



CABINET

Tuesday, 07 November 2023

Subject	Draft Medium Term Financial Strategy and Quarter 2 Budget Monitoring for 2023/24
Cabinet Member	Councillor Vince Langdon-Morris Cabinet Member with responsibility for Resources and Value for Money
Report Author(s)	Lorraine Rogers Acting Chief Finance Officer and Section 151 Officer Lorraine.rogers@eastsoffolk.gov.uk Georgina Peck Finance Business Partner/Acting Finance Planning Manager Georgina.peck@eastsoffolk.gov.uk Danielle Patterson Finance Business Partner/Acting Finance Planning Manager Danielle.patterson@eastsoffolk.gov.uk
Head of Service	Lorraine Rogers Acting Chief Finance Officer and Section 151 Officer Lorraine.rogers@eastsoffolk.gov.uk
Director	Chris Bally Chief Executive Chris.bally@eastsoffolk.gov.uk

Is the report Open or Exempt?	OPEN
-------------------------------	------

Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	N/A
---	-----

Wards Affected:

All Wards

Purpose and high-level overview

Purpose of Report:

To approve an updated draft Medium Term Financial Strategy (MTFS), taking account of new and revised risks in order for the Council to set a balanced budget that delivers its priorities for the period under review 2024/25 to 2027/28.

This report also provides Cabinet with an overview of the Council's projected financial performance for the financial year 2023/24 in respect of the General Fund, Reserves, Housing Revenue Account (HRA) and the Capital Programme.

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:

1. That the draft Medium Term Financial Strategy attached as **Appendix A** be approved.
2. That it be approved that members and officers develop proposals to set a balanced budget for 2024/25 and beyond.
3. That the Council's financial position in **Appendix B** for the period April to September 2023 together with projections of the full year outturn and reserve balances be noted.

Corporate Impact Assessment

Governance:

As set out in the Council's Finance Procedure Rules, the Chief Finance Officer is responsible for preparing and submitting reports on revenue budget forecasts to Cabinet. This report to Cabinet is intended to facilitate monitoring of the Council's financial performance.

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.

ESC policies and strategies that directly apply to the proposal:

- East Suffolk Strategic Plan
- 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** and **Appendix B**.

Human Resources:

There are no HR implications directly arising from this report.

ICT:

There are no ICT implications identified.

Legal:

There are no legal implications identified.

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 as at early December 2023 will be reported to Cabinet as part of its consideration of the draft budget in January 2024.

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"/>
How does this proposal support the priorities selected?			
<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.
1.4	In February 2023, the Council approved a balanced budget for the 2023/24 financial year and set the Band D rate of Council Tax. During the first six months of the year, variations to the approved General Fund budget have been made by Cabinet and Council to enable the Council to respond to changing circumstances.

2 Current position	
2.1	<p>Economic Outlook:</p> <p>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 September 2023 remained unchanged from August at 6.7%. 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 for CPI inflation to fall to around 5% by the end of year and to return to the 2% target by Quarter 2 of 2025.
2.3	At its meeting on 20 September 2023, the Bank of England’s Monetary Policy Committee (MPC) voted by a majority of 5-4 to maintain the Bank Rate at 5.25%. Four 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 2 November 2023.
2.4	<p>Local Government Finance:</p> <p>Recent media coverage has highlighted the financial challenges faced by many councils across the country to address funding shortfalls over the medium-term.</p>

	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. Longer-term funding certainty is required, alongside promised reform of the funding system which has been delayed for several years, and is unlikely to be implemented before 2026/27, a shift from 2025/26 a year ago.
2.5	On 5 September the Chancellor announced that the Autumn Statement 2023 will be held on Wednesday 22 November. It will be an opportunity for the government to update its plans for the economy based on the latest forecasts from the Office for Budget Responsibility (OBR). The Autumn statement is expected to focus on reducing inflation which remains high at three times the Bank of England's 2% target. An increase to the national living wage is also anticipated.
2.6	A policy statement is expected to precede the 2024/25 Provisional Settlement. This statement along with the Autumn Statement will provide much of what to expect in advance of the Provision Settlement. Recent Provisional Settlements have been released between 16 and 20 December, and always before Christmas so it is reasonable to assume the same timeframe for this year.
2.7	This update of the MTFS assumes no change to funding settlements from the February 2023 position, with the exception being Revenue Support Grant (RSG). Last year this grant was increased by September CPI and it is assumed this will be followed for 2024/25. This is an additional £0.060m to the 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 currently includes a Pooling Benefit estimate for 2024/25 of £1.0m. This will be reviewed later in the budget process and following the completion of the NNDR1 return for 2024/25 in January. The MTFS does not include any Pooling Benefit beyond 2024/25 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. For Shire District Councils in two-tier areas, the referendum limit for 2023/24 was increased from 2% to 3%, but the £5 threshold remained. The current MTFS assumes a Council Tax increase of the higher of 2% or £5.
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 will be reported to Cabinet on 5 December 2023.

2.13	<p>Council Tax Premium on Second Homes - The Government is proposing that billing authorities will have the power to charge a 100% premium on second homes or empty dwellings. The Levelling-Up and Regeneration Bill would give 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. At the time of this report this Bill has not yet been passed. Authorities have to give council-taxpayers 12 months’ notice of the premier, which can only be given once the Levelling-Up Bill has received Royal Assent. The earliest this could now be implemented is 2025/26. The current MTFS does not take account of this potential additional income for East Suffolk Council, which is estimated in the region of £0.70m.</p>
2.14	<p>MTFS Forecasts 2024/25 to 2027/28:</p> <p>At this time in the budget process there are still a number of moving elements. This update captures estimates of initial pressures and income or savings that have been identified. These will be developed further through the budget process. The following are key areas of the budget which are yet to be finalised and can have significant movements on the budgets.</p> <ul style="list-style-type: none"> • Staffing costs • Utility costs • Partnerships and ESSL • Capital programme • Business rates income • Fees and Charges income • Announcement of the Local Government Settlement for 2024/25 • Use of reserves.
2.15	<p>In the Budget report to Full Council in February 2023 the MTFS reported an annual General Fund budget gap for 2024/25 of £3.51m and rising to £6.41m by 2026/27. The current update forecasts this annual gap increasing to £4.60m in 2024/25 and rising to £7.93m by 2027/28. Further details are provided in Appendix A2 and Appendix A3. Cost pressures are mainly being driven by the pending pay award for the current year, as reported in Quarter 2 and inflationary pressure. Staffing costs represent approximately 50% of the Council’s direct costs. Additional income is being recognised from Council assets; however this is largely offsetting a loss of income from rental income affected by economic conditions and parking services.</p>
2.16	<p>Quarter 2 Budget Monitoring:</p> <p>Appendix B provides the Quarter 2 budget monitoring report for 2023/24, covering the General Fund, the Housing Revenue Account and the Capital Programme. At Quarter 2 the forecast outturn for the General Fund is £0.945m overspend with the pending pay award being the main contributor. Fluctuations in income from fees and charges are also noted, with income from treasury management activities being favourable. Cashflow needs will be re-assessed in Quarter 3 and it is likely that additional investment income can be reported in the second half of the year.</p>
2.17	<p>The Housing Revenue Account (HRA) is forecasting a net cost position of £0.515m higher than budgeted. This is due to inflationary pressures, pay award and digital transformation costs. The HRA does also benefit from a share of the investment income to the Council.</p>

2.18	The capital programme is currently being revised as part of the budget process and will be a key update for the MTFS and Quarter 3 to capture revenue implications of changes to the programme.
2.19	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 £36.37m. This does not yet include any revisions to capital reserves or use of reserves to fund budget gaps in the current or over the MTFS period. The General Fund balance remains at £6m, with no planned use over the current MTFS.
2.20	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.

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	Earmarked reserves intended to balance year-to-year fluctuations such as the In-Year Savings Reserve and the Business Rates Equalisation Reserve will be utilised if necessary to mitigate any further financial risks arising in the second half of 2023/24 and to ensure that the outturn position is balanced. The use of reserves will be taken into consideration as necessary to achieve a balance budget position for 2024/25 whilst ensuring a financially sustainable and robust level of reserves is maintained. 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 ongoing pressures in the budget.

4 Reason/s for recommendation

4.1	As set out in the Council's Finance Procedure Rules, the Chief Finance Officer is responsible for preparing and submitting reports on revenue budget forecasts to Cabinet.
4.2	To approve an updated draft MTFS, taking account of new and revised risks in order that the Council will be able to set a balanced budget that delivers its priorities for the period under review 2024/25 to 2027/28.

Appendices

Appendices:

Appendix A	Medium Term Financial Strategy (November 2023 update)
-------------------	---

Appendix B	Quarter 2 Budget Monitoring Report
-------------------	------------------------------------

Background reference papers:

None.
