

# Delivering a Sustainable Medium-Term Budget

<b>Report number:</b>	<b>PAS/WS/21/024</b>	
<b>Report to and date(s):</b>	<b>Performance and Audit Scrutiny Committee</b>	18 November 2021
	<b>Cabinet</b>	7 December 2021
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**Decisions Plan:** This item is included in the Decisions Plan.

**Wards impacted:** All wards

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

- 1. Recommend to Cabinet the inclusion of the proposals, as detailed in section 2 and table 1 at paragraph 3.6 of this report, in the medium-term financial plans to 2026.**

## 1. Context to the 2022 to 2023 budget process

- 1.1 This report follows on from the September Performance and Audit Scrutiny Committee report (report number [PAS/WS/21/016](#)) that outlined the process and approach to set the council’s 2022 to 2023 budget and the principles and challenges faced in achieving this. This report provides an update on assumptions and anticipated savings and initiatives proposed or delivered to date to deliver of a sustainable and balanced budget for 2022 to 2023.
- 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:
- 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 number ([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:

	<b>2022 to 2023</b>	<b>2023 to 2024</b>	<b>2024 to 2025</b>
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 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 January 2022 meeting.

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

- 2.1 Report number [PAS/WS/21/016](#) set out a number of key budget assumptions proposed in the development of the 2022 to 2023 budget and medium-term plans and the rationale behind those assumptions. These assumptions are constantly under review, in response to further data and intelligence. Since this last report, there have been the following updates as set out below.

### **Government funding – Spending Review 2021**

- 2.2 In the Spending Review 2021 of 27 October 2021 there were several statements about funding for local government. A £4.8 billion increase (over 3 years) in direct grant funding was declared. However, £3.6 billion of this amount is targeted for social care reform, so aimed at County/Unitary Councils and it is also expected that any new spending pressures announced (such as the national insurance increase) will also need to be funded through this allocation. What is not known at this time is the detail on how the headline 'Local Government funding' will be distributed to councils and whether this directly translates into winners and losers at individual Council level.
- 2.3 There was also no confirmation on local government funding reforms relating to the Fairer Funding Review and 75 per cent Business Rates Retention (BRR) scheme. 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 hasn't been ruled out at this stage.
- 2.4 As a result of this current uncertainty about the detail of future government funding we continue to include the following assumptions in our medium-term financial plans:
  - There will be no further COVID-19 support for either costs incurred or loss of Fees and Charges income.
  - 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.

- 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.

2.5 These Government funding assumptions will be kept under constant review as part of the budget process and following any announcements regarding the detailed funding allocations (expected 5 December 2021 but likely to be much later in December as per previous years) and grant payments and/or consultations from central Government. This collection of assumptions has the biggest financial impact on the council's budget given the sums involved.

### **Other income assumptions**

2.6 There has been a detailed line by line review of the 2022 to 2023 income budget assumptions across a best, base and worst-case scenario. The material outcomes of this review are included on Table 1 below. Where there is uncertainty linked to continued COVID-19 impact the approach will be to access the use of a further years COVID impact provision, created from the Councils General Fund balance, with the expectation that there will be a full return to budgeted income levels in the medium term. 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**

2.7 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 2021 to 2022. 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.

2.8 The Spending Review 2021 on 27 October 2021 did include some changes to business rates for the next 3 years, with a commitment that Councils will be fully reimbursed under the current Business Retention Scheme through Section 31 grants:

- The planned increase in the business rates multiplier has been cancelled. The multiplier was due to be increased by 3.1%, in line with the September increase in the Consumer Price Index (CPI). Local authorities will receive "cap compensation" funding to offset this.

- 50% discount for retail, hospitality and leisure sectors (up to a maximum of £110,000).
- Other reforms, including more frequent revaluations (from 2023), and investment reliefs to encourage green investment and premises improvements (any increase in rates payable delayed for 12 months). These changes will affect uplift in valuations, which will be handled administratively by the Valuation Office Agency (VOA) – but will also affect local government because growth in rates will take longer to be recognised.

### **3. Our current projections for 2022/2023 and beyond**

- 3.1 As stated in paragraph 1.5 our baseline medium term plans from the 2021 to 2022 budget process already included the need to make significant savings across the medium-term financial plans.
- 3.2 The net impact of the key assumption changes set out above in addition to the saving requirements discussed at 1.5 are set out in Table 1 below. The changes give rise to a working budget deficit for 2022 to 2023 of £0.42 million, £1.46 million for 2023 to 2024, £2.06 million for 2024 to 2025 and £2.60 million for 2025 to 2026.
- 3.3 West Suffolk Council's response to the financial challenges and opportunities will continue to follow our six key themes (Report number [PAS/WS/21/016](#) refers). Our opportunities include capturing and building on the learning and innovative ways of delivering our services, experienced during this time.
- 3.4 Significant work continues to take place to achieve a 2022 to 2023 balanced budget by the February committee cycle. A number of areas are already in progress including:
- conclusion of the income and expenditure line by line review and the identification of saving initiatives and opportunities
  - discussions with Barley Homes Ltd (the Councils wholly owned Housing Company) regarding any dividend announcement for the 2021 to 2022 years financial performance
  - the setting of the Councils Council Tax Base for council tax setting purposes – December Council decision.
  - the monitoring of the Council's in year Council Tax Collection.
- 3.5 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 above, delivery of a balanced budget for 2021 to 2022 is deemed achievable (based on what we know at this stage of the process and subject to the detailed funding settlement being positive for West Suffolk). 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 where possible saving proposals and initiatives. This is good financial management and will enable greater certainty for the delivery of a sustainable medium-term financial plan for West Suffolk.

### 3.6 **Table 1**

<b>Budget Assumption Changes Pressure/(Benefit)</b>	<b>2022 to 2023</b>	<b>2023 to 2024</b>	<b>2024 to 2025</b>	<b>2025 to 2026</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Budget Gap at February 2021</b>	<b>0.97</b>	<b>1.62</b>	<b>2.21</b>	<b>2.65</b>
<u>Pressures:</u>				
Review of the Council's establishment and overall cost of employment assumptions (Includes the announced National Insurance increase for Employers)	0.28	0.23	0.24	0.25
Housing Benefits: Reduce rent allowances subsidy rate (recovered from Government for administering the scheme) across medium term to reflect transfer of 100% subsidy cases to Universal Credit	0.00	0.04	0.04	0.05
Insurance Premiums review (Including Arts, Culture and Heritage assets and new solar for business rate changes)	0.04	0.05	0.05	0.05
Provisional increase in Audit Fees (to be confirmed by Public Sector Audit Authority)	0.02	0.02	0.02	0.02
<u>Improvements:</u>				
Ongoing savings relating to Public Access (See report CAB/WS/21/026)	(0.10)	(0.10)	(0.10)	(0.10)
Review of Council wide electricity budgets (combination of reduced usage and price inflation allowance)	(0.14)	(0.15)	(0.16)	(0.17)
Solar Farm sale income- increased income assumptions after sale price for 2022 to 2023 generation has been fixed at auction. Longer term prices based on market estimates.	(0.44)	(0.07)	(0.06)	(0.06)
Increased shop rent income – linked to securing tenant beyond previous lease renewal date	(0.07)	(0.07)	(0.07)	(0.03)
Revised Public Sector Decarbonisation Savings and income generation from £2.2m capital investment, linked to CO2 reduction plan	(0.06)	(0.06)	(0.05)	(0.05)

Industrial Units: increased income assumption linked to improved performance of portfolio- linked to market rent levels and expectations	(0.04)	(0.04)	(0.04)	(0.04)
Other minor changes	(0.06)	(0.03)	(0.03)	(0.04)
<b>Remaining Budget Gap at November 2021</b>	<b>0.42</b>	<b>1.46</b>	<b>2.06</b>	<b>2.60</b>

- 3.7 These projections assume no change to the current agreed Council Tax plan for harmonisation between the predecessor areas of St Edmundsbury and Forest Heath. This assumption is a matter for Council in February 2022.
- 3.8 The Capital Programme is currently being revised and updated with known changes. This will be presented to this committee for review in January 2022.
- 3.9 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
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 documents referenced in this report**

- 7.1 [COU/WS/21/003](#) – 23 February 2021: Budget and Council Tax Setting 2021 to 2022 and Medium-Term Financial Strategy 2021 to 2025
- 7.2 [PAS/WS/21/012](#) - 29 July 2021: 2021-22 Performance Report (Q1)
- 7.3 [PAS/WS/21/016](#) - 30 September 2021 - Delivering a Sustainable Medium-Term Budget