West Suffolk Council

Budget and Council Tax Setting: 2022 to 2023 and Medium Term Financial Strategy 2022 to 2026

Report number:	**CAB/WS/22/008**	
Report to and dates:	**Cabinet**	8 February 2022
	Council	22 February 2022
Cabinet member:	Councillor Sarah Broughton Portfolio Holder Resources and Property Telephone: 07929 305787 Email: sarah.broughton@westsuffolk.gov.uk	
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Decisions Plan: **The decision made as a result of this report will usually be published within 48 hours. The majority of the recommendations contained in this report will be referred to Council for a final decision and are, therefore, not subject to call-in. The recommendation listed under 5. below constitutes a Key Decision and therefore if approved, is 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 2022 to 2026, plus 2021 to 2022 capital projects that subsequently require to be carried forward at the year end, attached at Attachment A to Report number: CAB/WS/22/008, and as detailed in Attachment D (Appendices 1-5), Attachment E (Appendices 1-4), Attachment F and Attachment H, be approved.**

2. **Having taken into account the conclusions of the Director's (Resources and Property) 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 this report, the level of council tax for 2022 to 2023 be established (the level of council tax beyond 2022 to 2023 will be set in accordance with the annual budget process for the relevant financial year).**

3. **The Director (Resources and Property), in consultation with the Portfolio Holder for Resources and Property, 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 extension of the business rate reliefs set out in paragraphs 3.12 to 3.15 of Report number: CAB/WS/22/008, in support of West Suffolk's business community.**

5. **Approval be given for the fees and charges price increases (as set out in Attachment D appendix 6a).**

Continued….

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

1. Summary

1.1 West Suffolk Council has an exemplary track record in robust financial management which has meant it has continued to deliver high quality services as well as meeting the strategic vision of the authority.

1.2 This is despite a series of challenges. For example, the COVID-19 pandemic which has not only reduced income (Government policy has been that councils create income to supplement reduction in national funding) but also costs to the council in playing its role to support communities and businesses. National finances have been reduced significantly over the last decade for local councils and added burdens have been placed on authorities too during this time.

1.3 This budget has been created not only to be balanced and sustainable but as an investment in the priorities of our residents and businesses. It is designed to make the communities of West Suffolk greener, healthier and more prosperous.

1.4 This budget has been created to meet the needs of the council's strategic framework and benefit all West Suffolk. It will see new investments of £9 million for a range of initiatives to meet priorities such as meeting zero carbon emissions by 2030 following the authority declaring both climate and environmental emergencies. This investment builds on years of carbon reduction initiatives by West Suffolk and its predecessor councils. Not only will this reduce the impact the council has on the climate but also actually produce a net income towards the cost of running much valued council services – a win-win for taxpayers and the environment.

1.5 The council will continue to concentrate, with councillors, on its health and wellbeing agenda, including investing in its hubs, LifeLink, housing and families and communities work – as well as the hub network across West Suffolk, investing in new and better ways to work with our partners on the wellbeing of our residents.

1.6 In addition, the budget includes £1.3 million (2022 to 2026) for the upkeep of our open spaces and parks as well as our popular museums and attractions that are vital to the wellbeing and health of residents as well as doing their part to protect and improve the local environment.

2. Context to this report

2.1 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.

2.2 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 year-on-year savings and income generation, alongside the £5 million in annual savings made from shared services and the creation of a single council in April 2019, 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 2022 to 2023.

2.3 Despite our successes the pressures on local government finances, with or without a pandemic, still require 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.

2.4 The 2022 to 2023 budget is prepared in the context of not only the significant challenges facing local government, such as reductions in national funding streams planned now from 2023 to 2024, but also a national and worldwide COVID-19 pandemic. Since the outbreak of COVID-19 in the UK in March 2020, a number of events have occurred which have had a significant impact on local government, including West Suffolk Council's financial position in the current financial year, and are expected to continue to some extent into 2022 to 2023. Some of these events 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.

2.5 The council has played a vital role in responding to COVID-19, in supporting businesses (including over £120 million in business rates relief and 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 £3.1 million in total, covering both to date (£1.4 million in 2020 to 2021, £1.2 million estimated in the current year 2021 to 2022) and the £0.5 million estimated for the financial year 2022 to 2023. This cost has had an impact on the council reserves; however, a significant element was funded from in-year efficiencies and cost savings.

2.6 We will not understand the true and full impact of COVID-19 on the financial position of the council for a long time, especially as we are still in the pandemic, with new variants still possible and with the period of recovery unknown. Through the 2022 to 2023 budget process, we have established a £0.5 million COVID-19 provision to support the foundations of our financial projections, in particular our income projections.

2.7 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 (£8.6 million in 2020 to 2021, with forecasted impacts of £2.5 million projected in the current 2021 to 2022 financial year and £0.5 million for 2022 to 2023). 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 reactive to the COVID-19 response and recovery demands. Therefore, we will constantly review our £0.5 million COVID provision, in the light of further data and intelligence to feed into the quarterly 2022 to 2023 monitoring reports.

2.8 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, the Resource and Waste Strategy, 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.

2.9 Councils nationally are expected to balance the budget through savings and producing local income to fund services due to reduced Government funding. This year, 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 or that of previous Government tax announcements such as the national insurance increase from April 2022. 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.

2.10 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 2022 to 2023 there are gaps to be met in later years – currently forecast at £1.16 million in 2023 to 2024 growing to £2.98 million in 2025 to 2026. 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.

2.11 Whilst the 2022 to 2023 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 in the council's financial plans given the volatility of income streams and the uncertainty around the continued impact of COVID-19.

2.12 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 taxpayers but does mean the protection of vital services which would otherwise possibly have to be considered for reductions. West Suffolk Council is around 11 percent of a local council taxpayer'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

2.13 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-19 aside, the single biggest challenge facing local government across the country.

2.14 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 investment 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.

2.15 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 Barley Homes, the Innovation Units at Suffolk Park and our Net Zero Carbon investment plans (see Attachment H for further details). As we have started to gain more certainty around our anticipated returns (through a dividend) from the council's wholly owned Housing Company - Barley Homes - we now see these returns coming through the current budget process, smoothed out at an estimated £200,000 across the medium term, to support the delivery of future years' budgets.

2.16 Over recent months there have been some consultations and announcements that indicate the Government's wish to ensure that local government focuses on its core functions rather than expanding into what are seen as more 'commercial' type activities. These include:

- Changes to the Public Works Loan Board (PWLB) lending criteria to exclude the ability to borrow to invest in commercial property to generate income.
- Consultations on the CIPFA Treasury Management and Prudential Codes to strengthen the intention around commercial investments and provide clarity about borrowing and investments
- Current Government consultation about minimum revenue provision and use of capital receipts from commercial activity

2.17 There has been no need to change our outcome-based investment approach to date. However, 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 continue to review and have regard to any changes and the new operating parameters when considering future activity under our capital programme and investment plans.

2.18 Some of our 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.

2.19 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

2.20 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.

2.21 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-19 response and in the future recovery.

2.22 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.

2.23 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 go towards ensuring delivery of the outcomes of both financial and improved services, will take shape to contribute towards our financial challenges in 2022 to 2023 and across the medium term.

Net Zero Carbon Emissions by 2030

2.24 In September 2019, West Suffolk Council declared a climate emergency, and in 2020 Cabinet approved the council's Environment and Climate Change Taskforce report and action plan. This work built on years of significant focus and investment by West Suffolk Council and its predecessor councils on this important matter. The Taskforce made a series of recommendations on the council's future role in protecting and enhancing the environment and tackling climate change, both in the way in which it carries out its operations and through specific initiatives.

2.25 The Taskforce developed a broad Action Plan and Trajectory to achieve Net Zero Emissions by 2030. The plan focused on the greenhouse gas emissions arising from the council's operations. Work has already been undertaken to decarbonise a number of buildings, with the council securing £1.4 million from the Government's Public Sector Decarbonisation Fund as well as its own investment. The council has also invested in a range of renewable technologies at the new Mildenhall Hub.

2.26 The 2022 to 2023 budget includes the creation of a new £9 million investment facility in our Net Zero Emissions by 2030 journey. Attachment H sets out more detail on the additional facility, created within the Investing in Our Growth Agenda Fund (funded in the main by external borrowing, £650,000 from revenue), specifically allocated within the capital programme to deliver environmental projects which are anticipated to deliver a 31 per cent carbon saving on council operations, together with a return to the council of 2 per cent after allowing for borrowing costs.

2.27 This £9 million fund is to be utilised across the following proposed projects:

- Council Buildings: improve the energy efficiency and incorporate renewable energy (electricity and/or heat) into buildings
- Electric Vehicle fleet (EV) investment: replace small vehicles on fleet with EVs when replacement falls due
- Expansion of our West Suffolk Solar for Business scheme

2.28 In addition to this new £9 million capital facility, the revenue budget 2022 to 2023 includes a £100,000 per annum provision to support the proposed switch to use Hydrotreated Vegetable Oil (HVO) derived fuel in the larger diesel-powered fleet. No vehicle modifications would be required, and this would achieve carbon savings of nearly 400 tonnes Co2e per annum, having regard to emissions resulting from production as well as use. It will also deliver air quality improvements.

2.29 In total the projects proposed would deliver 2,279 tCo2e savings per annum once fully implemented. This should mean that the council would meet its Carbon Budget target for 2026 putting the council on the right path to meet its net zero ambition. The carbon performance of the fund will be monitored and reported on as part of the council’s annual Environmental Statement. The overall performance of the fund will be reviewed annually and will help inform any further funding requirements for the third and fourth periods of the net zero plan.

3. Provisional local government finance settlement

3.1 The Government published the provisional local government finance settlement for 2022 to 2023 on 16 December 2021. The announcement was for a one year settlement and did not include any indication of funding for the remainder of the spending review period which runs to 2025. There have been signals around more fundamental changes in local government funding from 2023 to 2024, which makes this settlement appear to be more of a rollover from 2021 to 2022.

3.2 The impact of this has now been received through our provisional financial settlement for 2022 to 2023. The financial implications of the provisional settlement for West Suffolk are generally positive and an additional £0.39 million net benefit (after the agreed transfer of the New Homes Bonus to the Strategic Priority and MTFS reserve) compared to the previous settlement assumptions for 2022 to 2023 is included in the proposed budget.

Revenue Support Grant and Rural Services Delivery Grant

3.3 The 2021 to 2022 Local Finance Settlement will now effectively roll forward into 2022 to 2023 which means that the council can expect Revenue Support Grant and Rural Services Delivery Grant of around £0.207 million and £0.181

million respectively. These grants have been included in the 2022 to 2023 proposed budget. It is assumed that both these grants will cease, as previously planned, from April 2023.

Lower Tier Services Grant

3.4 This grant, which was introduced in 2021 to 2022 through the use of the £111 million of the New Homes Bonus returned surplus nationally, is continued into 2022 to 2023. 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 £0.203 million for 2022 to 2023. This has been communicated as a one-off grant and therefore does not appear in our assumptions beyond April 2023.

2022 to 2023 Services Grant

3.5 This is a new, one-off grant for 2022 to 2023 and is being distributed to every authority to support all services delivered by councils. It is understood that this grant includes the reimbursement of the National Insurance increase from April 2022. West Suffolk's provisional allocation is £0.312 million for 2022 to 2023.

New Homes Bonus

3.6 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. However, there will now be a further one-year only round of NHB funding (year 12), so the total payments of NHB to be received in 2022 to 2023 will be a legacy payment in respect of year 8, and one payment in respect of year 12. The allocation for West Suffolk is £1.756 million for the one-year round, which is £1.269 million higher than the £0.49 million year 8 legacy payment originally budgeted. The full allocation will be transferred to the Strategic Priorities and Medium Term Financial Strategy Reserve for future utilisation across the medium term plans.

Sales, fees and charges lost income reimbursement scheme

3.7 This scheme was introduced in 2020 to 2021 and continued into 2021 to 2022 and involved a 5 percent deductible rate, whereby councils will pay the first 5 percent of all lost planned sales, fees and charges income, with the Government compensating them for 75 pence in every pound of loss thereafter. This scheme is not planned to continue into 2022 to 2023.

Business rates and business rates reliefs

3.8 The Government has confirmed that there will be no reset of the Business Rates Retention system and implementation of the Fair Funding Review in

2022 to 2023. It is anticipated that some form of reset or review will take place in 2023 to 2024. There is a commitment from Government that they will work closely with the sector on the challenges and opportunities before consulting on any potential changes. Part of this work is expected to look at options to support local authorities through transitional protection.

3.9 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 the Government announced significant retail reliefs to support businesses through the pandemic. They continued that support, in part, during the current year 2021 to 2022.

3.10 We have recently received guidance around the COVID-19 Additional Relief Fund (CARF) to help businesses that have not previously been eligible for rate relief during the pandemic. Our funding allocation is £4 million of the national £1.5 billion CARF fund created for 2021 to 2022. At the time of writing this report Officers are reviewing the guidance and undertaking modelling with Anglia Revenues Partnership.

3.11 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, these are included in the 2022 to 2023 assumptions:

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

Transitional Relief and Supporting Small Business Relief

3.12 The Government announced in November 2021 that the statutory schemes for Transitional Relief and Supporting Small Business (SSB) Relief are to be extended into the 2022 to 2023 financial years. Local Authorities are expected to use their discretionary relief powers (section 47 of the Local Government Act 1988, as amended) to grant these reliefs in line with the relevant eligibility criteria set out in guidelines. However, the full cost of granting this relief will be compensated through a section 31 grant from Government.

3.13 Transition and SSB reliefs are automatically applied to accounts without the need for businesses to apply. Transitional Relief is granted when there is a revaluation of non-domestic properties (the last revaluation came into effect in 2017). Where rateable values increase as a result of the revaluation, the transitional relief scheme restricts the increase in rates payable for the property to pre-determined limits set by the Government. The previous transitional relief scheme was prescribed to last only four years, hence the need for the council to extend the use of its discretionary relief powers to 2022 to 2023 following the Government's decision to extend the scheme.

3.14 SSB relief is similar, and in addition to, Transitional relief. Any business that was in receipt of Small Business Rate Relief prior to 2017, and who lost part or all of that relief following the 2017 revaluation, would have their rates bill increase limited to a maximum of £600 per annum. The remainder of any increase would be subject to SSB relief. Again, this relief was due to end in 2021 to 2022 but has been extended into 2022 to 2023, requiring the granting of the council's discretionary relief powers.

3.15 Members are asked to approve the extension of these rate reliefs (which will be fully funded by the government through section 31 grants) in order to support West Suffolk's businesses.

Collection Fund deficits

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

Council tax referendum limits

3.17 In 2022 to 2023, local authorities will be given greater council tax flexibility. The core referendum threshold will remain at 2 percent (with district councils able to increase by the higher of £5 or 2 percent). Police and crime commissioners will be able to increase their precept by £10 in each of the next three years. Social care authorities will be able to apply a further 1 percent increase (3 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.

4. Council tax for 2022 to 2023

4.1 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.

4.2 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 from April 2019).

4.3 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 2021 to 2022 was £182.11, allowing for an increase of £5 to £187.11 in 2022 to 2023 within these referendum principles.

4.4 The budget for council tax for 2022 to 2023 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 2022 to 2023 this represents an average band D weekly 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.

5. Setting the budget - 2022 to 2023 and across the medium term to 2025 to 2026

5.1 On 23 February 2021 the council approved a budget for 2021 to 2022 and medium term financial plan for West Suffolk Council to 2025. This medium term financial plan was balanced for the first year and then showed a budget gap of £0.97 million in 2022 to 2023, £1.62 million in 2023 to 2024 and £2.21 million in 2024 to 2025 (these are cumulative amounts).

5.2 At its meeting on 30 September 2021, Report number: PAS/WS/21/016 refers, 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.

5.3 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.

5.4 Attachment A is the revenue budget summary, which provides an overview of the proposed income and expenditure for 2022 to 2026. The total proposed revenue expenditure in 2022 to 2023 is £57.9 million (excluding housing benefits).

5.5 This revenue forecast includes several inflation assumptions as detailed in the following table.

Inflation assumptions assumed in the MTFS

Inflation Assumptions	2023 to 2024 Per cent	2024 to 2025 Per cent	2025 to 2026 Per cent
Salaries Increase	2.0	2.0	2.0
General Inflation	0.0	0.0	0.0
ICT Inflation	3.0	3.0	3.0
Fees & Charges	2.0	2.0	2.0
Utilities	5.0	5.0	5.0
Electricity	7.5	7.5	7.5
Transport - Fuel	5.0	5.0	5.0

Further details around the assumptions used in the MTFS are set out in Attachment D – Medium Term Financial Strategy 2022 to 2026. Budget assumptions continue to be reviewed as more accurate information becomes available.

5.6 The PASC committee received two further ‘delivering a sustainable budget’ reports during the 2022 to 2023 budget process. These reports (reference PAS/WS/21/024 and PAS/WS/22/002) detailed a number of budget pressures, investments and saving proposals. These have all been worked through the 2022 to 2023 budget process and are detailed in Attachment B.

Fees and charges

5.7 As part of the budget setting process, and as reported to the Performance and Audit Scrutiny Committee PAS/WS/22/002 on 27 January 2022, the council has undertaken a review of its fees and charges pricing used in the budget and medium term. This is to ensure:

- That we are recovering the cost of delivering discretionary services on a user pays basis (taking into account charging levels made by other local authorities)
- Consistency of approach in line with the new fees and charges policy
- Appropriate visibility for those pricing decisions that are likely to have significant public interest (including those over 5 per cent annual increase – in line with the council's constitution).

The fees and charges that are changing and meet the reporting requirements are detailed in Attachment D, Appendices 6 and 6a.

Delivering our sustainable future – beyond 2022 to 2023

5.8 With demands increasing and uncertainty in local government funding beyond April 2023, 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 2.20 to 2.23).

5.9 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 2023 should be treated with caution and will be updated as we go through future budget setting processes and further Government announcements are made.

6. Capital Programme 2022 to 2026

6.1 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 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.

6.2 It is estimated that £38.22 million will be spent on investment through our capital schemes during 2022 to 2023 which are to be funded by a combination of grants and contributions (£2.64 million), earmarked revenue reserves (£4.42 million), our usable capital receipts reserve (£4.77 million) and borrowing (£26.39 million).

6.3 Looking ahead, the total value of the capital programme over the next four years is approximately £141 million. Attachment D, Appendix 2 shows the planned capital expenditure in financial year 2022 to 2023 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 the table below.

Planned capital expenditure over four years to 2025 to 2026

	2022 to 2023 millions	**2023 to 2024 millions**	**2024 to 2025 millions**	**2025 to 2026 millions**	**Total millions**
Gross capital expenditure	**£38.22**	**£41.85**	**£45.46**	**£15.69**	**£141.22**
Funded by: Grants and contributions	£2.64	£0.90	£0.90	£0.90	£5.34
Earmarked revenue reserves	£4.42	£2.70	£2.50	£1.67	£11.28
Capital receipts reserve	£4.77	£0.00	£0.00	£0.00	£4.77
External borrowing	£26.39	£38.25	£42.06	£13.12	£119.83
Total	**£38.22**	**£41.85**	**£45.46**	**£15.69**	**£141.22**

6.4 Subject to the year-end outturn position, any carry forwards from the 2021 to 2022 budget will be added to the 2022 to 2023 capital programme budget at the year end.

Disposal of surplus assets

6.5 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. The following table is a summary estimate of the likely level of income from asset disposals over the period 2022 to 2026.

Estimated income from asset disposals 2022 to 2026

	2022 to 2023 millions	2023 to 2024 millions	2024 to 2025 millions	2025 to 2026 millions
Council share of right to buy receipts	£0.25	£0.25	£0.25	£1.25
Barley Home loan repayments to be made available through agreed loan facility	£2.50	£0.00	£0.00	£0.00
Sale of flats from 17 to 18 Cornhill redevelopment	£3.98	£0.00	£0.00	£0.00
Other asset disposals	£1.93	£0.88	£0.05	£0.05
Total	**£8.66**	**£1.13**	**£0.30**	**£0.30**

6.6 The above capital programme and asset disposals programme will, in the short to medium term, move the council’s usable capital receipts reserves from £3.23 million to £4.37 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.

6.7 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 assumed 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.

7. Minimum revenue provision (MRP)

7.1 The Financial Resilience - Strategy Statement 2022 to 2023 and Treasury Management Code of Practice included elsewhere on this agenda (Report number: CAB/WS/22/006) 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 2022 to 2023.

8. General fund balance

8.1 The revenue budget, Attachment A, based on current budget projections, shows a balanced budget position for 2022 to 2023. However, many of the assumptions supporting the budget projections for 2022 to 2023 (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.

8.2 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.

8.3 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.

9. Earmarked reserves

9.1 At the beginning of the 2022 to 2023 financial year the council will have an estimated £40.9 million in earmarked reserves. The current level of earmarked reserves and contributions during 2022 to 2023 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 2022 to 2026.

9.2 At the end of 2025 to 2026 these reserve balances are estimated to fall to £31.5 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 £1.3 million contributed to reserves a year for the three years 2023 to 2026 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 £31.5 million closing balance as referenced in this paragraph.

9.3 The council has a five-year asset management plan that is included within the proposed revenue and capital budgets. The capital element is detailed in Attachment D, Appendix 2a. The five-year asset management plan is fully funded through an annual revenue contribution and use of the building maintenance reserve with the exception of an historical paths liability in the former Forest Heath area - estimated to be in the region of £500,000 to £1 million. Work is scheduled on urgent repairs and maintenance for these works, however a longer term management plan is being prepared along with funding options. Work will take place during 2022 to 2023 to establish the council's full liability and to consider options for the 2023 to 2024 budget process.

10. Strategic priorities and MTFS reserve

10.1 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 £2.2 million at the beginning of 2022 to 2023 down to £1.9 million by the end of 2025 to 2026.

10.2 The following table 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 2022 to 2023. 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 was utilised towards the overall budget pressures which arose 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. For 2022 to 2023 the full grant allocation has been contributed to the reserve.

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
2022 to 2023	N/A	N/A	£1.756

10.3 The 2022 to 2023 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 2022 to 2023 budget and the medium term budgets. The proposed future of the New Homes Bonus scheme is set out in section 2 above.

11. Adequacy of reserves

11.1 Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Director (Resources and Property)) 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 22 February 2022. The full statement is set out in Attachment C.

11.2 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 2022 to 2023 budget plans.

12. Alternative options that have been considered

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

13. Consultation and engagement undertaken

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

14. Risks associated with the proposals

14.1 A risk assessment is included at Attachment C as part of the report by the Director (Resources and Property) (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 2022 to 2023 budget plans. Cabinet and Council are advised to have regard to this report when making their decisions on the 2022 to 2023 budget.

15. Legal implications arising from the proposals

15.1 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.

15.2 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.

16. Appendices referenced in this report

16.1 **Attachment A** – Revenue budget summary

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

16.3 **Attachment C** – Report by the Director (Resources and Property)

16.4 **Attachment D** – Medium Term Financial Strategy 2022 to 2026

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

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

16.7 **Attachment D Appendix 2a** - 2022 to 2023 Capital Programme - Property Asset Management Plan Breakdown

16.8 **Attachment D Appendix 2b** - 2022 to 2023 Capital Programme - Leisure Asset Management Plan Breakdown

16.9 **Attachment D Appendix 2c** - 2022 to 2023 Capital Programme - Car Parking Improvements Breakdown

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

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

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

16.13 **Attachment D Appendix 6** – Fees and charges changes

16.14 **Attachment D Appendix 6a** – Fees and charges prices increases

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

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

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

16.18 **Attachment E Appendix 4 –** Building Maintenance Reserve - Property

16.19 **Attachment F** – Capital strategy

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

16.21 **Attachment H –** Investing in the West Suffolk Council Net Zero 2030 Emissions Target

17. Background documents associated with this report

17.1 Delivering a Sustainable Medium-Term Budget – report number: PAS/WS/21/016 30 September 2021

17.2 Delivering a Sustainable Medium-Term Budget – report number: PAS/WS/21/024 18 November 2021

17.3 Delivering a Sustainable Medium-Term Budget – report number: PAS/WS/22/002 27 January 2022

17.4 2021-2022 Performance Report (Quarter 3) - report number: PAS/WS/22/004 27 January 2022

17.5 Financial Resilience – Strategy Statement 2022 to 2023 and Treasury Management Code of Practice – report number: CAB/WS/22/006