

# Delivering a Sustainable Medium-Term Budget

<b>Report number:</b>	<b>PAS/WS/21/003</b>	
<b>Report to and date(s):</b>	<b>Performance and Audit Scrutiny Committee</b>	28 January 2021
	<b>Cabinet</b>	9 February 2021
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**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 Appendix B 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 and the £1.4m replenishment of its general fund balance (to manage/cover future budget risks) utilised to balance the 2021 to 2022 budget as a direct result of the pandemic. This pressure comes not only because of the vital role the council has played in supporting our businesses and communities through COVID-19 but also the negative effect on income to the council the pandemic has. Councils nationally are expected to produce local income to fund services due to reduced Government funding.
- 1.2 The medium term plans are also being prepared in the context of significant uncertainties around Government policy in terms of future Comprehensive Spending Reviews, Local Government Finance Settlements, 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 our partners such as Suffolk County Council, as a result of the challenges outlined above, are both unknown and uncertain at this stage.
- 1.3 At its meeting on 30 July 2020, report number [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 At its meeting on 19 November 2020, report number [PAS/WS/20/019](#), the Performance and Audit Scrutiny Committee (PASC) supported the key budget assumptions underpinning the 2021/22 and medium-term budgets for West Suffolk Council.
- 1.5 This report provides an update on those key budget assumptions as a result of both the provisional settlement announced on 25 November 2020 and the detailed budget process undertaken by services areas supported by their finance business partners during November and December 2020.
- 1.6 This report also sets out the scale of the financial challenge for West Suffolk Council for 2021/22 and in the medium term, and the plans to address those financial challenges in enabling the council to meet its statutory responsibility to set a balanced budget for the forthcoming year. This report and its proposals feed into the main budget setting report due to be considered at Council on 23 February 2021.

## **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 continue to come in phases particularly while the vaccine is still being distributed. Through the 2021 to 2022 budget process we will establish the 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 to feed into the quarterly 2021 to 2022 monitoring reports.
- 2.2 Changes to 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 position set out in the PASC report on 19 November 2020, report number PAS/WS/20/019, are set out in section 3 below.

### **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 outcome of this one-year Spending Review 2020 was announced on Wednesday 25 November 2020. The Spending Review itself contained a large number of measures in response to the financial impacts of the COVID-19 pandemic that relate to local government.
- 2.5 The impact of this has now been received through our provisional financial settlement for 2021 to 2022 and is discussed in more detail in Appendix A. The financial implications of the provisional settlement for West Suffolk are generally positive and an additional £700k benefit for 2021 to 2022 is included in table 1 at Appendix B of this report.
- 2.6 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 future years. Therefore, the resource assumptions from April 2022 should be treated with caution and will be updated as we go through future budget setting processes and further Government announcements are made.

### **COVID-19 impact**

- 2.7 It is difficult to predict the financial impact of COVID-19 on the Council's medium-term plans. We don't know how long the tiering system and associated social distancing rules will be in place, nor how long and what shape recovery will take thereafter. Even with the roll out of the vaccination programme what and how long the recovery will be is uncertain and throughout this time the council will, no doubt, be called upon to continue playing its part in reducing the spread of infection. The detailed work through service budget reviews has identified various recovery timescales in 2021 to 2022 and as a general assumption we are working to pre-COVID 19 level budgets from April 2022 in our medium-term plans.
- 2.8 For 2021/22 the budget process (through the service budget reviews) has proposed we set aside £1.2m (net impact but before use of COVID grant) to address potential future COVID-19 impacts. This assumes that any further lockdowns within quarter 1 of 2021 to 2022 and any significant impact beyond that first quarter will come with associated COVID-19 funding from central Government and extension to the income loss support scheme. This £1m COVID-19 impact provision will sit corporately and will be monitored through the quarterly budget monitoring process and vired out to service areas accordingly when actual impact takes place. This means that budgets will be reported for 2021 to 2022 assuming recovery will take place in-year.
- 2.9 This £1.2 million COVID provision will be further supplemented with the £0.8m balance of the £872,000 COVID grant announced in the provisional financial settlement and proposed to be set aside in a COVID reserve. Further analysis is taking place and will be reported in the main budget report at the February Council meeting when the Section 151 Officer will also report on the adequacy of these two amounts and the role of the council's general fund in managing the overall financial implications of COVID-19 in 2021 to 2022. However, we know that so far funding for dealing with COVID-19 or loss of income does not cover the full amount and during the pandemic the council has and will continue to play its part which comes with additional capacity and cost challenges.

### **Other Budget changes**

- 2.10 A detailed review of the 2021 to 2022 budget assumptions has now concluded and the significant changes have been drawn out in table 1 at Appendix B of this report. There is expected to be a greater level of volatility in our 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, there has been very limited, if any, growth in those already assumed income assumptions for 2021 to 2022.

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

- 2.11 As part of the current year's 2020 to 2021 financial forecasts and associated financial impact of COVID-19, it is anticipated that approximately £1.4 million (an additional £0.2m from the previous November PASC report due to further lockdowns) 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.
- 2.12 A detailed review of all the council's earmarked reserves is in progress and will feed into the Section 151 Officer report to members on the robustness of estimates and balances as part of the budget process.

## **3. Our current projections for 2021/2022 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 and 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 in this report and in Appendix A and B 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 saving requirements. The difference now being the scale of the saving requirements as a direct result of COVID-19 and the local and national impacts.
- 3.2 The impact of the key assumption changes, both those set out in the previous committee report, and this report are set out in table 1 in Appendix B. The changes give rise to cumulative budget gaps of approximately £0.7 million for 2021 to 2022, £2.2 million for 2022 to 2023, £3.2 million for 2023 to 2024 and £3.8 million for 2024 to 2025. Members of the committee should note that at paragraph 3.4 below we set out some significant pieces of work that are still in progress to address not just the 2021 to 2022 budget but the medium-term financial challenges.
- 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 Borough Council and Forest Heath District Council. This assumption is a matter for Council in February 2021.

3.4 Work is still ongoing that will significantly impact (in a positive way) this outlook. The key elements that are yet to be finalised include:

- Review of vacant posts within the council’s staffing establishment
- Review of the investing in our growth agenda capacity (capacity added in support of our growth investment strategy and strategic projects) as we approach the fourth and final year of its funding arrangements
- The council’s transformation programme, which will accelerate the delivery of a number of our financial strategy themes such as transformation of service delivery, encouraging the use of digital forms for customer access and behaving more commercially

3.5 At this stage in the budget process focus has been on the revenue outlook. The capital and reserve movements are to be finalised and will be presented to Cabinet and Council in February.

3.6 The council is required to set a balanced budget for the forthcoming year. At this stage of the budget process and given the opportunities and approach set out in the previous committee report and paragraph 3.4 above, delivery of a balanced budget for 2021 to 2022 is deemed achievable. Having said that, and given the future medium term challenges facing the council, further proposals are likely to be put forward 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.

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

Action	Timescales
Member Development Session – Medium-Term Financial Strategy	27 January 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

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

4.1 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.

## **5. Consultation and engagement undertaken**

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

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

- 6.1 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.

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

- 7.1 Financial – Contained in the main body of this report.
- 7.2 Legal Compliance – The council has a legal requirement to set a balanced budget for the forthcoming year. This report and future reports to this committee are part of the process designed to deliver on that legal requirement.
- 7.3 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.

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

- 8.1 Appendix A – Spending review and provisional settlement update  
Appendix B – Table 1 – Key budget assumption changes

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

- 9.1 Delivering a Sustainable Budget 2020 to 2021 - 19 November 2020, report number [PAS/WS/20/019](#)  
Quarter 2 2021 to 2022 Performance Management Report – 19 November 2020, report number [PAS/WS/20/017](#)