

# Delivering a Sustainable Medium-Term Budget

<b>Report number:</b>	<b>PAS/WS/20/019</b>	
<b>Report to and date(s):</b>	<b>Performance and Audit Scrutiny Committee</b>	19 November 2020
	<b>Cabinet</b>	8 December 2020
<b>Cabinet member:</b>	Councillor Sarah Broughton Cabinet Member for Resources and Performance Telephone: 07929 305787 Email: <a href="mailto:sarah.broughton@westsuffolk.gov.uk">sarah.broughton@westsuffolk.gov.uk</a>	
<b>Lead officer:</b>	Rachael Mann Telephone: 01638 719245 Email: <a href="mailto:rachael.mann@westsuffolk.gov.uk">rachael.mann@westsuffolk.gov.uk</a>	

**Decisions Plan:** This item is included in the Decisions Plan.

**Wards impacted:** All wards

**Recommendation:** It is recommended that members:

- 1. Recommend to Cabinet the inclusion of the proposals, as detailed in section 2 and table 1 at paragraph 3.2 of this report, in the medium-term financial plans.**

## **1. Context to the 2021 to 2022 budget process**

- 1.1 The financial impact of COVID-19 is likely to be felt for years to come and the council will need to make provision in its medium-term budget plans for both recovery to pre-covid performance levels. This includes replenishment of its earmarked reserves (given they are earmarked for other purposes) and general fund balances (to manage/cover future budget risks) utilised to balance the 2020 to 2021 budget as a direct result of the pandemic.
- 1.2 The 2021 to 2022 budget and medium term plans are also being prepared in the context of significant uncertainties around Government policy in terms of the Comprehensive Spending Review, Local Government Finance Settlement, the Fairer Funding review, Business Rates, commercial policy and potentially major reforms with green papers on Social Care and the white paper on Planning reform. The economic situation is hugely challenging, and we continue to be faced with rising demand for services in particular housing support. Suffolk is at the forefront nationally supporting its communities and businesses by working in partnership across the public, private and voluntary sectors. However, the direct and indirect impacts on Suffolk County Council as well as our partners of the challenges outlined above are both unknown and uncertain at this stage.
- 1.3 At its meeting on 30 July 2020, report No. PAS/WS/20/012, the Performance and Audit Scrutiny Committee (PASC) supported Cabinet with the next steps and principles for future financial planning across the medium term. Our approach is designed to enable the council to respond effectively to changing circumstances while maintaining a medium-term focus on the council's financial sustainability.
- 1.4 This report provides an update on the development of that flexible and responsive recovery plan, a plan that will continue to follow (and test) our agreed financial strategy and six key Medium-Term Financial Strategy (MTFS) themes.

## **2. Proposals within this report – Key budget assumptions**

- 2.1 We will not understand the full impact of COVID-19 on the financial position of the council for a long time, especially as we are still in the pandemic, and it is likely to come in phases. At this point in the development of our 2021 to 2022 budget and medium-term plans we need to establish some key assumptions to build the foundations of our financial projections. However, our approach needs to be flexible and responsive to the COVID-19 recovery. Therefore, we will constantly review these assumptions, in response to further data and intelligence.
- 2.2 The key budget assumptions proposed in the development of the 2021 to 2022 budget and medium-term plans and the rationale behind those

assumptions are as set out below. The financial implications of those assumptions compared to the in-principle budget envelope detailed in the February 2020 Budget papers for 2021 to 2022 and beyond, are summarised in section 3 of this report.

### **Government funding**

- 2.3 As part of the response to the COVID-19 pandemic the Government has confirmed that the planned reforms to local government finance relating to the Fairer Funding Review and 75 per cent Business Rates Retention will no longer be implemented in 2021 to 2022.
- 2.4 On 21 October 2020, the Chancellor Rishi Sunak MP, announced his decision to conduct a one-year spending review in order to prioritise the response to COVID-19, and the Government's focus on supporting jobs. The date for the review is confirmed for 25 November 2020, with the provisional settlement likely about 2 to 3 weeks afterwards.
- 2.5 The financial impact of the COVID-19 pandemic has introduced considerable uncertainty in predicting the Government's approach to financial resources for local government in the current year and future years. Therefore, the following resource assumptions should be treated with caution and will be updated as further Government announcements are made.
- 2.6 For the 2021 to 2022 budget we are assuming the following in respect of Government funding:
  - That the core funding settlement, through the Business Rates Retention Scheme (BRRS), will simply roll forward from the current year 2020 to 2021 as it did from 2019 to 2020 and that there will be no time or appetite from Central Government to conduct any form of baseline reset within the scheme for 2021 to 2022.
  - That Suffolk authorities will remain in a business rates pool for 2021 to 2022, retaining additional BRRS income for Suffolk than that of individual authorities.
  - It is assumed that no Revenue Support Grant allocation will be rolled forward into 2021 to 2022 as it was always the Government's intention to phase out this grant stream.
  - The Government provided a one-year extension to the New Homes Bonus (NHB) scheme for 2020 to 2021 and intended to explore how to incentivise housing growth effectively going forward from 2021 to 2022. The planned consultation on the future of this incentive was due earlier this year but is now assumed to be put on hold. The Government may extend the scheme for a further year. However, given the uncertainty involved, it is assumed that the phasing out of the NHB payment scheme will continue as planned from April 2023.

- The budget estimates assume a continuation of the 10 per cent reductions in the centrally held un-ringfenced grants budget for 2021 to 2022 in line with previous Government funding reductions. This includes grants such as Housing Benefit Administration.

2.7 In previous years we have been prudent in our financial planning enabling us to retain a proportion of these Government grants in reserves, in support of incremental strategic projects and financial initiatives. However, given the financial strain on the council finances as a direct result of COVID-19 and to ensure the protection of essential and valued services to our residents it is proposed that all Government grants received in 2021 to 2022 are retained in full within the revenue day to day budget. Table 1 at paragraph 3.2 sets out the financial implications of these assumptions.

### **Pay Inflation**

2.8 In August 2020 agreement was reached between the National Employers and the National Joint Council (NJC) trade union on rates of pay applicable from 1 April 2020. The pay agreement was centred around a 2.75 per cent pay award from 1 April 2020. The 2020 to 2021 budget was developed on the assumption of a 2.0 per cent pay award, consequently our financial plans will need to be updated to reflect this agreed position and will impact on the baseline salary budgets going into 2021 to 2022. The pay award assumption for 2021 to 2022 and across our medium-term plans is assumed, unchanged, at 2 per cent and will be subject to regional negotiation. However, this assumption is in line with many of our local authority peers.

### **Pensions**

2.9 The last triennial review of the Suffolk Pension Scheme covered the period 2020 to 2023 and showed year on year stabilisation in the employer contribution rates. Across the 3 years the assumed employer rate is 32.3 per cent. The Pension Fund will have been affected by volatile world financial markets during the pandemic which could give rise to changes in the employer rates to ensure financial stability. However, the fund projections are based on a 20-year horizon and therefore the planning assumption is that the agreed employer contribution rates will not change.

### **Other income assumptions**

2.10 The council currently receives around £29 million in fees, charges and rental income through a number of different avenues. The impact of COVID-19 on these income streams for 2020 to 2021 is expected to be circa £7.5 million, with monthly impacts expected on average of £0.5 million during the last quarter of 2020 to 2021.

2.11 Work is currently in progress to review the 2021 to 2022 budget assumptions across a best, base and worst-case scenario in an attempt to be able to model the impact of COVID-19 on these assumptions, to feed into development of the 2021 to 2022 budget and medium-term plans. There is expected to be a greater level of volatility in these income assumptions

given the relationship between recovery and income generation for the council. This volatility will need to be closely monitored and reflected in the Section 151 report to members on the robustness of estimates and balances as part of the budget process. For this reason, it is anticipated that there will be very limited, if any, growth in those already assumed income assumptions for 2021 to 2022.

- 2.12 Instead it is assumed at this stage, to be reviewed once the detail assumption review detailed above is concluded, that the income levels will reduce by at least £1.0 million for 2021 to 2022. The outcome of the income assumptions review work will feed into the next performance and audit scrutiny budget update report and concluded as part of the main budget report in February 2021.

### **Expenditure assumptions**

- 2.13 Known expenditure assumption changes, such as the investing in our growth agenda capacity review and growth have been included at table 1 below.
- 2.14 The £0.8 million investing in our growth agenda capacity review pressure in table 1 below, assumes that the establishment capacity agreed back in February 2018 continues across the medium-term plans. However, Leadership Team are currently conducting a review of this capacity and the context of the budget will feed into that review. The work around the key expenditure assumption will be provided at the next performance and audit scrutiny committee meeting and concluded as part of the main budget report in February 2021.

### **Council Tax Collection Fund deficit 2020 to 2021**

- 2.15 West Suffolk is responsible for collecting council tax within its area on behalf of itself, Suffolk County Council and Suffolk Police (the precepting authorities). The collection of the council tax as well as the payment to the precepting authorities is managed through the collection fund which is a statutory account.
- 2.16 The amount of council tax payable from the collection fund to the precepting authorities for each financial year is fixed based on the estimated amount collectable and each authority's precept for the year. However, the actual amount of council tax collected will either be more or less than this because of changes to the debt throughout the year (property growth, changes to discounts and exemptions and the number of local council tax support claimants) as well as other factors such as collection rates.
- 2.17 As a result, there will be either a surplus or deficit on the collection fund at the end of each financial year. This balance has to be estimated in January of the year in question, and either paid to or reclaimed from the precepting authorities in the following year (see paragraph 2.20 for one off change for 2021 to 2022).

- 2.18 The collection fund has faced particular challenges this year due to COVID-19. Collection rates are down in comparison to normal years due in part to the suspension of debt recovery measures. In addition, the economic impact of the COVID-19 pandemic has seen a steady increase in the number of working age claimants of local council tax support (a reduction in the council tax due).
- 2.19 At September 2020, numbers under the local council tax support scheme had increased by 15 per cent compared to March 2020 and are projected to increase further and at a faster pace, given the planned changes to the current Government job retention support (furlough) scheme, throughout the remaining 6 months of the current financial year. It is anticipated that the level could increase by around 60 per cent compared to March 2020.
- 2.20 As a result, it is currently estimated (at September 2020) that there will be a £1.334 million deficit on the collection fund. This deficit will be shared by the major precepting authorities based on their precepts. West Suffolk's share is around 14 per cent and will be £0.187 million based on current predictions. The final estimate does not have to be made until January 2021 and the position will be monitored monthly in the meantime. It should be noted that the Government is intending to amend regulations to make it mandatory for councils to spread this deficit across three years from 2021 to 2024 in order to reduce the impact of COVID-19 on the 2021 to 2022 budget.

### **Council Tax Base 2021 to 2022**

- 2.21 The council tax base is the number of properties liable to pay council tax after adjusting for discounts and exemptions, local council tax support reductions, property growth and anticipated collection rate, and expressed in terms of band D properties. The tax base is usually calculated in October of the financial year preceding budget, but the statutory deadline is January of the financial year preceding budget. The tax base figure is multiplied by the band D council tax in order to determine the amount of council tax income to include in the medium-term plans.
- 2.22 The increase in working age local council tax support claimants, as set out in the previous section, has had an adverse impact on the tax base for both the current year and that estimated for 2021 to 2022. For the tax base calculation, it has been assumed that there will be a 60 per cent increase on March 2020 local council tax support levels for the period 2021 to 2022.
- 2.23 Our medium-term plans currently assume that the tax base will increase by 1 per cent per year due to growth in the property base. However, the impact of additional local council tax support means that the tax base estimate for 2021 to 2022 has decreased by 1.4 per cent compared to the current year, and by 2.4 per cent compared to what was assumed in the medium-term plans. The resulting budget pressure for West Suffolk is £0.247 million.

### **Business Rates Collection Fund deficit 2020 to 2021**

- 2.24 West Suffolk holds the statutory duty to collect business rates on behalf of itself, Central Government and Suffolk County Council. Like council tax, this process is also managed through the collection fund and similar rules apply to the distribution of estimated surpluses and deficits at the year end.
- 2.25 The Government has introduced a number of measures to support businesses through the pandemic including 100 per cent business rates relief for those businesses in the retail, hospitality and leisure, and nursery sectors. For businesses in West Suffolk this has resulted in a reduction of £38.938 million in our collectable business rates for 2020 to 2021. In addition, other factors such as business closures, increased bad debts and increases in appeals submitted mean that the estimated deficit on the collection fund currently stands at £40.823 million (as at September 2020). West Suffolk's share of this deficit is £16.329 million (40 per cent statutory share). As for council tax, proposed regulation changes will make it mandatory to spread this across three financial years.
- 2.26 The Government will compensate councils for that part of the deficit relating to the 100 per cent COVID-19 reliefs, through Section 31 grants payable in the current financial year. It is anticipated that West Suffolk will receive in the region of £15.048 million and it is proposed to transfer this sum to the Business Rates Equalisation Reserve to fund the deficit impact in part in 2021 to 2024. The net impact of £1.281m (£16.329m less £15.048m) is assumed to be funded from the business rates equalisation reserve.

### **Business Rates estimate for 2021 to 2022**

- 2.27 It is very difficult to predict the ongoing impact of COVID-19 on businesses within the district and the impact this may have on the level of business rates income. In 2020 to 2021 Government announced significant retail reliefs to support business through the pandemic. For 2021 to 2022, the assumption is that the retail reliefs revert to the pre-pandemic levels.
- 2.28 The projections for 2021 to 2022 have been amended to remove any assumed tax base growth and the inflation assumption has been reduced to 0.5 per cent to reflect reductions in the Consumer Prices Index (CPI). A further allowance has been incorporated for reduced business rates income that could arise from business failures and bad debts. Business rate forecasts continue to be an area of financial risk which is heightened by the unknown ongoing impacts of the pandemic on businesses and these estimates could change significantly. The council has created a Business Rates equalisation reserve to manage this risk.

### **Replenishment of the general fund balance and review of earmarked reserves.**

- 2.29 As part of the current year's 2020 to 2021 financial forecasts and associated financial impact of COVID-19, it is anticipated that circa £1.2 million will be utilised from the council's general fund balance (contingency fund). The

general fund balance will need to be replenished, recognising that the fund provides an essential contingency for in-year budget variations so plans for its replenishment will need to feature within the 2021 to 2022 budget.

- 2.30 A detailed review of all the council's earmarked reserves is in progress and will feed into the in the Section 151 report to members on the robustness of estimates and balances as part of the budget process. At this stage of the review it is anticipated that £0.5 million of the Business Rates Equalisation reserve can be made available to replenish the general fund balance in 2021 to 2022.

### **3. Our current projections for 2021 to 2022 and beyond**

#### **Forecast position for the 2021 to 2022 Budget and medium-term plans**

- 3.1 The in-principle medium term budget envelope, detailed in the February 2020 Budget papers for 2021 to 2022 beyond, already included the need to make significant savings across the medium-term financial plans. The impact of COVID-19 and the key budget assumption changes set out above are in addition to these saving requirements and had we not experienced COVID-19, this committee would have still been receiving a report setting out the key assumptions and approach to addressing those savings requirements. The difference now being the scale of the saving requirements as a direct result of COVID-19 and the local and national recovery impacts.
- 3.2 The net impact of the key assumption changes set out above in addition to the saving requirements discussed in paragraph 3.1, are set out in table 1 below. The changes give rise to a budget gap of circa £1.0 million for 2021 to 2022, £2.0 million for 2022 to 2023, £3.0 million for 2023 to 2024 and £3.4 million for 2024 to 2025.

These changes are set out in table 1 below:

	2021/22	2022/23	2023/24	2023/24
Impact - Pressure/(Saving)	£m's	£m's	£m's	£m's
<b>Savings Requirement - Feb 2020 Budget process</b>	0.70	1.10	1.40	1.80
<b>Assumption Changes / Pressures</b>				
Pay Inflation Assumption Update 2020 to 2021	0.30	0.30	0.35	0.35
Income Assumption changes	1.00	0.50	0.30	0.30
Additional housing growth waste service delivery costs	0.15	0.15	0.15	0.15
Investing in our growth agenda capacity (last year reserve funding 2021 to 2022)		0.80	0.80	0.80
General Fund replenishment	1.20			
Council Tax 2020 to 2021 Impact - Assume recovered in 2021 to 2022	0.19			
Council Tax Base Reduction	0.25			
Business Rates 2020 to 2021 Impact - Assumed recovered in 2021 to 2022 (Funded from Business Rates equalisation reserve)	1.20			
<b>Settlement (Assume roll forward of 2020 to 2021)</b>				
Use of New Homes Bonus	(0.70)	(0.50)		
Use of Business Rates Retention Scheme Growth above baseline funding	(1.50)	(0.30)		
<b>Use of Reserves</b>				
Use of Business Rates Retention Scheme equalisation reserve to replenish General Fund Balance	(1.70)			
<b>Total Estimated Budget Gap/ Savings Requirement</b>	<b>1.08</b>	<b>2.05</b>	<b>3.00</b>	<b>3.40</b>

3.3 These projections assume no change to the current agreed 4-year Council Tax plan for harmonisation between the predecessor areas of St Edmundsbury and Forest Heath. This assumption is a matter for Council in February 2021.

3.4 The Capital Programme is currently being revised and updated with known changes. This will be presented to this committee for review in January 2021.

## 4. Approach to delivering a sustainable 2021 to 2022 budget and beyond

4.1 West Suffolk Council's response to the financial challenges and opportunities will continue to follow our six key themes. Our opportunities include capturing and building on the learning and innovative ways of delivering our services, experienced during this time.

4.2 These themes are considered to still represent an appropriate response to the ongoing financial situation:

1. Aligning resources to West Suffolk’s strategic framework and essential services
2. Sharing services and transformation of service delivery
3. Behaving more commercially
4. Considering new funding models
5. Encouraging the use of digital forms for customer access
6. Taking advantage of new forms of local government finance.

4.3 At its January 2021 meeting, the committee will receive an update on the saving proposals and initiatives to address the budget gap set out in section 3 of this report. Cost certainty will play a particular focus in this year’s budget process to enable, where possible, greater certainty on the council’s financial plans given the volatility of income streams.

4.4 The council is required to set a balanced budget for the forth coming year. At this stage of the budget process and given the opportunities and approach set out in 4 above, delivery of a balanced budget for 2021 to 2022 is deemed achievable (based on what we know at this stage of the process). Having said that and given the future medium term challenges facing the council, proposals are likely to be put forward at the January PASC meeting and as part of the main February Budget and Council Tax report, to enable the council to set out its plans across the next three years and to deliver ahead of the curve, bringing forward saving proposals and initiatives into 2021 to 2022. This is good financial management and will enable greater certainty for the delivery of a sustainable medium-term financial plan for West Suffolk.

4.5 The following high-level timetable is proposed for delivery and agreement of a budget and medium-term plan for West Suffolk Council for 2021 to 2022.

Action	Timescales
PASC report(s) – delivering a sustainable budget update report	28 January 2021
Member Development Session(s) and briefing(s) – MTFS	January-February 2021
Cabinet – 2019-2020 Budget and Council Tax setting report	9 February 2021
Council - 2019-2020 Budget and Council Tax setting report	23 February 2021

## **5. Alternative options that have been considered**

- 5.1 The report above sets out the rationale behind the key budget assumptions for 2021 to 2022 and where relevant draws out alternative assumptions that have been considered and discounted at this stage in the budget process.

## **6. Consultation and engagement undertaken**

- 6.1 The budget assumptions set out in this report have been prepared in consultation with Leadership Team and the Portfolio Holder for Resources and Performance.

## **7. Risks associated with the proposals**

- 7.1 The main budget report in February 2021 will set out the key risk assumptions alongside the report from the Section 151 Officer on the robustness of estimates and balances.

## **8. Implications arising from the proposals**

- 8.1 Financial – Contained in the main body of this report.
- 8.2 Legal Compliance – The Council has a legal requirement to set a balanced budget for the forth coming year. This report and future reports to this committee are part of the process designed to deliver on that legal requirement.
- 8.3 Personal Data Processing/Equalities/Crime and Disorder/Changes to existing policies/Environment or Sustainability/HR or Staffing/External organisations – No significant implications arising directly from this report. Implications under each of these headings will be considered as part of individual savings or initiatives as part of the budget process.

## **9. Appendices referenced in this report**

- 9.1 None.

## **10. Background documents associated with this report**

- 10.1 2021 to 2022 Performance Management Report – Quarter 2 (PAS/WS/20/017) – 19 November 2020.