustainable.

10.4 The total capital programme for 2022/23 totals £12.290m. The Council's ability to deliver future programmes is dependent on funding. A review will be undertaken during 2022/23 on current schemes to determine their deliverability and whether they should remain in the programme. This will free up resource for other projects.

General Fund Revenue Budget Summary

Actual 2020-21 £'000	Description	Budget 2021-22 £'000	Budget 2022-23 £'000
Cost of Service			
1,573	Policy and Finance Committee	1,563	2,136
5,927	Corporate Support Committee	6,091	6,592
872	Economy Committee	679	2,713
7,846	Environment Committee	7,650	8,256
547	Planning Policy Committee	1,080	945
5,203	Housing and Wellbeing Services	3,238	3,312
0	Vacancy Management	(500)	(500)
(1,460)	Recharges to Housing Revenue Account	(1,426)	(1,545)
20,508	Total Cost of Service:	18,375	21,908
Corporate Cost			
4,832	Parish Precepts	4,877	4,877
207	Other precepts and levies	278	247
(635)	Interest & investment income	(344)	(413)
0	Contingencies / miscellaneous	1,008	0
13,394	Contribution to/(from) earmarked reserves	(964) x	(1,926) *
0	Capital expenditure financed from revenue	1,711	52
1,201	Pension deficit contributions	1,046	982
18,999	Total Corporate Cost:	7,612	3,819
39,507	Total Net Budget Requirement	25,987	25,727
Financed By			
(14,855)	Retained Business Rates	(5,866) xx	(6,176) **
(2,295)	New Homes Bonus	(1,040)	(1,292)
(5,772)	Other non ringfenced grants	(2,416)	(1,140)
(11,970)	Council Tax Income - Arun Excluding Parishes	(11,995)	(12,380)
(4,475)	Council Tax Income - Town & Parish Councils	(4,877)	(4,877)
(140)	Collection Fund deficit/(surplus)	207	138
(39,507)	Total External Finance:	(25,987)	(25,727)
(0)	Transfer (to) / from General Fund Reserve	0	0

x Excluding £7.865m S31 Grant received in 2020/21

xx Including £7.865m S31 Grant received in 2020/21

* Excluding £3.742m S31 Grant received in 2020/21

** Including £3.742m S31 Grant received in 2020/21

Housing Revenue Account Budget Summary

Actual 2020-21 £'000	Description	Budget 2021-22 £'000	Budget 2022-23 £'000
	Expenditure		
5,144	Supervision and management	5,199	5,534
4,525	Repairs and maintenance	3,887	5,181
1,860	Financing of capital expenditure	4,732	5,851
5,043	Net loan charges	5,162	2,785
16,572	Total Expenditure:	18,980	19,351
	Income		
(15,982)	Rents (dwellings, garages, hostels, other property)	(16,391)	(17,286)
(521)	Charges for services and facilities	(632)	(641)
45	Interest on Balance Payable / (Receivable)	10	(28)
(16,458)	Total Income:	(17,013)	(17,955)
114	HRA (surplus) / deficit	1,967	1,396
	Housing Revenue Account Reserves		
(8,948)	Balance brought forward	(8,834)	(4,921)
114	HRA (surplus) / deficit	1,967	1,396
	Capital Slippage in year	1,363	
	Estimated variation in 2021/22 out turn	583	
(8,834)	Balance carried forward	(4,921)	(3,525)

Capital Programme 2022/23	
General Fund:	£'000
Corporate Support Committee	
ICT	200
Total Corporate Support Committee	200
Economy Committee	
Leased Property Dilapidations	50
Arcade Roof, Bognor Regis	210
Roof Replacement at Windmill Theatre	190
Changing Places Project	157
Fitzleet Car Park	200
Total Economy Committee	807
Environment Committee	
Play Areas	225
Bersted Brooks Country Park	320
Disabled Facilities Grants	1,400
Total Environment Committee	1,945
Housing and Wellbeing Committee	
Arun Leisure Centre Wet Change Facilities	987
Total Housing and Wellbeing Committee	987
Total General Fund	3,939
Housing and Wellbeing Committee	
Housing Revenue Account:	
Housing IT	285
Public Housing Services	5,466
Sheltered Accommodation	2,600
Total Housing Revenue Account	8,351
Total Programme	12,290
Financed by:	
Capital Grants	1,400
Capital Receipts	1,500
Charge to General Fund (RCCO)	52
Borrowing	987
Major Repairs Reserve	5,336
Charge to Housing Revenue Account	515
Prudential Borrowing (HRA)	2,500
Total Financing	12,290

