Budget and Council Tax Setting 2021 to 2022 and Medium Term Financial Strategy 2021 to 2025

Report number:	**CAB/WS/21/008**	
Report to and date(s):	**Cabinet**	9 February 2021
	Council	23 February 2021
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Decisions Plan: **The decisions made as a result of this report will usually be published within 48 Hours. This item will be referred to Council for a final decision and is, therefore, not subject to call-in. This item is included on the Decisions Plan.**

Wards impacted: **All wards**

Recommendations: **It is recommended that, subject to the approval of Council:**

1. the revenue and capital budget for 2021 to 2025, plus 2020 to 2021 capital projects that subsequently require to be carried forward at the year end, attached at Attachment A and as detailed in Attachment D (Appendices 1-5), Attachment E

(Appendices 1-3) and Attachment F to Report number: CAB/WS/21/008, be approved.

2. Having taken into account the conclusions of the Assistant Director's (Resources and Performance) report on the adequacy of reserves and the robustness of budget estimates (Attachment C) and the Medium Term Financial Strategy (MTFS) (Attachment D), particularly the Scenario Planning and Sensitivity Analysis (Attachment D, Appendix 5) and all other information contained in Report number: CAB/WS/21/008, the level of council tax for 2021 to 2022 be established (the level of council tax beyond 2021 to 2022 will be set in accordance with the annual budget process for the relevant financial year).

3. The Assistant Director (Resources and Performance), in consultation with the Portfolio Holder for Resources and Performance, be authorised to vire funds between existing Earmarked Reserves (as set out at Attachment D, Appendix 3) as deemed appropriate throughout the medium term financial planning period.

4. Approval be given to the Flexible Use of Capital Receipts Strategy (as set out in Attachment G).

1. Context to this report

1.1 West Suffolk Council (and its predecessor councils Forest Heath District Council and St Edmundsbury Borough Council) has a good track record of delivering high quality services that our communities demand and value. It also has a strong vision and programme to deliver, through our West Suffolk Strategic Framework 2021 to 2024, to bring greater prosperity for our communities and businesses.

1.2 This has been underpinned by robust financial planning and management enabling the council to deliver both services and the strategic aims of West Suffolk. This can be seen in the £5 million in annual savings made from shared services and the creation of a single council to put the council on a stronger financial footing as well as the right size to better champion West Suffolk communities. Due to this financial management and despite previous reductions in national funding as well as the severe impact of COVID-19 on finances, the council can put forward a balanced budget for 2021 to 2022.

1.3 Despite our successes, the pressures on local government finances, with or without a pandemic, still requires local authorities nationally to continue to deliver more with less. So, we must continue to transform the way we work and the way we are funded in response to these challenges to meet future savings.

1.4 The 2021 to 2022 budget is prepared in the context of not only the significant challenges facing local government, such as reductions in national funding streams, but also a national and worldwide COVID-19 pandemic. Since the outbreak of COVID-19 in the UK, a number of events have occurred which have had a significant impact on all local government, including West Suffolk Council's financial position in the current financial year and are expected to continue into 2021 to 2022. Some of these have been restrictions imposed by Government that have and will continue to affect West Suffolk Council's investments, assets and services; and others have been announcements of Government financial support.

1.5 The council has played a vital role in responding to COVID, in supporting businesses (including millions of pounds in business grants distribution) and the most vulnerable in our communities, including the homeless, (including support through our home but not alone service) as well as running essential services during challenging conditions. This comes at an expected net cost of £2.6 million to date (covering the current financial year 2020 to 2021), £1.4 million of which is to be funded in year from the council's general fund reserve.

1.6 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. It is also likely to continue to come in phases particularly while the vaccine is still being distributed. Through the 2021 to 2022 budget process we have established a circa £2 million COVID-19 impact fund (£1.2 million within the general fund budget itself and £0.8 million from Government COVID-19 grant funding) to support the foundations of our financial projections.

1.7 This pressure comes not only because of the vital role the council continues to play in supporting our businesses and communities through both the response and recovery stages of the COVID-19 pandemic but also the negative effect on income to the council the pandemic has had (over £8 million impact projected in the current 2020 to 2021 financial year). Nationally councils are expected by Government to generate income to help pay for services, but with it comes uncertainty. Our approach needs to be flexible and responsive to the COVID-19 response and recovery demands. Therefore, we will constantly review our £2 million impact assumptions, in response to further data and intelligence to feed into the quarterly 2021 to 2022 monitoring reports.

1.8 The medium term plans have also been 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. The direct and indirect impacts on our partners such as Suffolk County Council, as a result of the challenges presented by the COVID-19 pandemic, are also both unknown and uncertain at this stage.

1.9 Councils nationally are expected to balance the books through savings and producing local income to fund services due to reduced Government funding. This year, as a one off to assist with the expected continued impact of COVID-19 the council will see an increase in funding from the Government. However, this will not completely neutralise the impact expected from the pandemic. Nor will it address the financial challenges that already existed for local government following a decade of funding reductions and increases in the demand for our services such as housing and homelessness support.

1.10 Despite this and the additional pressures presented by COVID-19, through prudent budgeting, a review of our vacant posts, investment as well as transformation West Suffolk Council is in a good financial position. However, while this means a balanced budget can be set for 2021 to 2022 there are gaps to be met in later years – currently forecast at £0.97 million in 2022 to 2023 growing to £2.21 million in 2024 to 2025. Government has made it clear that budgets have to be balanced by councils through reducing the cost of delivery, investment, income generation and local taxation.

1.11 Whilst the 2021 to 2022 budget includes previously committed income proposals, cost certainty has played a particular focus in this year's budget process (the detail being shown in Attachment B) to enable, where possible, greater certainty on the council's financial plans given the volatility of income streams and the uncertainty around the continued impact of COVID-19.

1.12 Currently, council tax makes up approximately one fifth of the authority's budget (exclusive of housing benefit) and therefore only goes a fifth of the way to actually paying for services. Council tax goes on the base budget, which means it has a cumulative effect and a greater impact in future years. It is recognised that any increase provides an extra burden on tax payers but does mean the protection of vital services which would possibly have to be considered for reductions. West Suffolk Council is around 11 percent of a local council tax payer's bill with the rest made up by the County Council, Police and Crime Commissioner as well as Parish or Town Council. Councillors are asked and expected by Government to look at local taxation levels to meet the authority's financial needs to support its communities and help future proof from financial uncertainty. Council tax levels are considered further in Section 3 of this report.

Investing in our growth agenda

1.13 National policy also encourages councils to grow their local, and therefore the UK, economy by supporting business, investment and housing to bring in local income, including consideration of new income streams. Bridging the gap between income and demand remains, COVID aside, the single biggest challenge facing local Government across the country.

1.14 The financial challenges and national funding policies means that councils can no longer rely on Government grants but must look at more innovative ways to finance the current services and create financial capacity to invest and meet the needs of our communities and businesses. West Suffolk Council recognises this and continues to take a proactive investment role through our Investing in our Growth Agenda Strategy and fund, not only to meet the challenges brought by funding for councils, but also importantly to manage growth, reduce our carbon footprint and ensure prosperity for our communities. We must, therefore, maintain and where appropriate grow the local income we receive now (and reduce the cost of delivering services) but also deliver our investment projects, enable the building of homes, through Barley Homes and increase our business base so that we deliver new income streams to replace those lost. This will enable us to continue delivering the services and wider community support which people value and make West Suffolk an attractive place to live, work and invest.

1.15 Our medium-term financial plans see greater reliance on delivery of our strategic projects as set out in our capital programme at Attachment D Appendix 2, such as Mildenhall Hub, a decarbonisation of energy project (to reduce our impact on the environment) and Brandon Leisure Centre redevelopment. As we gain more certainty around our anticipated returns (through a dividend) from the council's wholly owned Housing Company - Barley Homes, we will see these returns coming through future budget setting processes to support the delivery of future years budgets.

1.16 As we continue to shape our investing in our growth agenda projects, focusing in and around recovery and our growth and climate agendas, we will also see the ongoing development of our investment approach materialising supported by our adopted West Suffolk property asset strategy including property acquisitions, disposals, maximising the value of our existing stock.

1.17 Some of the projects will need considerable investment, both in money - including creating new funds where needed through borrowing (supported by robust business cases) – and resources and time, but that investment will build a more financially resilient and self-sufficient council, with less reliance on uncertain national or other funding streams. That focus on projects that are also income-generating, which may span several years before they deliver a return, means we no longer look simply to balance a budget for one year.

1.18 Importantly these economic growth projects will bring wider long-term benefits to our areas than purely being a financially robust council, such as jobs, reducing our carbon footprint, better health outcomes and investment in working with communities and place-based initiatives.

Transforming West Suffolk Council

1.19 It is important now more than ever with the uncertainties around income generation during a pandemic, that we balance growth in existing and new income streams with controlling our cost base and delivering an efficient council. We have transformed what we do and will continue to do so – examples being the sharing of services and the most recent creation of a new single West Suffolk council, achieving and protecting annual savings in excess of £5 million a year. Our Families and Communities work is making real changes in people's lives, delivering locally alongside our elected members.

1.20 The partnership work that we started through the Families and Communities work has been invaluable during the pandemic in strengthening the community response that has been vital to supporting the vulnerable. This has led to partners both in the public, private and voluntary sectors working in new ways to find local solutions. The council and community have also, through the pandemic, adapted to using online and digital solutions and the benefits that brings alongside more traditional methods. The council recognises the vital role that our communities play in the COVID response and in the future recovery. That is why we have made provision once again to increase each councillor's Locality Budget from £2,800 to £3,300 to provide additional much needed support for local groups.

1.21 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, will feature as our key approach to delivering across our medium term plans. Our opportunities include capturing and building on the learning and innovative ways of delivering our services, experienced during this time.

1.22 The role that digital will play in our future state, alongside the role of our partners (public, private and voluntary) including the relationships across the tiers of local government within West Suffolk, will be critical in ensuring a system approach for our residents and businesses that is valued and sustainable. This transformational plan, which will include a series of service delivery reviews, will take shape during the first quarter of 2021 to 2022 to ensure delivery of the outcomes both financial and improved services, can start taking shape to contribute towards our financial challenges in 2021 to 2022 and across the medium term.

2. Provisional local government finance settlement

2.1 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.

2.2 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.

2.3 The impact of this has now been received through our provisional financial settlement for 2021 to 2022. The financial implications of the provisional settlement for West Suffolk are generally positive and an additional £868,000 benefit for 2021 to 2022 is included in the proposed budget.

Revenue Support Grant and Rural Services Delivery Grant

2.4 The 2020 to 2021 Local Funding Settlement will now effectively roll forward into 2021 to 2022 which means that council can expect Revenue Support Grant and Rural Services Delivery Grant of around £0.2 million and £0.181 million respectively. These grants have been included in the 2021 to 2022 proposed budget.

Lower Tier Services Grant

2.5 This new grant effectively uses £111 million of the New Homes Bonus returned surplus. Its purpose is to help minimise the range of increases in core spending powers, and particularly to ensure that no authority receives a reduction in core spending powers. The provisional allocation for West Suffolk is £0.193 million for 2021 to 2022 as a one-off grant.

New Homes Bonus

2.6 There has been considerable uncertainty regarding New Homes Bonus (NHB) as the consultation on the future of NHB and potential alternative incentives for the provision of new housing has been postponed. There will now be a one-year only round of NHB funding (year 11), so the total payments of NHB to be received in 2021 to 2022 will be two legacy payments in respect of years 8 and 9, and one payment in respect of year 11. The additional allocation for West Suffolk is £0.641 million for the one-year round, this allocation will be transferred to the Strategic Priorities/Medium Term Financial Strategy Reserve for future utilisation across the medium term plans.

Homelessness and rough sleeping

2.7 Nationally, additional funding of £254 million has been announced to reduce homelessness and rough sleeping, although £103 million of this had been previously announced earlier this year in respect of accommodation and substance misuse support. The provisional allocation for West Suffolk is around £0.656 million for 2021 to 2022.

COVID-19 support funding

2.8 COVID-19 support funding in respect of local authority expenditure pressures has been extended to cover quarter one of 2021 to 2022. Nationally, £1.55 billion has been allocated to fund this. West Suffolk's allocation is £0.872 million which has been ringfenced in a COVID reserve to fund the costs associated with the response and recovery of COVID-19 during the 2021 to 2022 financial year.

Sales, fees and charges lost income reimbursement scheme

2.9 This scheme involves a five percent deductible rate, whereby councils will pay the first five percent of all lost planned sales, fees and charges income, with the Government compensating them for 75 pence in every pound of loss thereafter. The purpose of the five percent deductible is to account for an acceptable level of volatility, whilst shielding authorities from the bulk of losses.

2.10 In 2020 to 2021, it is currently estimated that the council will receive around £3.5 million in compensation under this scheme. The scheme is now being extended into the first quarter of 2021 to 2022. The Government are consulting on the use of an inflated 2020 to 2021 budget as the baseline figure for the 2021 to 2022 scheme. We estimate that the scheme will be worth around £0.2 million for the first quarter of 2021 to 2022.

National Leisure Recovery Fund

2.11 The Government has made provision to assist the reopening and recovery of the leisure service and prevent further closures of outsourced leisure trusts and operators through the National Leisure Recovery Fund. Currently the fund does not extend into 2021 to 2022 however, there have been indications this will be considered as the impact on the sector in next year becomes more fully understood. The nominal allocation to West Suffolk for 2020 to 2021 (covering the final quarter only) was £0.39 million and we await confirmation of the final grant.

2.12 We will continue to work with our leisure partner, Abbeycroft Leisure, on an open book basis to fully understand the impact on them as restrictions change and centres are allowed to open. It is anticipated that the COVID Impact Fund, referenced paragraph 1.6 can be used to support our leisure services financial challenges over and above the support that is available through the measures agreed by Cabinet in November 2020 (CAB/WS/20/072).

Business rates and business rates reliefs

2.13 As previously reported, there will be no reset of the Business Rates Retention system and implementation of the Fair Funding Review in 2021 to 2022.

2.14 The small business rate multiplier is usually indexed using the September Consumer Price Index (CPI), which was 0.55 percent in September 2020. However, the Government has announced that it will freeze the multiplier in 2021 to 2022, and local authorities will be compensated by way of Section 31 grants.

2.15 There was no announcement about the Expanded Retail Discount supporting retail, hospitality and leisure businesses, although tables in the Spending Review documents confirm that there is no funding for continuing the expanded discount into 2021 to 2022. This does raise concerns about the collection of business rates in 2021 to 2022 as these reliefs have been a significant support in 2020 to 2021, amounting to around an additional £38.938 million in West Suffolk. However, a decision about reliefs will be taken early 2021 to respond to the "evolving challenges presented by COVID-19".

Collection Fund deficits

2.16 Detailed proposals for changing the accounting treatment of the 2020 to 2021 Collection Fund deficits have been previously confirmed in regulations, and Collection Fund deficits will be spread over the next three years (2021 to 2024), as reflected in the medium-term budgets.

Council tax support

2.17 £670 million additional grant funding has been announced to help councils in respect of council tax support. It is possible that this will provide support to authorities in respect of the impact on council tax bases arising from increased Local Council Tax Reduction Scheme (LCTRS) reliefs. The provisional allocation for West Suffolk is £216,000 for 2021 to 2022. This allocation includes an allowance for Town and Parish Councils in West Suffolk, calculated to be around £65,000 (of the £211,000). Given this is separately identifiable and that this impact has also been felt by the town and parish councils, as a result of a reduction in the number of properties they can levy their precepts on next year, provision has been made in the 2021 to 2022 budget to pass this £65,000 directly on to our town and parish councils. This has been communicated to town and parish council clerks.

Council tax referendum limits

2.18 In 2021 to 2022, local authorities will be given greater council tax flexibility. The core referendum threshold will remain at two percent (with district councils able to increase by the higher of £5 or two percent). Police and Crime Commissioners will be able to increase their precept by £15. Social care authorities will be able to apply a further three percent increase (five percent in total). There is no change for district councils and for West Suffolk's harmonisation plans. The medium-term budgets assume no change to the current agreed four-year council tax plan for harmonisation between the predecessor areas of St Edmundsbury and Forest Heath.

3. Council tax for 2021 to 2022

3.1 As part of the creation of a single West Suffolk Council (alongside others), the Ministry of Housing, Communities and Local Government laid down specific referendum principles for the setting of council tax for those areas that underwent local government reorganisation on 1 April 2019 and where harmonisation of council tax was not deliverable within the first year of the newly formed authorities.

3.2 The specific West Suffolk referendum principles set out a requirement on the new single council to harmonise council tax across the predecessor areas within seven years, not specifically at year seven. It is for West Suffolk Council to determine the level of council tax across its area on an annual basis as part of the budget setting process, including the scale and speed to which harmonisation is to take place (in any given year –

but ensuring that harmonisation has/can take place within the required seven years).

3.3 West Suffolk Council is still subject to the national referendum principles. However, the two per cent or £5 (whichever is higher) is flexible in any given year between the predecessor area's element or the average band D rate across both predecessor areas (the average across all of West Suffolk). The average band D rate across West Suffolk in the current year 2020 to 2021 was £177.12, allowing for an increase of £4.99 to £182.11 in 2021 to 2022 within these referendum principles.

3.4 The budget for council tax for 2021 to 2022 and future years is based on the option to harmonise the two predecessor areas (St Edmundsbury and Forest Heath) using the average band D rate across both predecessor areas, harmonising the council tax bills by 2022 to 2023 whilst maximising our council tax receipts to protect services and to support our investment plans. For 2021 to 2022 this represents an average band D monthly increase of 22 pence and 3 pence for the predecessor areas of Forest Heath and St Edmundsbury respectively. Noting that just over 70 per cent of our residents are in bands A to C so will actually see a lower increase.

4. Setting the budget - 2021 to 2022 and across the medium term to 2024 to 2025

4.1 On 25 February 2020, the council approved a budget for 2020 to 2021 and medium term financial plan for West Suffolk Council to 2024. This medium term financial plan was balanced for the first year and then showed a budget gap of £0.7 million in 2022 to 2023, £1.1 million in 2022 to 2023 and £1.4 million in 2023 to 2024.

4.2 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.

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

- Aligning resources to West Suffolk's strategic framework and essential services.
- Sharing services and transformation of service delivery.
- Behaving more commercially.

- Considering new funding models.
- Encouraging the use of digital forms for customer access.
- Taking advantage of new forms of local government finance.

4.4 Attachment A is the revenue budget summary, which provides an overview of the proposed income and expenditure for 2021 to 2025. The total proposed revenue expenditure in 2021 to 2022 is £40.2 million (excluding housing benefits).

Delivering our sustainable future – beyond 2021 to 2022

4.5 With demands increasing and uncertainty in local government funding beyond April 2022, it is critical that we continue to drive change and stay ahead of the financial curve to enable us to protect valuable local services and to continue to have the financial capacity to continue to invest in our communities. In order to provide greater certainty to our budget and to not over rely on income until such time we understand the true impact of the current pandemic, our biggest savings focus must be on the continual review and transformation in the way we deliver our services through our emerging Transformation Programme (paragraphs 1.19 to 2.22).

4.6 It is difficult to predict the financial impact of COVID-19 on the council's medium-term plans. We do not 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.

4.7 The financial impact of the COVID-19 pandemic has also introduced considerable uncertainty (on top of what was already uncertain times) 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.

5. Capital Programme 2020 to 2025

5.1 The capital expenditure of the council through its investment approach has an impact on the revenue budget and is part of the overall preparation of the revenue proposals for the coming year. Its overall capital expenditure is not just about creating a return income but also has greater benefits such as much needed new leisure, health and education facilities; providing infrastructure for businesses, our high streets and rural areas; reducing our carbon footprint; protecting jobs, helping prevent homelessness and improving access to services.

5.2 It is estimated that £46.99 million will be spent on investment through our capital schemes during 2021 to 2022 which are to be funded by a combination of grants and contributions (£3.97 million), earmarked revenue reserves (£2.31 million), our usable capital receipts reserve (£2.03 million) and external borrowing (£38.68 million).

5.3 Looking ahead, the total value of the capital programme over the next four years is approximately £176.67 million. Attachment D, Appendix 2 shows the planned capital expenditure in financial year 2021 to 2022 and future years, together with information on the funding of that expenditure (that is, grants and contributions, use of earmarked revenue reserves, useable capital receipts reserve and external borrowing) and is summarised in Table 1 below.

Table 1: Planned capital expenditure over four years to 2024 to 2025

	2021 to 2022 millions	2022 to 2023 millions	2023 to 2024 millions	2024 to 2025 millions	Total millions
Gross capital expenditure	**£46.99**	**£63.22**	**£57.22**	**£9.24**	**£176.67**
Funded by: Grants and contributions	£3.97	£1.00	£1.00	£1.00	£8.57
Earmarked revenue reserves	£2.31	£1.49	£1.18	£0.84	£5.82
Capital receipts reserve	£2.03	£1.48	£0.00	£0.00	£3.51
External borrowing	£38.68	£59.25	£55.04	£7.40	£158.77
Total	**£46.99**	**£63.22**	**£57.22**	**£9.24**	**£176.67**

5.4 Subject to the year-end outturn position, any carry forwards from the 2020 to 2021 budget will be added to the 2021 to 2022 capital programme budget at the year end.

Disposal of surplus assets

5.5 Part of the funding arrangements for the capital programme has been the disposal of surplus assets. The council has plans to review its programme of asset disposals as part of the development of its Asset Management Strategy. Table 2 below is a summary estimate of the likely level of income from asset disposals over the period 2021 to 2025.

Table 2: Estimated income from asset disposals 2021 to 2025

	2021 to 2022 millions	**2022 to 2023 millions**	**2023 to 2024 millions**	**2024 to 2025 millions**
Council share of right to buy receipts	£1.25	£1.25	£1.25	£1.25
Barley Home loan repayments to be made available through agreed loan facility.	£4.50	£2.40	£0.00	£0.00
Other asset disposals	£0.10	£3.98	£0.00	£0.00
Total	**£5.85**	**£7.63**	**£1.25**	**£1.25**

5.6 The above capital programme and asset disposals programme will, in the short to medium term, move the council’s usable capital receipts reserves from £3.45 million to £13.48 million. This assumes that all borrowing included within current and future business cases will be drawn down. Note that the Barley Homes repayments are likely to be reinvested in the delivery of further housing sites as subsequent business plans are agreed.

5.7 The calculation of interest income used in the medium-term plans is based on the use of existing and anticipated capital expenditure and receipts, and external borrowing where the business cases assuming funding would come from borrowing. Changes in the level and timing of these cash flows have a direct impact on investment returns and revenue funding requirements. However, the capital financing and interest equalisation reserve does allow for some change in the budgeted levels of income from interest to be accommodated. The Prudential Code for Capital Finance and matters relating to the affordability of the capital programme are addressed in Attachment D, Appendix 4. The revenue cost of the capital programme is achievable across the medium term provided the savings and income streams indicated in the MTFS are implemented.

6. Minimum revenue provision (MRP)

6.1 The Treasury Management and Annual Investment Strategy included elsewhere on this agenda (Report number: CAB/WS/21/007) and the Prudential Indicators (Attachment D Appendix 4), provide a framework within which borrowing limits for the council are established and will confirm our MRP policy for 2021 to 2022.

7. General fund balance

7.1 The revenue budget, Attachment A, based on current budget projections, shows a balanced budget position for 2021 to 2022. However, many of the assumptions supporting the budget projections for 2021 to 2022 (and future years) are subject to significant uncertainty. This includes assumptions regarding:

- impact of COVID-19 both in terms of cost and income reductions
- sustainability of income stream estimates generally (including commercial property rental, car parking, trade waste and planning income)
- impact of business rates retention scheme and Suffolk pooling arrangements
- pay inflation and employer's pension liabilities.

7.2 The council holds general fund balances as a contingency to cover the cost of unexpected expenditure during the year. As outlined in Attachment C (Adequacy of Reserves and Robustness of Budget Estimates) the council's general fund balance is set at a minimum of £5 million.

7.3 The recommended level of general fund balance has been established by taking into account the following:

- allowance for a working balance to cushion the impact of any unexpected events or emergencies
- the new risks placed at a local level under the new business rates retention scheme, such as appeals
- the addition of greater income targets and project returns linked to being more commercial and the selling of council services
- other risks detailed in the Scenario Planning and Sensitivity Analysis provided at Attachment D, Appendix 5.

8. Earmarked reserves

8.1 At the beginning of the 2021 to 2022 financial year the council will have an estimated £48.0 million in earmarked reserves. The current level of earmarked reserves and contributions during 2021 to 2022 has been reviewed and where appropriate annual contributions have been adjusted. Attachment D, Appendix 3, provides details of the proposed contributions to, and projected expenditure from, earmarked reserves during 2021 to 2025.

8.2 At the end of 2024 to 2025 these reserve balances are estimated to fall to £29.2 million, in support of financing a number of key investment projects. It should be noted that the closing balance at Attachment D, Appendix 3, includes around £1.4 million contributed to reserves a year for the three years 2022 to 2025 in respect of business rates retention of growth at present. This is likely to be rebased going forward as part of government reforms to the scheme, and as such has not been included in the £29.2 million closing balance as referenced in this paragraph.

9. Strategic priorities and MTFS reserve

9.1 This reserve acts as a one-off fund to provide the financial capacity, either through direct investment (revenue and/or capital) or through servicing external borrowing, for the council to drive forward the delivery of a sustainable Medium Term Financial Strategy (MTFS) and the West Suffolk Strategic Plan priorities. This reserve is forecast to move from £3.0 million at the beginning of 2021 to 2022 down to £1.5 million by the end of 2024 to 2025.

9.2 Table 3 shows the total New Homes Bonus (NHB) grant payments made to the predecessor councils since the scheme began in 2011 to 2012, including the expected West Suffolk Council receipt in 2021 to 2022. These NHB allocations were all put into this Strategic Priorities and MTFS reserve up to the financial year 2019 to 2020. In 2020 to 2021 £1.2 million of the grant is being utilised towards the overall budget pressures which have arisen as a result of the COVID-19 pandemic. The council is also budgeting to utilise £0.7 million of the 2021 to 2022 grant as part of its budget position and the continued impact of COVID-19.

Table 3: New homes bonus – grant receipts

Year	Forest Heath millions	St Edmundsbury millions	West Suffolk millions
2011 to 2012	£0.562	£0.268	£0.830
2012 to 2013	£1.436	£0.559	£1.995
2013 to 2014	£1.679	£0.757	£2.436
2014 to 2015	£2.166	£0.886	£3.052
2015 to 2016	£2.437	£1.219	£3.656
2016 to 2017	£2.644	£1.754	£4.398
2017 to 2018	£1.278	£1.553	£2.831

2018 to 2019	£0.718	£1.272	£1.990
2019 to 2020	N/A	N/A	£1.848
2020 to 2021	N/A	N/A	£1.811
2021 to 2022	N/A	N/A	£1.320

9.3 The 2021 to 2022 budget and MTFS includes a number of draws on this reserve as previously approved or under consideration through the democratic process. Attachment E summarises the proposed draws on this reserve as part of the 2021 to 2022 budget and the medium term budgets. The proposed future of the New Homes Bonus scheme is set out in section 2 above.

10. Adequacy of reserves

10.1 Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Assistant Director (Resources and Performance)) to report to council, as part of the tax setting report, her view of the robustness of estimates and the adequacy of reserves. The council is required to take these views into account when setting the council tax at its meeting on 23 February 2021. The full statement is set out in Attachment C.

10.2 In summary, the Section 151 Officer’s overall assessment is that the estimates are robust (taking into account known risks and mitigating strategies) and reserves are adequate for the 2021 to 2022 budget plans.

11. Alternative options that have been considered

11.1 The council is required by statute to set a balanced budget and therefore there are no alternative options.

12. Consultation and engagement undertaken

12.1 All budget changes have been reviewed by and discussed with Leadership Team, Service Managers and Members.

13. Risks associated with the proposals

13.1 A risk assessment is included at Attachment C as part of the report by the Assistant Director (Resources and Performance) (Section 151 Officer). Her conclusion is that overall, the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2021 to 2022 budget plans. Cabinet and Council are advised to have regard to this report when making their decisions on the 2021 to 2022 budget.

14. Legal implications arising from the proposals

14.1 The Local Government Act 2003 imposed duties on local authorities in relation to financial management which covers the following areas:

a. A power for the Secretary of State to determine a minimum reserve level for local authorities by regulations. The Government has indicated that their preference is to keep this power in reserve.

b. Section 25 of the Act places a requirement on the S151 Officer to report on the adequacy of reserves and robustness of budget estimates as part of the authority's annual budget setting process. The council is required to take these views into account when setting the council tax at its meeting on 23 February 2021. This is included as Attachment C of the report.

c. Sections 28 and 29 of the Act place a statutory duty on local authorities to monitor their budgets and take such action as considered necessary in the case of overspends and shortfalls of income.

14.2 Section 30 of the Act relates to the provisions preventing local authorities entering into agreements following a Section 114 Report which a S151 Officer must produce when it appears that expenditure of the authority in a financial year is likely to exceed the resources available to meet the expenditure. No such report has been produced for West Suffolk this year.

15. Appendices referenced in this report

15.1 **Attachment A** – Revenue budget summary

15.2 **Attachment B** – Summary of major budget changes

15.3 **Attachment C** – Report by the Assistant Director (Resources and Performance)

15.4 **Attachment D** – Medium Term Financial Strategy 2020 to 2024

15.5 **Attachment D Appendix 1** – 5 year revenue budget (MTFS)

15.6 **Attachment D Appendix 2 –** Capital programme

15.7 **Attachment D Appendix 3 –** Earmarked revenue reserves

15.8 **Attachment D Appendix 4 –** Prudential code for capital finance

15.9 **Attachment D Appendix 5 –** Scenario planning and sensitivity analysis

15.10 **Attachment E Appendix 1 –** Strategic Priorities and Medium Term Financial Strategy (MTFS) reserve

15.11 **Attachment E Appendix 2 –** Investing in Our Growth Agenda reserve

15.12 **Attachment E Appendix 3 –** Business Rates Retention Pilot: Place-Based reserve

15.13 **Attachment F** – Capital strategy

15.14 **Attachment G** – Flexible use of capital receipts strategy

16. Background documents associated with this report

16.1 Delivering a Sustainable Medium-Term Budget – Report number: PAS/WS/20/019 19 November 2021

16.2 Delivering a Sustainable Medium-Term Budget – Report number: PAS/WS/21/003 28 January 2021

16.3 2020-2021 Performance Report (Quarter 3) - Report number: PAS/WS/21/002 28 January 2021

16.4 Recommendations from the Performance and Audit Scrutiny Committee: 28 January 2021 - Financial Resilience Strategy Statement 2021 to 2022 and Treasury Management Code of Practice - Report number: CAB/WS/21/007