APPENDIX A

EAST SUFFOLK COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2020/21 – 2023/24

NOVEMBER 2019

1 INTRODUCTION

1.1 The **Medium Term Financial Strategy** (MTFS) sets the strategic financial direction for the Council and is regularly updated as it evolves and develops throughout the year to form the framework for the Council's financial planning. This ensures Members have a sound basis for planning and decision making, the MTFS is reviewed and updated at key points in the year:

- October/November – as a framework for initial detailed budget discussions for the forthcoming financial year;
- January – an update to include additional information received at a national level and corporate issues identified through service planning and the detailed budget build; and
- February – with the final Budget for the new financial year.

1.2 The purpose of the MTFS is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that resources are managed effectively and are able to deliver the aspirations of the Council as set out in the Business Plan, over the medium term.

1.3 The vision of the East Suffolk Business Plan is to "Maintain and sustainably improve the quality of life for everybody growing up, living in, working in and visiting East Suffolk". The MTFS underpins the **Efficiency Plan**, which outlines how the key Business Plan objective of Financial Self Sufficiency will be delivered. The Council is currently developing a brand new plan and vision for East Suffolk, focussing on the five key themes of:

- Economic Growth
- Enabling Communities
- Financial Sustainability
- Digital Transformation
- The Environment

As the plan develops, the MTFS will be revised to reflect this.

1.4 The MTFS provides an integrated view of the Council's finances, recognising that the allocation and management of its human, financial and physical resources play a key role in delivering its priorities and ensuring that the Council works effectively with its partners locally, regionally and nationally.

1.5 The key underlying principles of the MTFS are:

- securing a balanced budget with reduced reliance on the use of reserves and general balances to support its everyday spending;
- setting modest increases in Council Tax when appropriate; and
- delivering service efficiencies and generating additional income where there are opportunities to do so.

1.6 Part of the process of delivering a robust MTFS to enable the Council to manage its affairs soundly, is to have regard to both external and internal risks, and to identify actions to mitigate those risks. MTFS key principles and a risk analysis together with mitigating actions are provided in **Appendix A1**.

1.7 Sections 2 to 4 provide an update on the financial challenge facing the Council, taking into account economic factors, the local government finance environment, and the Council's key funding streams. Sections 5 to 7 outline how the Council will respond to the challenge, as expressed in terms of its Budget and strategies towards reserves and capital.

2 PUBLIC FINANCES

2.1 The Government's Autumn Budget to Parliament, which was scheduled to be presented to Parliament on 6th November 2019, has now been postponed. The Autumn Budget provides a formal update on the state of the economy, responds to new economic and fiscal forecasts from the Office for Budget Responsibility (OBR) and sets out fiscal measures for the following year. The General Election scheduled for 12th December 2019 has increased uncertainty regarding the medium-term outlook for public finances and local government funding.

3 ECONOMIC INDICATORS

3.1 The national economic background affects the costs the Council incurs, the funding it receives, and contributes to the demand for services as residents are affected by economic circumstances. The inflation rate impacts on the cost of services the Council purchases, as the Council delivers much of its service provision through contractual arrangements where inflationary pressures have to be negotiated and managed. Specific contractual inflation has been incorporated into the Council's financial position, where appropriate, based on the actual contractual indices.

Gross Domestic Product (GDP)

3.2 The Bank of England's overall forecast for growth in Gross Domestic Product as outlined in its November 2019 Inflation Report, are shown below.

Bank of England - November 2019			
Gross Domestic Product (GDP) Forecasts			
2019	**2020**	**2021**	**2022**
1.0%	1.6%	1.8%	2.1%

Consumer Pricing Index (CPI)

3.3 Inflation as measured by CPI, was 1.7% for September 2019, unchanged from 1.7% in August 2019, and close to the Bank of England target rate of 2%. September CPI is of particular importance as it is used as the basis for indexed increases in a number of areas in the Local Government Finance system, including Business Rates. The Bank of England's latest forecast (as at November 2019) is set out below.

Bank of England - November 2019			
Consumer Pricing Index (CPI) Inflation Forecasts			
2019	**2020**	**2021**	**2022**
1.4%	1.5%	2.0%	2.2%

Bank Interest Rate

3.4 At its November 2019 meeting, the Bank of England Monetary Policy Committee (MPC) voted by a majority of 7-2 to maintain the bank rate at 0.75%. The Bank of England MPC's new projections for activity and inflation are based on the assumption of an orderly transition to a deep free trade agreement between the United Kingdom and the European Union. The MPC is projecting a reduction in bank rate to 0.5% during the course of 2020.

4 LOCAL GOVERNMENT FINANCE

4.1 The introduction of the Local Business Rates Retention System in 2013/14, together with the Government's programme of fiscal consolidation since 2010, have combined to both reduce the level of funding available to the Council, and to shift the balance of funding significantly away from central to local sources.

4.2 The Final Local Government Finance Settlement 2019/20 announced on 29th January 2019 was the last year of the Four-year settlement period that started in 2016/17.

4.3 On 13th December 2018 the Government launched a further consultation *'A review of local authorities relative needs and resources'*, which sought views on the approach to measuring the relative needs and resources of local authorities, with the aim of determining new baseline funding allocations for local authorities in England in 2020/21.

4.4 The 2019 Spending Review was intended to confirm overall local government resourcing from 2020/21, and the Government has been working towards significant reform in the local government finance system in 2020/21. This includes an updated, more robust and transparent distribution methodology to set baseline funding levels and resetting business rates baselines.

4.5 However, it was announced in September that the 2019 Spending Round would be for one year only in respect of 2020/21. The Spending Round announcement covered the following key areas for local government:

- Additional £3.5bn to Local Government;
- Core Spending Power increased by £2.9bn – 4.3% real terms increase;
- £1bn grant funding for social care and £200m through Adult Social Care council tax precept;
- Business Rates Retention and Fair Funding reforms delayed until 2021/22; and
- Technical consultation due on Local Government Finance settlement.

4.6 Subsequently, a technical consultation on the 2020/21 Local Government Finance Settlement was issued on 3rd October 2019. The technical consultation covered the following key points, and subsequent sections of the MTFS contain more information on these aspects of the consultation and the implications for the Council:

- 2019/20 Settlement "rolled forward" into 2020/21.
- Settlement Funding assessment uprated in line with September 2019 CPI.
- Government likely to pay off Negative RSG in 2020/21.
- Council Tax referendum principle for Shire Districts likely to be 2% or £5, whichever is greater.

- New Homes Bonus (NHB) to be funded at £900m using current arrangements. 2020/21 "legacy" payment not carried forward into 2021/22. Future position is uncertain.
- Rural Services Delivery Grant will continue with allocations unchanged.
- Business Rates Retention and Fair Funding reforms delayed until 2021/22. Strong commitment to resetting baselines.
- Only original Devolution Business Rates Pilots will proceed in 2020/21.

4.7 As in previous years, the Provisional Local Government Finance Settlement would be expected in early / mid-December, with the Final Settlement expected in late January / early February. However, this timetable may be subject to change as a result of the General Election. On 5th November 2019, the MHCLG wrote to authorities with the following information regarding the settlement:

"Last year the independent review of local government finance and processes recommended the department issue the provisional settlement around 5 December. This is no longer possible because of the General Election. However, the department anticipates that the provisional Settlement will be a priority for Ministers to consider after the General Election. We will take all possible steps to ensure that the final settlement aligns with local authority budget setting timetables.

In the meantime, local authorities should take account of the proposals the Government has published in the technical consultation in drawing up draft budgets for next year."

Revenue Support Grant (RSG) and Rural Services Delivery Grant

4.8 RSG has been substantially reduced in recent years. RSG for 2019/20 as confirmed in the Final Local Government Finance Settlement is £323k. The MTFS has previously assumed that 2019/20 will be the final year of RSG. However, the one-year settlement announced in the technical consultation now indicates that the position for 2020/21 will now be the 2019/20 allocation uplifted by inflation as shown below:

Revenue Support Grant (RSG)	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
East Suffolk	(323)	(328)	0	0

4.9 The Government's approach to Negative RSG in 2019/20 was to eliminate it in full via forgone business rates receipts. In the Technical Consultation, the Government is minded to pay off Negative RSG again in 2020/21 and is consulting on this approach.

4.10 The Rural Services Delivery Grant is a Government grant recognising cost pressures associated with service delivery in rural sparse areas. The Final Finance Settlement provided for the grant to continue for East Suffolk in 2019/20, at a level of £248k. As with RSG, it has previously been assumed in the MTFS that this grant would not be received after 2019/20. In the Technical Consultation, the Government is now proposing that 2019/20 allocations of Rural Services Delivery Grant will be rolled forward to 2020/21. 2019/20 allocations were distributed to the top quartile of local authorities on the basis of the 'super-sparsity' indicator, which ranks authorities by the proportion of the population which is scattered widely, using Census data and weighted towards the authorities with the sparsest populations. It is assumed in the MTFS that RSDG will not be received from 2021/22 onwards in the current form, as sparsity is expected to be an area considered as part of the Fair Funding reforms.

Business Rates – Business Rates Retention and Fair Funding Review

4.11 In its 2015 Spending Review, the Government announced proposals for Councils to retain all locally raised business rates by the end of the decade, and to end the distribution of core grant from central Government. Originally, this was planned to begin in 2019/20, but has been subject to delay, the most recent being as a result of the one year Spending Round. However, the Government continues to be committed to give local government greater control over the money it raises and to address concerns about the fairness of current funding distributions.

4.12 To complement the changes to Business rates, the Government announced a Fair Funding Review in February 2016, which will affect how funding is allocated and redistributed between local authorities. Implementation of this review has now also been delayed until 2021/22. The Government is continuing to work with the Local Government Association (LGA) and local authority representatives to develop the new system. Indicative numbers for funding allocations to individual councils are now expected to be available by spring-summer 2020/21, with the review to be implemented in April 2021 via the Local Government Finance Settlement process.

4.13 In December 2017, the Government announced proposals for the proportion of business rates income to be retained by the local authority sector to be increased from the current 50% to 75% from April 2020, a development which does not require primary legislation, unlike the move to 100% local retention. As referred to above, this has now been delayed to April 2021.

4.14 The new system of 75% rate retention will consist of a ‘reset’, which will involve assigning a new baseline funding level and subsequent new tariff or top-up values. Reset of the system and the establishment of new funding formulae could result in East Suffolk losing the financial advantage that it has under the current system - Suffolk Coastal benefited from actual business rates income being significantly above the baseline, which was set at a low level in 2013/14. As a result of the delay in implementing the Business Rate reforms, in 2020/21 the Council will benefit from another year under the current regime, which has a significant impact on the MTFS position for 2020/21 compared with previous forecasts.

4.15 General grants, e.g. RSG and the Rural Services Delivery Grant, will be few and far between after 2021, because the proportion of local business rate retention will rise. It is not yet clear whether any of these grants will be abolished when 75% retention is introduced, but a cautious approach has been adopted in the MTFS. Local authorities have expressed the view that the additional revenue available with 75% retention should be available to meet existing spending pressures, instead of being matched with new responsibilities or being offset by the removal of grant funding. The sector will not initially, at least, have more funding. Over the longer term that will depend on whether business rates grow faster or slower than local authority service demands and costs.

4.16 In 2017/18 local authorities in England were invited to bid to pilot the 100% Business Rates Retention scheme in 2018/19 and to pioneer new pooling and tier-split models. Suffolk was one of ten successful bids with its “Inclusive Growth” focus. The Suffolk Pilot resulted in significantly more retained business rate income for Suffolk, with East Suffolk's share in the region of £3.9m.

4.17 In July 2018, the Government invited local authorities in England to apply for a 75% business rates retention pilot scheme for 2019/20. Suffolk submitted an application for the 2019/20 pilot but was unsuccessful. In the Technical Consultation, the Government has announced that only the original Devolution Business Rates Pilots will proceed in 2020/21, with all other pilots being cancelled.

Business Rates

4.18 Since 2013/14, business rates income has tended to be characterised by a high degree of volatility and uncertainty. Variances between estimated and actual business rate income are realised in the form of deficits or surpluses on the business rates element of the Collection Fund. For each year, the amount of business rates income credited to the General Fund is the amount estimated on the National Non Domestic Rate (NNDR1) return to Government submitted in January in the preceding year, including a calculation of the estimated Collection Fund deficit or surplus to be charged to the General Fund. As a result, in practice, variances between business rates estimates and actual figures are reflected as an element of the Collection Fund deficit or surplus two years after they take place.

4.19 The impact of appeals by businesses against their rating valuations has been the main cause of this volatility in recent years, particularly where the financial impact of these has been backdated. Since April 2017, there has been a new regime for appeals entitled "Check, Challenge, Appeal". This change has been introduced at the same time as the 2017 Revaluation has come into effect. Over the past two years, data has increasingly emerged that the "Check, Challenge, Appeal" regime has very significantly reduced the level of appeals compared with the previous regime. Consequently, the estimation of the provisions that are required to be made in respect of the potential financial impact of appeals have been reviewed for both the year-end figures for 2018/19 and 2019/20 resulting in very large variances as referred to below.

4.20 **2018/19 Actuals** – The methodology for estimating the appeals provision has been revised at year end, enabling appeals provision to be released and income increased, a change that was particularly advantageous given the 100% Suffolk Business Rates Pilot. However, increased income results in the payment of a higher levy paid on additional income, which impacted in 2018/19. As referred to above, due to accounting timing differences, the impact on the Collection Fund deficit/surplus is not reflected in General Fund budget setting until 2021. A net transfer from the Business Rates Equalisation Reserve of £5.797m was made in 2018/19 to finance this temporary shortfall in Business Rates income.

4.21 **2019/20 Revised Forecast** - The methodology for estimating the appeals provision has also been reviewed in-year. A lower contribution to the appeals provision than estimated on the NNDR1 will be required and income will increase. However, as in 2018/19, a higher levy will need to be paid so net income will be down for year. However, Pooling Benefit from the Suffolk Pool will be increased, and this movement will also be reflected in the estimated Collection Fund surplus used in 2020/21 budget setting.

4.22 **Suffolk Pool** - In order to reduce the amounts paid to Government in levy, in 2012, all Suffolk Councils agreed to enter a pooling arrangement which would allow them to retain a larger proportion of their share of growth by reducing their individual rate of levy. The estimated

Pooling benefit for 2019/20 is dependent on all of the NNDR1 returns being prepared by the Suffolk Councils and then collated by Suffolk County Council (SCC) in January. This figure will be confirmed in January but given the changes in appeals provision methodology referred to above, is currently estimated to be £1.927m for 2019/20.

4.23 Business Rates income for 2020/21 is based on the NNDR1 return, and all Business Rates estimates included in the MTFS will be updated when this return is produced in January 2020. As detailed earlier in the report, the Business Rates system is now to be reformed from 2021/22, including a resetting of the Business Rates Baseline. Due to the uncertainty this reform will have on the income to the Council, the Council has taken a prudent approach with the estimates for future years. The income figures included for 2022/21 and beyond, are based on the current Business Rates system and only include estimates of Baseline income, which is approximately £7m, plus S31 Grant. The updated MTFS now includes the following estimates for Business Rates income and related S31 Grant. In 2020/21, the first call on the Business Rates Collection Fund Surplus should be to reverse the transfer from the Business Rates Equalisation Reserve of £5.797m made in 2018/19, to ensure that this reserve is in place to deal with both uncertainty in the new Business rates and funding regimes, and the uncertainty inherent in the Business Rates system.

Business Rates Income	**2019/20 Budget £'000**	**2019/20 Revised £'000**	**2020/21 MTFS £'000**	**2020/21 Revised MTFS £'000**	**2021/22 MTFS £'000**	**2022/23 MTFS £'000**	**2023/24 MTFS £'000**
Net Business Rates Income	(8,002)	(6,932)	(7,018)	(8,440)	(7,229)	(7,446)	(7,669)
Section 31 Grant	(4,557)	(4,557)	(2,782)	(4,635)	(2,865)	(2,951)	(3,039)
Renewables	(544)	(544)		(564)			
Pooling Benefit	(1,623)	(1,927)		(1,600)			
Total Business Rates Income	**(14,726)**	**(13,960)**	**(9,800)**	**(15,239)**	**(10,094)**	**(10,397)**	**(10,708)**
Collection Fund Surplus	(416)	(416)		(5,197)			
Total inc Collection Fund	**(15,142)**	**(14,376)**	**(9,800)**	**(20,436)**	**(10,094)**	**(10,397)**	**(10,708)**

Council Tax

4.24 Council Tax is one of the Council's most important and stable income streams, funding approximately 50% of the net budget requirement of the Council. In the Technical Consultation, the Government has proposed that the Council Tax increase referendum limits continue as at present, i.e. shire districts in two-tier areas will be able to increase Council Tax by a maximum of £5.00 or 2%, whichever is the higher. An increase of £5.00 for East Suffolk would equate to an increase of 3% on the current District Band D Council Tax of £166.32. It is worth noting that in its assessment of the Core Spending Power of local authorities, the Government assumes that councils increase council tax at the maximum permitted levels.

4.25 The Government proposes to continue with no referendum principles for Town and Parish Councils in 2020/21 but will continue to keep this area under review.

4.26 **Council Tax Base** – The CTB1 Council tax base return was submitted to Government on 11th October 2019. Growth in the tax base for East Suffolk is 1,133.73 Band D equivalent properties, increasing the overall tax base for East Suffolk from 86,755.14 to 87,888.87 Band D equivalents for 2020/21. This equates to around £189k of additional Council Tax income to the Council based on the current District Band D Council Tax of £166.32. The estimated Council Tax Base for East Suffolk parish by parish is shown in **Appendix A2**.

4.27 **District Band D Council Tax 2020/21** – An increase of £4.95 for 2020/21 would equate to a District Band D Council Tax for East Suffolk of £171.27. An increase of £4.95 would generate £435k of income for East Suffolk in 2020/21, and overall Council Tax income for East Suffolk for 2020/21 based on a Band D equivalent of £171.27 is £15.053m.

4.28 Based on the above data, the table below sets out the estimated Council Tax income and assumptions on Council Tax as included in the latest update of the MTFS for East Suffolk.

Council Tax Income	2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Council Tax Income - Base	(13,890)	(14,429)	(15,053)	(15,643)	(16,243)
Growth in Tax Base	(188)	(189)	(151)	(156)	(162)
Council Tax Increase	(351)	(435)	(439)	(444)	(448)
Total Council Tax Income	**(14,429)**	**(15,053)**	**(15,643)**	**(16,243)**	**(16,853)**
Council Tax Band D	£166.32	£171.27	£176.22	£181.17	£186.12
Council Tax Base	86,755.14	87,888.87	88,767.76	89,655.44	90,551.99
Growth in Tax Base %	1.36%	1.31%	1.00%	1.00%	1.00%
Council Tax Increase £	£4.05	£4.95	£4.95	£4.95	£4.95
Council Tax Increase %	2.50%	2.98%	2.89%	2.81%	2.73%

4.29 **Council Tax Collection Fund** – The Collection Fund is monitored closely throughout the financial year. No Council Tax Collection Fund Surplus was declared last year, and the residual surplus for 2018/19 feeds into the surplus to be declared for 2019/20. An overall surplus of £4.001m is estimated to be declared at this stage, which would result in a surplus to East Suffolk of just under £543k. The Collection Fund surplus position will be confirmed in January.

New Homes Bonus (NHB)

4.30 The Government established the New Homes Bonus in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Over £7.9 billion has been allocated to local authorities through the scheme to reward additional housing supply.

4.31 NHB is funding allocated to councils based on the building of new homes and bringing empty homes back into use. The intention for the New Homes Bonus is to ensure that the economic benefits of growth are returned to the local authorities and communities where growth takes place. Over the past few years, NHB has become an extremely important source of incentivised income.

4.32 The NHB allocations for 2017/18 (Year 7) reflected a previous Government consultation which had the objectives of diverting at least £800m of funding to Social Care (the Better Care Fund), and of sharpening the incentives for authorities. Although the Bonus has been successful in encouraging authorities to welcome housing growth, it has not rewarded those authorities who are the most open to growth, and in December 2016 the Government announced reforms to the system. The key features in the new NHB allocations included:

- The allocation period being reduced from six to four years in 2018/19, with 2017/18 as a transition year with a five year allocation; and
- The introduction of a national baseline for housing growth was set at 0.4% of Council Tax base growth (weighted by band) for 2017/18 and remained at this level for 2018/19 and 2019/20. The purpose of the baseline is to remove "deadweight" growth that would occur normally without active delivery by councils – councils will only receive NHB for new properties above this level.

4.33 **NHB 2020/21** – As part of the roll-forward settlement the Government has proposed in the Technical Consultation to retain the £900 million top-slice of Revenue Support Grant to fund NHB payments in 2020/21. In addition to funding legacy payments associated with previous allocations, the Government is minded to make a new round of allocations for 2020/21. The Government will retain the option of adjusting the baseline in 2020/21 to reflect significant additional housing growth and spending limits, and any proposals in respect of this will be set out in the Provisional Local Government Finance Settlement.

4.34 As the roll forward is for one year, with any funding beyond 2020/21 subject to the 2020 Spending Review and potential new proposals, any new allocations in 2020/21 will not result in legacy payments being made in subsequent years on those allocations. The payment of an allocation for one year instead of four years has a significant impact on NHB funding availability, as current annual allocations amount to over £500k per year.

4.35 It is the Government's intention to look again at the New Homes Bonus and explore the most effective way to incentivise housing growth, and there will be further consultation on proposals prior to implementation. Combined with a one-year allocation and no legacy payments, indications are that NHB is being phased out more rapidly than previously anticipated and may be abolished altogether in its current form.

4.36 **NHB Allocation -** The Council Tax Base return to Government (CTB1) provides the basis for calculating the NHB allocation each year. Based on the existing methodology and the Technical Consultation, the total NHB allocation for East Suffolk is forecast in the table below.

NHB	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Year 6	(770)	0	0	0	0
Year 7	(565)	(565)	0	0	0
Year 8	(548)	(548)	(548)	0	0
Year 9	(525)	(525)	(525)	(525)	0
Year 10	0	(564)	0	0	0
Forecast October 2019	**(2,408)**	**(2,202)**	**(1,073)**	**(525)**	**0**
MTFS Forecast February 2019	**(2,408)**	**(2,163)**	**(2,124)**	**(2,102)**	**0**
Forecast Change in NHB	**0**	**(39)**	**1,051**	**1,577**	**0**

4.37 As part of the in-year NHB allocation, the Council receives payment for each affordable home completed (80% of £350 per property). For the 2019/20 NHB allocation this amounts to £92.4k for the Council (330 properties). This is included in the above figure of £2.408m.

4.38 Prior to 2019/20 the approach to using NHB funding differed between Suffolk Coastal and Waveney. Suffolk Coastal used NHB funding to support specific community related projects and initiatives, whereas Waveney used the income as part of its core funding to support the General Fund budget. After consideration by the relevant Member Working Groups for the East Suffolk project, a modified version of the Suffolk Coastal approach was adopted for East Suffolk. This approach provides an expansion to supporting community initiatives across East Suffolk, balanced against the overriding need to retain financial sustainability. **Appendix A3** outlines the position on the NHB Reserve and proposed use of NHB funding for East Suffolk over the MTFS period, and this is summarised in the table below.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Opening Balance	(4,415)	(3,403)	(4,119)	(3,943)	(3,412)
Add: Allocation Received	(2,408)	(2,202)	(1,073)	(525)	0
Less: Proposed Use	3,420	1,486	1,249	1,056	1,058
Closing Balance	**(3,403)**	**(4,119)**	**(3,943)**	**(3,412)**	**(2,354)**

5 MEDIUM TERM FINANCIAL POSITION

MTFS Forecasts 2020/21 to 2023/24

5.1 The Finance team works with Service Areas to review their budget requirements and budget monitoring is an ongoing process between Finance, Service Areas and the Corporate Management Team. This work leads to continual updating of the MTFS for the Council. As at November 2019, key areas of the budget that are yet to be finalised include partnerships, revenue implications of the capital programme, and the use of reserves.

5.2 The MTFS was last updated in February 2019 when the first budget for East Suffolk was set. A summary of analysis of the key movements as at November 2019 is shown in the following table. This table is supported by **Appendix A4**. As noted in paragraph 5.1 above, there is continual updating of the MTFS and there are key areas of the budget still to be finalised which are not included in the updated MTFS position as set out in this report.

MTFS Updates - November 2019	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2022/24 £'001
Key Budget Movements:					
Additional Income	(320)	(137)	(137)	(162)	(162)
Operational Savings	(725)	(1,751)	(1,785)	(1,798)	(1,813)
Operational Requirements	1,872	1,170	912	872	1,374
Reduced Income	456	397	397	397	397
Section 31 Grant (Business Rates)	0	(1,853)	0	(57)	(145)
Reserve Movement	(2,049)	3,080	0	0	0
Funding:					
Rural Services Delivery Grant	0	(248)	0	0	0
Revenue Support Grant (RSG)	0	(328)	0	0	0
Council Tax Income	0	(42)	(24)	2	(608)
Council Tax Surplus	0	(543)	0	0	0
Business Rates	766	(3,586)	0	(145)	(368)
Net Total of Updates	**0**	**(3,841)**	**(637)**	**(891)**	**(1,325)**

5.3 The summary MTFS position resulting from these movements as at November 2019 is shown in the table below.

MTFS Forecast - East Suffolk	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
February 2019	0	3,841	3,849	3,872	3,872
November 2019	0	0	3,212	2,981	2,547

5.4 There are a number of key features in the latest MTFS position as at November 2019 resulting from the roll forward of the 2019/20 Local Government Finance Settlement to 2020/21 and the delay in the Business Rate Retention and Fair Funding reforms until 2021/22. East Suffolk is in an advantageous position under the current Business Rates Retention system and deferral of the reforms will enable the council to benefit from another year of the current regime. Combined with the roll forward of Revenue Support Grant and Rural Services Delivery Grant, this has created a favourable position for 2020/21. Effectively, the significant underlying budget gap previously forecast in the MTFS for East Suffolk has been deferred until 2021/22. Although valuable work has been done in identifying over £1.7m of operational savings, these have been largely offset by other operational and income pressures. The period from 2021/22 onwards is extremely uncertain, and the position forecasted represents a likely base scenario in terms of external funding, assuming business rates income at the current baseline level. In addition, from 2021/22, the Technical Consultation indicates that NHB will significantly reduce as a funding source and will probably be phased out completely in its current form.

5.5 Consequently, budget setting for 2020/21 needs to balance the favourable one-off position that the Council finds itself in with the pressures and uncertainties of the medium term, and the underlying budget gap that needs to be addressed. It is important that the Council’s policy towards its reserves and balances, and towards income streams such as Council Tax, seeks to provide some contingency against these future pressures, and ensures the continuation of valuable programmes and initiatives, particularly those currently funded from NHB.

Budget Planning Assumptions

5.6 **Goods & Services** - The Council’s financial strategy assumes that any inflationary pressures incurred on goods and services expenditure are contained within existing budgets, or through more efficient spending. This will be kept under review to ensure this planning assumption remains adequate. This does not impact on inflation for specific contracts where the budget planning assumptions reflect specific contract increases.

5.7 Contracts have been inflated based on the specified inflation indices within each individual contract. Additional negotiation has taken place with contractors to determine how these cost increases can be reduced where possible. This negotiation and retendering of contracts is part of the Council’s strategy for cost reduction and will continue over the medium-term.

5.8 **Fees and Charges** are based on the Council’s agreed principles of increasing existing fees and charges on a market forces basis whilst having regard to the Council’s policies and objectives. As a minimum, fees and charges should be increased by price inflation. The Council will also review opportunities to introduce new fees as appropriate. Proposed fees and charges will be considered by the Cabinet in January 2020.

5.9 **Public Sector Pay** – In December 2017 the National Employers made a final pay offer covering the period 1st April 2018 to 31st March 2020, which included a 2% increase in 2018/19 and 2019/20. The opening MTFS position for East Suffolk had assumed a 2% pay award increase per annum for 2020/21 onwards. This assumption remains unchanged. In addition to pay increases, pay costs include incremental progression and on-costs such as employer national insurance and pension contributions. A 1% pay awards equates to approximately £230k including on-costs.

5.10 **Actuarial Valuation** - The latest triennial actuarial valuation of the assets and liabilities of the Suffolk County Pension Fund was completed on 31st March 2019. As at October 2019, the Council is awaiting the actuarial report but has been advised that its share of the pension fund was 98% fully funded at this date. The proposed employers pension contribution rate for 2020/21, 2021/22 and 2022/23 is 34%, 33% and 32% and is a reduction on the current rate for East Suffolk of 35.4%. The current rate is based on a Primary Rate of 22.8%, plus a deficit payment of £2.6m at 12.6%. For 2020/21 to 2022/23 onwards there will not be a deficit payment, and instead it is incorporated into the primary rate.

5.11 In formulating its detailed spending plans, the Council has also taken account of past performance and the previous year's outturn position.

5.12 The Council's financial planning assumptions are summarised below:

Budget Area	**Assumption**
Inflation	
Goods & Services	Met within existing budgets (exception is contract)
Utilities	4.4% RPI (utilities) September 2019
Fees & Charges	2.9% RPI June 2019
Staffing Costs	2% per annum plus incremental progression
In-Year Vacancy Saving	£300k per annum
Investment Income	0.91% Term Investments (average) 0.4% Call Accounts 4.22% Property Fund (as at June 2019)
Interest Payable	0.5% every 6 months

5.13 **Other Pressures** – Ranging from increased demand for services or changes in national policy, the Council's MTFS will be adjusted to reflect the financial implications of these changes. The budget monitoring work is ongoing with the Finance Team working with service areas to review their budget requirements. This work will continue to update the MTFS over the coming weeks.

6 RESERVES AND BALANCES

6.1 In order to manage its financial affairs soundly, the Council needs to hold an appropriate level of reserves and balances. These allow it to:

a) manage its cash flows economically and avoid temporary borrowing pending receipt of income due during the year;

b) deal promptly and efficiently with emergencies if they occur, as this year;

c) take previously unseen opportunities to secure benefits that may arise during the year;

d) mitigate reliance on volatile sources of funding;

e) set money aside for known events but where the timing or precise amount required is not yet certain; and

f) accumulate monies to meet costs that it would be unreasonable for taxpayers to meet in a single year.

6.2 In addition to the General Fund Balance, the Council keeps a number of earmarked reserves on the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans or potential liabilities.

6.3 The Council has continued to develop its prudent financial management arrangements, through the development of earmarked reserves to mitigate potential future risks. As issues arise, the potential requirement for an earmarked reserve is considered. New earmarked reserves are formally considered as part of the detailed budget process, to ensure that risks identified are adequately mitigated, and throughout the annual budget monitoring process as risks arise or become clearer.

General Fund Balance and Earmarked Reserves

6.4 The detailed budget process includes an assessment of risk, the adequacy of General Fund Reserves and a review of earmarked reserves. This review evaluates the need to create and/or change earmarked reserve levels and to also release reserves which are no longer required, thereby becoming a one-off resource for the Council. A risk assessment of the General Fund Balances informs the Chief Finance Officer’s view of the adequacy of reserves to provide assurance to the budget. Having regard to the financial risks surrounding the budget planning process; the Council maintains the level of General Fund balances at around 3%-5% of its budgeted gross expenditure (in the region of £120m for East Suffolk). This would equate to maintaining a General Fund balance for East Suffolk, in the region of between £4.0m and £6.0m. As at 1st April 2019, the opening General Fund balance of East Suffolk stood at £8.0m

6.5 The General Fund Balance and Earmarked Reserves position for East Suffolk as at 1st April 2019 has been informed by the outturn positions of Suffolk Coastal and Waveney for 2018/19.

6.6 Key features of the 2018/19 outturn position for Suffolk Coastal are noted below:

- General Fund – surplus of £639k transferred to in-year savings reserve, in addition to planned transfer of £1.3m.
- Earmarked reserves increased by £2.4m to £33.1m.
- General Fund balance maintained at £4m.
- Capital Programme spend of £6.7m, underspent by £2.2m – largely rephased to 2019/20.

6.7 Key features of the 2018/19 outturn position for Waveney are noted below:

- General Fund – surplus of £94k transferred to in-year savings reserve.
- Earmarked reserves increased by £0.7m to £12.2m.
- General Fund balance maintained at £4m.
- General Fund Capital Programme spend of £3.2m, and HRA Capital Programme spend of £7m – underspends mainly rephased to 2019/20.

6.8 £2.0m of the General Fund Balance is being transferred to the earmarked Capital Reserve in 2019/20, to set aside additional revenue funding for the capital programme. Further use of the General Fund balance will be evaluated against an assessment of risk, to ensure financial sustainability for the Council is maintained, whilst supporting the strategy direction and ambitions of the Council.

6.9 One of the key underpinning financial principles of the MTFS is to not use the Council's Reserves (and other one-off resources) as a primary method to balance the ongoing pressures in the budget. Earmarked reserves are used for specific one-off purposes to support the delivery of corporate objectives and to mitigate risks.

6.10 The current projected position on Reserves and Balances for East Suffolk is summarised in the following table.

Reserves	**Actual April 2019 £'000**	**Projected April 2020 £'000**	**Projected April 2021 £'000**	**Projected April 2022 £'000**	**Projected April 2023 £'000**	**Projected April 2024 £'000**
General Fund	**8,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**
Earmarked Reserves:						
Corporate - Contingency, Service Requirements	10,914	6,213	7,755	7,702	7,728	7,728
Business Rate Equalisation	8,476	10,064	9,864	9,814	9,764	9,764
Service Transformation	2,349	2,031	3,461	3,461	3,461	3,461
Community Projects & Initiatives	6,641	5,577	6,293	6,117	5,586	4,528
Housing & Homelessness	4,015	3,761	3,695	3,626	3,554	3,554
Regeneration & Economic Development Projects	3,594	1,041	1,041	1,041	1,041	1,041
Port Health	4,623	4,625	4,629	4,600	4,610	4,610
Capital	4,525	8,925	8,431	8,189	8,012	8,012
Total Earmarked Reserves	**45,137**	**42,237**	**45,169**	**44,550**	**43,756**	**42,698**

7 CAPITAL STRATEGY

7.1 The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability. The Capital Strategy for the period 2020/21 to 2023/24 will be considered by both the Scrutiny Committee and the Cabinet before approval by the Council in January 2020. Capital planning is about financial investment on the purchase of new assets, the creation of new assets and enhancing and/or extending the useful life of existing assets. The Council's approach is being enhanced with the aim of achieving the optimum balance between the future needs of East Suffolk (including the need to drive growth) and the ongoing challenge of public sector austerity. Key principles include:

- Developing asset and capital strategies that facilitate a long-term approach to decision-making;
- Ensuring that assets are only held as needed to achieve Council objectives;
- Maximising efficiency in the management and use of assets;
- Ensuring that pressure to achieve short-term savings does not compromise the value of assets through lack of investment; and
- Ensuring that capital investment is targeted where it will achieve the greatest long-term benefit.

7.2 Enhancing the management of the Council's existing asset base and looking beyond the traditional medium-term financial planning horizon is a major priority. An updated Asset Management Strategy was approved in July 2019, broken down into four key components:

- Administrative Improvements
- Compliance and Sustainability
- A strategic approach to assets
- Reducing expenditure and increasing income

7.3 For the purposes of setting the budget for 2020/21 and medium-term financial planning, the current rolling Capital Programme is being updated to reflect existing projects and the latest capital investments plans for the period 2019/20 to 2023/24.

7.4 The Capital Programme including both General Fund and HRA elements is subject to the scrutiny process and formally adopted by Full Council each year and the decision to accept individual projects onto the Programme is driven by the overriding requirement to support the priorities communicated in the East Suffolk Business Plan.

7.5 As well as adequately maintaining the asset base, a range of other important factors also have to be considered, especially when deciding upon the allocation of General Fund resources. Notably:

- Legislation – the need for capital investment due to changes in legislation, including those with health and safety implications, is given due priority; and
- Resource Availability – the sustainability of the Capital Programme is a primary consideration and integral to the MTFS.

7.6 Where required, capital projects are supported by a detailed business case, which demonstrates a set of clear objectives and measurable benefits, as well as detailed financial implications. This includes the on-going revenue implications of a capital project, to ensure these are built into the MTFS revenue assumptions.

7.7 Major capital projects are delivered by dedicated project managers, with leadership and oversight provided by the Senior Management Team.

7.8 The 2019/20 Capital Programme for the Council was considered by the Shadow Scrutiny Committee and Shadow Cabinet at their respective meetings on 17th December 2018 and 21st January 2019, with Shadow Council approval on 28th January 2019. The Capital

Programme has continued to be reviewed and revised, and an updated Programme as at November 2019 is shown below:

SUMMARY - GENERAL FUND PROGRAMME	2019/20 £000 Revised Budget	2020/21 £000 Revised Budget	2021/22 £000 Revised Budget	2022/23 £000 Revised Budget	2023/24 £000 Revised Budget	2019/20 to 2023/24 Total
Capital Expenditure						
Economic Development & Regeneration	830	0	0	0	0	830
Environmental Services & Port Health	50	11	30	-	-	91
Financial Services, Corporate Performance & R	5,951	5,500	800	200	200	12,651
ICT Services	655	400	50	50	50	1,205
Operations	10,485	18,811	11,170	1,205	6,525	48,196
Planning & Coastal Management	11,763	18,304	25,169	24,805	250	80,291
Housing Improvement	934	900	900	900	900	4,534
Total Capital Expenditure	**30,668**	**43,926**	**38,119**	**27,160**	**7,925**	**147,798**
Financed By:-						
External:						
Grants	13,397	18,326	25,869	25,605	6,900	90,097
Contributions	50	50	50	50	50	250
Borrowing	0	5,300	400	0	0	5,700
Internal:						
General Fund Capital Receipts	70	0	0	0	0	70
Borrowing	9,119	18,387	10,400	400	400	38,706
Reserves	8,032	1,863	1,400	1,105	575	12,975
Total Financing	**30,668**	**43,926**	**38,119**	**27,160**	**7,925**	**147,798**

APPENDIX A1

EAST SUFFOLK MEDIUM TERM FINANCIAL STRATEGY - KEY PRINCIPLES

1 PRIORITIES, AIMS AND OBJECTIVES

1.1 The **East Suffolk Business Plan** provides the overarching vision for East Suffolk. In fulfilment of the Plan, the Council makes use of significant resources to achieve its aims including money, people, property and technology. In order to allocate resources to competing demands, achieve effective and efficient use of its resources, best value and ultimately achieve its vision, the Council has several strategies and plans which give a clear sense of direction and underpin the deployment of those resources. The **Medium Term Financial Strategy** sits under the **Efficiency Plan,** and combined with other strategies and plans, they support and embrace the strategic direction of East Suffolk.

2 STRATEGY OBJECTIVES

2.1 The Council's MTFS aims to ensure the provision of the best quality services possible within the resources available. To do so it must maximise the use of its resources to ensure they are used efficiently and effectively to support the development of longer term sustainable objectives.

2.2 The specific objectives of the MTFS are to:

a) ensure that the Council sets a balanced, sustainable budget year by year, so that forecast spending does not exceed forecast resources available to it;

b) plan for a level of Council Tax that the Council, its residents and Government see as necessary, acceptable and affordable to ensure that it has the financial capacity to deliver the Council's policies and objectives;

c) redirect resources over time to adequately support and resource the priorities of the both the Council and the wider community; and

d) maintain sufficient reserves and balances to ensure that the Council's long term financial health remains sound.

3 STRATEGY PRINCIPLES

3.1 The principles set out below provide a framework within which the Council will develop its detailed financial plan over the medium term.

General

There are a number of overarching principles that will apply across the Council's detailed financial accounting, planning and monitoring:

a) that the Council's budgets, financial records and accounts will be prepared and maintained in line with approved Accounting Standards, the CIPFA Code of Practice on Local Government Accounting, the CIPFA Prudential Code and the relevant sections of the Council's Constitution and Finance Procedure Rules;

b) prior to setting a budget, the Council will always analyse potential risks and ensure these are minimised in line with its Risk Management Strategy;

c) that the Council's Corporate Management Team will review the budget proposals for reasonableness and adherence to corporate policies and objectives prior to the budget being submitted to Cabinet;

d) the Council will monitor its revenue and capital budgets effectively. Monitoring will be undertaken monthly by Heads of Service together with their portfolio holders, and integrated quarterly monitoring reports will be reported to Cabinet. In cases where significant financial and service performance deviates from that planned, action plans setting out corrective action will be drawn up by Heads of Service / Portfolio Holders and reported to Cabinet as appropriate;

e) that the Council's Corporate Management Team will take appropriate steps to continue to maintain and improve the accuracy and quality of data that it uses throughout the Council thereby ensuring that budget and other decisions are taken on a sound basis; and

f) the Council will seek to maximise external contributions towards revenue and capital spending for example through bidding for specific grants, attracting levered funding, participating in new funding streams and engaging in further strategic partnering opportunities where appropriate.

General Fund (Revenue)

3.2 In relation to its revenue budgets the Council will:

a) set a balanced budget each year that will be constructed to reflect its objectives, priorities and commitments. In particular, the budget will influence and be influenced by the Business Plan, the Organisational and Development Strategy, Capital and Asset Management Strategies, the Risk Management Strategy, its Comprehensive Equality Scheme and its Consultation and Engagement Strategies;

b) within the constraints of the resources available to it, set a sustainable budget each year that meets on-going commitments from on-going resources. The Council will continue to aim to maintain its level of general balances when it sets its revenue budget each year now that a prudent level of balances has been achieved;

c) seek to identify annual efficiency savings through business process improvement, shared service initiatives, service best value reviews and benchmarking and strategic partnering opportunities within and across county borders;

d) review the appropriateness of service delivery between the Council, parishes and other partners;

e) increase existing fees and charges on a market forces basis whilst having regard to the Council's policies and objectives. As a minimum fees and charges should be increased by price inflation. The Council will also review opportunities to introduce new fees as appropriate; and

f) within Government guidelines, set a level of Council Tax that the Council, its residents and Government see as necessary, acceptable and affordable to deliver the Council's policies and objectives.

Capital

3.3 When considering its capital investment the Council will:

a) maximise the generation of capital receipts and grants to support its planned investment programmes;

b) enhance its capital investment by applying specific grants and contributions, capital receipts, earmarked reserves and revenue contributions, with any balance being met by external borrowing;

c) not recognise capital receipts until there is certainty that the receipt will materialise, and will not be earmarked against specific developments without express Cabinet approval;

d) allocate its capital resources in line with its Capital Strategy and Asset Management Plan whilst recognising that other priorities may emerge that may require those plans to be amended and resources to be diverted;

e) annually review and prioritise capital schemes in accordance with Council objectives having regard to:

f) the business case for any given project; asset management planning; and

g) affordability in line with the application of the Prudential Code.

Balances and Reserves

3.4 In relation to its balances and earmarked reserves, the Council will:

- each year maintain the level of General Fund balances at around 3% - 5% of its budgeted gross expenditure. This would lead the Council to maintain a General Fund balance in a range of around £4m to £6m.

- have regard to the financial risks surrounding the budget planning process, including those associated with the structural deficit, inflationary pressures, interest rates, partnerships, the treatment of savings, new burdens and demand led expenditure.

- review its earmarked reserves, which have been established to meet known or predicted liabilities, to ensure that the level of those reserves are still appropriate; and

- return reserve balances no longer required to the General Fund as appropriate.

Treasury Management and Investment

3.5 The Council will:

a) having regard to risk, maximise investment income and minimise borrowing costs within the overall framework set out in the Council's annual Treasury Management and Investment Strategy; and

b) secure the stability of the Council's longer term financial position rather than seeking to make short-term one-off gains which may lead to higher costs in the long term.

c) having regard to risk, seek to diversify its investment portfolio; maximise investment income; and deliver economic development objectives through the Asset Investment Strategy (in development).

4 OTHER CONSIDERATIONS

4.1 The Council's spending will have regard to:

a) the base budget position for the current financial year, adjusted for in year grant changes;

b) the Council's medium term priorities;

c) the refocusing of service expenditure through transactional, shared services and other efficiencies to support the achievement of its medium term priorities and satisfy Government funding changes;

d) demographic and welfare changes;

e) consultation outcomes; and

f) fiscal matters including:

- price inflation;
- the effect on the level of General Fund balances and reserves;
- the impact of any changes to the capital programme on the potential costs of borrowing;
- triennial revaluation of the pension fund;
- ongoing commitments, arising in part, from initiatives that have previously been funded from specific grants;
- achieving budgeted savings from outsourcing, shared services and service reviews; and
- the likely passporting of some Government departmental savings targets to councils.

RISKS	PROBABILITY HIGH (H) MEDIUM (M) LOW (L)	IMPACT HIGH (H) MEDIUM (M) LOW (L)	MITIGATING ACTIONS
Strategic Risks			
The absence of a robust Medium Term Financial Strategy could adversely affect the Council's budget and resource planning and projections.	**L**	**H**	Continually monitor and refine the strategy in line with changing influences. Update Corporate Management Team and Cabinet.
Failure to understand changing community needs and customer expectations can result in the Council providing levels of service which are not appropriately aligned to the needs of communities and customers.	**L**	**H**	Continuously engage with key stakeholders and take advantage of existing consultation methodologies. Continue to monitor and more closely align service levels to demand and need.
Local Government funding is under continuous pressure and review. Failure to respond to these funding pressures may adversely impact on the Council's ability to service delivery.	**M**	**H**	Take advantage of the Council's growth opportunities to reduce dependency on government funding. Align service delivery to funding levels, improve exist strategy to minimise risk.
Budget pressures arising from housing and economic growth and other demographic changes.	**H**	**H**	Take advantage of technological advancements to understand and reduce unit costs, monitor demand for services and proactively manage resourcing requirements, invest in schemes to promote skills and developments.
Financial			
Uncertain medium term sustainability of incentivised income areas subject to Government policy, economic factors, and revaluation e.g. Brexit, business rates and New Homes Bonus.	**H**	**H**	Constantly monitor information and update risk appraisals and financial projections. Provide timely briefings and updates to Members/ key stakeholders to facilitate decision making. Adopt prudent budgeting approach not placing undue reliance on uncertain funding sources.

Uncertainty surrounding the Government's change agenda including, business rates and welfare reform over the medium term.	**H**	**H**	Constantly monitor information from Government and update risk appraisals and financial projections. Provide timely briefings and updates to Members/ key stakeholders to facilitate decision making. Lobby through the LGA as appropriate.
Budget pressures from demand led services and income variances reflecting the wider economy.	**M**	**M**	Monitor pressures throughout the budget process and take timely actions.
Costs arising from the triennial review of the Local Government Pension Scheme.	**H**	**M**	Review and monitor information from Government and actuaries. Update forecasts as necessary.
Interest rate exposure on investments and borrowing.	**L**	**L**	Review cash flows, ensuring the Council has a flexible and forward looking Treasury management policy.
Information			
The Council itself has no influence over the outcome of some of the other bigger assumptions such as formula grant, national pay awards, interest rates, inflation and statutory fees and charges.	**L**	**M**	Key assumptions made are regularly reviewed from a variety of sources. Forecasts are updated as necessary.
Operational			
The Council has entered into a number of strategic partnerships and contracts and is therefore susceptible to price changes.	**M**	**H**	Effective negotiation, sound governance arrangements and regular reviews of performance and partnership risks.
There is a potential risk to the Council if there is a financial failure of an external organisation, providing services to the public on behalf of the Council.	**L**	**H**	Ensure rigorous financial evaluations are carried out at tender stage. Consideration of processes to ensure annual review of the successful organisation and review any external auditor comments.

People			
Loss of key skills, resources and expertise.	**M**	**L**	Continue to invest in staff developments, service continuity measures. Monitor succession planning. Keep staff consulted and informed. Ensure employment terms and conditions are competitive and development needs identified through 'My Conversation' programme with staff are satisfied.
Regulatory			
Changes of responsibility from Government can adversely impact on service priorities and objectives.	**L**	**L**	Sound system of service and financial planning in place. Lobby as appropriate.
Reputation			
Loss of reputation if unforeseen resource constraints result in unplanned service reductions.	**L**	**H**	Identify and implement robust solutions in response to changes. Consult widely. Seek to achieve a prudent level of balances and reserves.