

Delivering a Sustainable Medium-Term Budget

Report number:	PAS/WS/21/016	
Report to and date(s):	Performance and Audit Scrutiny Committee	30 September 2021
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Decisions Plan: This item is included in the Cabinet’s Decisions Plan

Wards impacted: All wards

Recommendation: It is recommended that Performance and Audit Scrutiny Committee:

- 1. That Members consider and note the approach and timescales for the 2022/2023 budget setting process and medium-term plans to 2026.**

1. Context to the 2022 to 2023 budget process

- 1.1 This report outlines the process and approach to set the council’s budget and the principles and challenges faced in achieving this.
- 1.2 The financial impact of COVID-19 on the council’s budget is likely to be felt for many years. Therefore, the council will need to make provision in its medium-term budget plans for recovery to pre-covid levels. Any longer-term impact of COVID-19 on the council’s services will only be established in due course.
- 1.3 The 2022 to 2023 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 Retention (BRR) Scheme Review,
 - commercial investment policy and
 - potential major reforms with the Resources and Waste Strategy (RAWS), Health and Social Care reforms and the Planning Reform White Paper on.
- 1.4 The economic situation is also 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. This brings benefits to communities and businesses alongside efficiencies and savings. However, the impact of the economic situation and added COVID recovery challenges on our partners including Suffolk County Council is uncertain at this stage. Therefore, it is unknown what indirect cost impacts may be experienced locally.
- 1.5 In the February 2021 Council meeting the Budget and Council Tax Setting: 2021 to 2022 and Medium-Term Financial Strategy 2021 to 2025 report (COU/WS/21/003), set out the financial plan to 2025. This plan set a balanced budget for 2021 to 2022 but included the following initiative budget gaps (which will be reviewed as part of this 2022 to 2023 budget process) in the subsequent years:

	2022 to 2023	2023 to 2024	2024 to 2025
Budget Gap	£1.0m	£1.6m	£2.2m

- 1.6 This Medium-Term Financial Plan was developed in the midst of the initial COVID-19 outbreak and lockdown and therefore made significant assumptions on the duration and recovery from that situation. The February 2021 budget report assumption was that recovery to pre-COVID levels would take shape from April 2022, clearly this upcoming budget process will need to stress test that assumption.

- 1.7 This report provides an update and timetable on the development of a flexible and responsive recovery plan, a financial plan that will continue to follow (and test) our agreed Strategic Priorities and six key Medium-Term Financial Strategy (MTFS) themes.
- 1.8 Further reports including updates on assumptions and anticipated savings and initiatives required to deliver a sustainable and balanced budget for 2022 to 2023 will be presented to this committee at its November 2021 and January 2022 meetings.

2. Proposals within this report – Key budget assumptions

- 2.1 The ongoing impact of COVID-19 on the financial position of the council is still developing as we monitor trends in our income and expenditure in 2021 and 2022. At this point, in the development of our 2022 to 2023 budget and medium-term plans, we need to establish some key assumptions to build the foundations of our financial projections. At the same time our approach needs to be flexible and responsive to the COVID-19 recovery. Therefore, we will constantly review these assumptions during the budget process, in response to further data and intelligence.
- 2.2 The key budget assumptions proposed in the development of the 2022 to 2023 budget and medium-term plans and the rationale behind those assumptions is as set out below.

Government funding

- 2.3 As part of the response to the COVID-19 pandemic the Government confirmed that the planned reforms to local government finance relating to the Fairer Funding Review and 75 per cent Business Rates Retention (BRR) scheme would no longer be implemented in April 2021. The Government remain committed to these reforms, although have not set out any confirmed timeframe for when they would be completed and implemented. A roll forward of the 2021 to 2022 settlement is a possibility. However, the Government is yet to rule some form of funding reset, fully or partially from April 2022.
- 2.4 For the 2022 to 2023 budget, at this stage, we are assuming the following (unchanged from the February 2021 budget report) in respect of Government funding:
 - There will be no further COVID-19 support for either costs incurred or loss of Fees and Charges income.
 - There will be no Fairer Funding Review and some form of BRR scheme resetting from April 2022 will take place. The current projections already assume a significant loss of BRR scheme growth (accumulated since the scheme was implemented in 2013) from April 2022 and this assumption remains unchanged at this stage.

- That Suffolk authorities will remain in a business rates pool for 2022 to 2023, retaining additional BRR Scheme income for Suffolk than that of individual authorities.
- It is assumed that no Revenue Support Grant or New Homes Bonus allocation (or replacement) will be rolled forward into 2022 to 2023 as it was always the Government's intention to phase out these grant streams.
- 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.

2.5 These Government funding assumptions will be kept under constant review as part of the budget process and following any announcements (the 2021 Spending Review announcement has been confirmed for 27 October 2021) and/or consultations from central Government. This collection of assumptions has the biggest financial impact on the council's budget given the sums involved.

2.6 In the 2021 to 2022 budget all Government grants received were retained in full within the revenue day to day budget in order to mitigate the challenges presented by COVID-19, this included New Homes Bonus. This approach may well be required again for 2022 to 2023. However, if a roll forward of the 2021 to 2022 settlement takes place (which would provide additional funds for the council to that has already been assumed) we propose to revert to retaining a proportion of these Government grants in reserves (specifically the New Homes Bonus). This is to rebuild those reserves lost during the last two years to COVID and to support incremental strategic projects and financial initiatives across our medium-term plans (through the Strategic Priorities and MTFS reserve).

Pay Inflation

2.7 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. There is a current pay offer of 1.75% (with 2.75% for the lowest pay band) but this is yet to be agreed. The pay award assumption for 2022 to 2023 and across our medium-term plans is assumed unchanged, at two per cent and will be subject to regional negotiation. However, this assumption is in line with many of our local authority peers.

National Insurance

2.8 It has been recently announced that National Insurance will increase by 1.25 per cent from April 2022 for both employees and employers (cost to the council). This has been identified as to be used as funding for the NHS and Social Care. This increase (estimated to be around £200,000 per year) was not included in the previous medium-term plan so will therefore be an additional pressure for 2022 onwards if it is not fully compensated through our funding settlement.

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 three 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 Work is currently in progress to review the 2022 to 2023 income budget assumptions across a best, base and worst-case scenario. This will help model the impact of COVID-19 on these assumptions, to feed into development of the 2022 to 2023 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.

Business Rates estimate for 2022 to 2023

- 2.11 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 collected. In 2020 to 2021 Government announced significant retail reliefs to support business through the pandemic. They continued that support, in part, during the current year 2022 to 2023. We are yet to receive any guidance or funding allocations for the announced national £1.5 billion discretionary business rate relief fund for 2021 to 2022. For 2022 to 2023, the assumption is that the retail reliefs revert to the pre-pandemic levels.

Council Tax Collection Fund

- 2.12 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.
- 2.13 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 and changing population.

- 2.14 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. The calculated surplus or deficit from the current year, to be included in the 2022 to 2023 budget, will be set out in a future update report to this committee.

Council Tax Base 2022 to 2023

- 2.15 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.
- 2.16 Our medium-term plans currently assume that the tax base will increase by one per cent per year due to growth in the property base. The council tax base to be included in the 2022 to 2023 budget and medium-term plans will be set out in a future update report to this Committee.

3. Approach to delivering a sustainable 2022/2023 budget and beyond

- 3.1 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.
- 3.2 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.
- 3.3 At its November and January meetings, the Committee will receive an update on the trends, assumptions and saving and initiatives that will be clarified through the budget process. 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.

3.4 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 above and allowing for some improvement in the finance settlement, delivery of a balanced budget for 2022 to 2023 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 future meetings and as part of the February 2022 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 where possible saving proposals and initiatives into 2022 to 2023. This is good financial management and will enable greater certainty for the delivery of a sustainable medium-term financial plan for West Suffolk.

3.5 The following high-level timetable is proposed for delivery and agreement of a budget and medium-term plan for West Suffolk Council for 2022-2023.

Action	Timescales
Budget preparations following agreed approach	September -October 2021
2021 Spending Review Announcement	27 October 2021
PASC – delivering a sustainable budget update report	18 November 2021
Cabinet – delivering a sustainable budget update/referral from PASC report	5 November 2021
PASC – delivering a sustainable budget update report	27 January 2022
Member Development Session(s) and briefing(s) – MTFS	January-February 2022
Cabinet – 2022-2023 Budget and Council Tax setting report	February 2022
Council - 2022-20203Budget and Council Tax setting report	February 2022

4. Consultation and engagement undertaken

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

5. Risks associated with the proposals

5.1 The budget report in February 2022 will set out the key risk assumptions alongside the report from the Section 151 Officer on the robustness of estimates and balances.

6. Implications arising from the proposals

- 6.1 Financial – Contained in the main body of this report.
- 6.2 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.
- 6.3 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.

7. Background papers referenced in this report

- 7.1 Appendix 1 – [COU/WS/21/003](#) Budget and Council Tax Setting: 2021 to 2022 and Medium Term Financial Strategy 2021 to 2025
- Appendix 2 – [PAS/WS/21/012](#) 2021-2022 Performance Report (Quarter 1)