



CABINET
Tuesday, 02 January 2024

Subject	General Fund Budget 2024/25 and Medium Term Financial Strategy (MTFS)
Cabinet Member	Councillor Vince Langdon-Morris with responsibility for Resources and Value for Money
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Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:

This report sets out a further update to the draft Medium Term Financial Strategy (MTFS), taking account of new and revised risks, and presents an initial draft of the Council's General Fund Budget for 2024/25.

At the end of the 2024/25 budget process, the Council is required to approve a balanced budget for the following financial year and set the Band D rate of Council Tax.

The report brings together relevant information to enable Cabinet to review, consider, and comment upon the Council's General Fund revenue budgets before making recommendations to Council on 21 February 2024. This report also forms the basis of Scrutiny Committee's review of the Budget at its meeting on 18 January 2024 as required under the Budget and Policy Framework.

Options:

The consideration of the MTFS by Members at an early stage of the budget process is essential, especially in order to commence actions to achieve a balanced budget and sustainable medium-term position. Setting a balanced budget for the coming year is a statutory requirement, therefore no other options are considered appropriate.

Recommendation/s:

Cabinet is recommended to:

1. Approve the draft Medium Term Financial Strategy attached as **Appendix A**, including the draft 2024/25 General Fund Revenue Budget summarised in **Appendix A5** for review and consideration by the Scrutiny Committee as part of the budget process.
2. Approve an initial proposed Band D Council Tax for East Suffolk Council of £186.57 for 2024/25, an increase of £5.40 or 2.98%.

Corporate Impact Assessment

Governance:

The draft MTFS provides the framework for initial detailed budget discussions for the forthcoming financial year. This builds towards securing a balanced budget for 2024/25 which will be considered by Full Council at its meeting on 21 February 2024. Prior to the Full Council meeting in February, the budget will be considered at the following meetings;

- Cabinet 2 January 2024
- Scrutiny Committee 18 January 2024
- Cabinet 7 February 2024

ESC policies and strategies that directly apply to the proposal:

- Our Direction 2028
- East Suffolk Medium Term Financial Strategy
- Capital Programme
- Housing Revenue Account

- East Suffolk Treasury Management Strategy and Treasury Management Policy
- Annual Governance Statement
- Finance Procedure Rules
- Financial Management Code

Environmental:

There are no environmental impacts related to this report.

Equalities and Diversity:

An Equality Impact Assessment is not applicable at this stage of the draft MTFS. The purpose of this report is to provide Members with an update on the MTFS as of November 2023. This assessment will be completed on the finalisation of the budget for approval in February 2024 and the results taken into consideration.

Financial:

Detailed financial analysis and commentary is included in **Appendix A**.

Human Resources:

There are no HR implications directly arising from this report.

ICT:

There are no ICT implications identified.

Legal:

Section 25 of the Local Government Act 2003 places a personal duty on an authority's "Chief Financial Officer" to make a report to Council about the robustness of the estimates made for the purposes of the Council Tax calculations and the adequacy of financial reserves and balances.

The provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon and require the Council to set a balance budget with regard to the advice of its Section 151 Officer.

Risk:

Part of the process of delivering a robust medium-term strategy 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**.

External Consultees:

Budget-related consultation questions now form a standing part of the permanent residents survey which is live via the Council's website. A summary of responses will be reported to Scrutiny Committee in January and Cabinet in February as part of their further consideration of the draft budget.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: <i>(Select only one primary and as many secondary as appropriate)</i>		Primary priority	Secondary priorities
T01	Growing our Economy		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T02	Enabling our Communities		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
T03	Maintaining Financial Sustainability		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P14	Review service delivery with partners	<input type="checkbox"/>	<input checked="" type="checkbox"/>
T04	Delivering Digital Transformation		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T05	Caring for our Environment		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education and influence	<input type="checkbox"/>	<input type="checkbox"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>How does this proposal support the priorities selected?</p> <p>By ensuring the robustness of the Medium-Term Financial Strategy and adequate reserves and balances for the Council. The MTFs underpins and supports the delivery of the strategic direction of East Suffolk.</p> <p>The report forms an important element of good governance, ensure financial sustainability and putting the Council's assets to good use. It highlights areas of financial risk which will impact on the Council's Medium Term Financial Strategy (MTFS).</p>			

Background and Justification for Recommendation

1 Background facts	
1.1	The MTFS sets the strategic financial direction for the Council. It sets out the key financial management principles, budget assumptions and service issues.
1.2	<p>The MTFS provides a 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 Strategic Plan. It provides a sound basis for planning and decision making, and is reviewed and updated at the following key points in the year:</p> <ul style="list-style-type: none"> • November/December – 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. • February – with the final budget for the new financial year.
1.3	<p>The key underlying principles of the MTFS are:</p> <ul style="list-style-type: none"> • 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.

2 Current position	
2.1	<p>Economic Outlook: The national economic background affects the costs the Council incurs, the funding it receives, and the demand for services as residents are affected by economic circumstances.</p>
2.2	The twelve-month Consumer Price Index (CPI) inflation to October 2023 was 4.6%, down from 6.7% in September. For local government, the September CPI is important because it will be used to index the business rates multiplier, and to uplift Revenue Support Grant (RSG) and the baselines within the Business Rates Retention System (BRRS). The Bank of England projects CPI inflation to fall to around 4.5% by the end of year and to continue to fall towards its target of 2% next year.
2.3	At its meeting on 13 December 2023, the Bank of England’s Monetary Policy Committee (MPC) voted by a majority of 6-3 to maintain the Bank Rate at 5.25%. Three members of the Committee preferred an increase of 0.25% to 5.5%. The next meeting of the MPC to review the bank rate is 31 January 2024.
2.4	<p>Local Government Finance: Following the Autumn Statement, concern over the financial sustainability of many councils across the country continues to be highlighted. Government funding for councils has increased in recent years, but a combination of high inflation and rising demand for services places unprecedented pressure on local authority budgets.</p>

	Longer-term funding certainty is required, alongside promised reform of the funding system which has been delayed for several years now.
2.5	On 22 November 2023 the Chancellor held the Autumn Statement 2023. No new funding was announced for local authorities, and the outlook for local government spending reviews continues to look very tight, with pressure on the public sector to achieve 0.5% annual productivity improvements.
2.6	On 5 December 2023 DLUHC published a Local Government Finance Policy Statement 2024/25, Appendix B . This set out and the government's intention for the local Government Finance Settlement for 2024/25 covering Business Rates, Council Tax, and settlement grants. Minimal changes to settlement funding have been made in the MTFs following this statement - recognising a further year of New Homes Bonus and the uplift of the Revenue Support Grant in line with September CPI. It is noted in the Policy Statement that in recognition of pressures across the sector, all authorities will see at least 3% increase in their Core Spending Powers before any decision on organisation efficiencies, use of reserves, and council tax levels, through the Funding Guarantee.
2.7	The provisional settlement was announced on 18 December and further detail is provided in Appendix C . Due to the timing of the release of the provisional settlement and the publication of this report, the MTFs figures will be updated in readiness for the Scrutiny Committee meeting on 18 January 2024. The most significant change from the February 2023 position is New Homes Bonus for another year, of £0.651m (this is captured in the report). Other settlement grants have either increased or decreased, but the overall position for the Council remains relatively unchanged financially, with only an additional £16,800 of funding compared to the original budget for next year.
2.8	Business Rates: In October all Suffolk councils agreed to continue a pooling arrangement for 2024/25, which would allow them to retain a larger proportion of their share of growth by reducing the overall levy rate for Suffolk to £nil. Suffolk County Council is the administering authority for the Pool and collates the NNDR1 returns of all of the Suffolk authorities. The MTFs update includes a Pooling Benefit estimate for 2024/25 of £4.6m. This will be reviewed later in the budget process and following the completion of the NNDR1 return for 2024/25 in January. The MTFs includes a reducing amount for Pooling Benefit beyond 2025/26, reflecting uncertainty in the system going forward.
2.9	The MTFs assumption is that the Council will continue to retain 100% Business Rates income from Renewables.
2.10	Business Rates income for 2024/25 is based on the NNDR1 return. All Business Rates estimates included in the MTFs will be updated following the completion of the return at the end of January 2024. This will include the split between Section 31 Grant and actual rates income.
2.11	Council Tax: Council Tax is one of the Council's most important and stable income streams, funding approximately 40% of the net budget requirement of the Council.
2.12	The increase in the tax base for East Suffolk is currently estimated to be 677.81 (0.75%) Band D equivalent properties, increasing the overall tax base for East Suffolk from 90,340.92 to 91,018.73 for 2024/25. This equates to around £0.123m of additional Council Tax income to the Council based on the current District Band D Council Tax of £181.17. The 2024/25 Council Tax Base was reported to Cabinet on 5 December 2023.

2.13	The 2024/25 provisional settlement confirms a council tax referendum principle for shire district councils of up to 2.99% or £5, whichever is higher. Assuming an increase of up to the referendum principle for 2024/25, would equate to a District Band D Council Tax for East Suffolk of £186.57, an increase of £5.40 or 2.98%. It would generate approximately £0.492m of additional income for East Suffolk. Total income to the Council from Council Tax would be £16.982m.
2.14	Council Tax Premium on Second Homes - The Levelling-up and Regeneration Bill received Royal Assent at the end of October 2023 which included giving billing authorities the discretion to charge a 100% premium on second homes or empty dwellings. It gives billing authorities the power to charge a 100% premium on “dwellings occupied periodically”. At its meeting on 25 January 2023, Full Council approve this in principle, subject to the Bill receiving Royal Assent. In order to implement the premium, a clear 12 month period and a full financial year’s notice is required. Therefore the earliest a Second Home Premium could be charged is the 1 April 2025. Although the Act has been passed the categories of properties exempted from the second home premium have not yet been disclosed and regulation is being awaited. Given the number of second homes in Suffolk, this 100% council tax premium should represent a significant addition to the income stream from Council Tax. It is estimated that this could generate in the region of £8m in East Suffolk - £6.2m for Suffolk County Council, over £1m for Suffolk Police, and £0.700m for East Suffolk Council. The current MTFS does not yet take account of this potential additional income for East Suffolk Council.
2.15	MTFS Forecasts 2024/25 to 2027/28: The budget continues to be reviewed and the following key areas of the budget are yet to be finalised which could lead to significant movements on the budgets; <ul style="list-style-type: none"> • East Suffolk Services Ltd (ESSL) • Business rates income • Announcement of the Local Government Settlement for 2024/25 • Use of reserves.
2.16	In the Budget report to Full Council in February 2023 the MTFS reported an annual General Fund budget gap for 2024/25 of £3.511m and rising to £6.405m by 2026/27. The current update forecasts this annual gap falling to £2.211m in 2024/25 and rising to £7.664m by 2027/28. Further details are provided in Appendix A4 . Cost pressures are mainly being driven by pay awards and inflationary pressures. Staffing costs represent approximately 50% of the Council’s direct costs. Additional income is being recognised from Council assets, and the return on investment income from treasury management activities is performing well due to high interest rates.
2.17	Reserves and Balances: The total balance of General Fund Earmarked Reserves was £48.57m as of 1 April 2023, and the current projected balance at the end of the April 2027 is £32.16m. Reserve movements are still to be finalised and do not include any use of reserves to fund budget gaps as presented in Appendix A5 . The General Fund balance remains at £6m, with no planned use over the current MTFS. This will be reviewed before the end of the budget process to consider if this is still an appropriate level of balance, given the increased pressure and funding uncertainty going forward.
2.18	The detailed budget process includes an assessment of risk, the adequacy of General Fund balances and a review of earmarked reserves. This review evaluates the need to create and/or change earmarked reserve levels and to release

	reserves which are no longer required, thereby becoming a one-off resource for the Council. As part of this year's review it will include a refresh of the reason for/purpose of each reserve, and how and when they can be used.
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3 How to address current situation

3.1	The Council has a statutory duty to deliver a balanced budget for the forthcoming year and Full Council will consider this budget at its February 2024 meeting.
3.2	The Finance team continues to work with officers and the Corporate Leadership Team throughout the budget setting process which will lead to continual updating of the MTFS until a balance budget is achieved.
3.3	The Government published the Local government finance policy statement 2024 to 2025 on 5 December 2023 and details are provided in Appendix B . The provisional settlement followed on 18 December 2023.
3.4	Part of the process of delivering a robust medium term strategy 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 of the MTFS.
3.5	Section 25 of the Local Government Act 2003 places a personal duty on an authority's Chief Financial Officer to make a report to Council about the robustness of the estimates made for the purposes of the council tax calculations and the adequacy of financial reserves and balances. The Act also requires the Council to have regard to the report before it makes its budget and council tax decisions.
3.6	In relation to the statutory duty under the Act, the Chief Financial Officer considers that the estimates are robust; the General Fund Balance is within the guideline levels established as part of the MTFS; and the contributions to and use of earmarked reserves will assist the Council in meeting its financial challenges and developing its response to the pandemic and the objective of financial sustainability.
3.7	The Chief Finance Officer's report will be reported to Full Council when it considers the budget for 2024/25 on 21 February 2024. The report statement will clearly set out the budget assumptions used to arrive at the final recommendations.

4 Reason/s for recommendation

4.1	This report brings together the relevant information to enable Cabinet to review, consider, and comment upon the Council's General Fund revenue budgets before making final recommendations to Council on 21 February 2024. This report also forms the basis of Scrutiny Committee's review of the Budget at its meeting on 18 January 2024 as required under the Budget and Policy Framework.
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Appendices

Appendices:	
Appendix A	Medium Term Financial Strategy (December 2023 update)
Appendix A1	MTFS Key Principles and Risk Analysis
Appendix A2	East Suffolk Council Tax Base 2024/25

Appendix A3	NHB Reserve Summary 2023/24 to 2027/28
Appendix A4	MTFS Updates as at December 2023 – Key Items
Appendix A5	General Fund Revenue Budget Summary 2024/25 to 2027/28
Appendix B	DLUHC - Local government finance policy statement 2024 to 2025
Appendix C	Provisional Local Government Finance Settlement 2024/25

Background reference papers:

Date	Type	Available From
02/11/2023	Bank of England Monetary Policy Report – December 2023	https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/december-2023
22/11/2023	Chancellor’s Autumn Statement 2023	Autumn Statement 2023 - GOV.UK (www.gov.uk)
22/11/2023	Office for Budget Responsibility - Economic and fiscal outlook – November 2023	Economic and fiscal outlook – November 2023 - Office for Budget Responsibility (obr.uk)
05/12/2023	DLUHC - Local government finance policy statement 2024 to 2025	Local government finance policy statement 2024 to 2025 - GOV.UK (www.gov.uk)
18/12/2023	Provisional local government finance settlement: England, 2024 to 2025	https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2024-to-2025 https://questions-statements.parliament.uk/written-statements/detail/2023-12-18/hcws148