



## CABINET

Tuesday, 01 November 2022

<b>Subject</b>	Draft Medium Term Financial Strategy
<b>Report by</b>	Councillor Maurice Cook Cabinet Member with responsibility for Resources
<b>Supporting Officer</b>	Brian Mew Chief Finance Officer & S151 Officer <a href="mailto:brian.mew@eastsuffolk.gov.uk">brian.mew@eastsuffolk.gov.uk</a>

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is <b>NOT</b> in the public interest to disclose the exempt information.	Not applicable
<b>Wards Affected:</b>	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 2022/23 (revision of the current year budget) to 2026/27.

### **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 to the report be approved.
2. That it be approved that Members and officers develop proposals to set a balanced budget for 2023/24 and beyond.

## 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 2023/24 which will be considered by Full Council at its meeting on 22 February 2023.

### **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
- 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 2022. This assessment will be complete on the finalisation of the budget for approval in February 2023 and the results taken into consideration.

**Financial:**

The MTFS was last updated in February 2022. A summary analysis of the updates as of November 2022 is shown in the following table. This table is supported by **Appendix A2**.

MTFS Updates	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Additional Cost	3,383	3,613	3,788	3,429	3,949
Additional Income	(764)	(6,086)	(5,068)	(73)	(594)
Reduced Income	1,400	1,400	1,300	1,300	1,300
Saving	(970)	(2,132)	(2,112)	(2,118)	(2,067)
Use of Reserves	(355)	(345)	(245)	0	0
<b>Net Total</b>	<b>2,694</b>	<b>(3,550)</b>	<b>(2,337)</b>	<b>2,538</b>	<b>2,588</b>

As result of the above updates, the latest MTFS position shows a budget gap remaining for 2023/24 and beyond.

MTFS Position	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
MTFS February 2021 Budget Gap/(Surplus)	0	4,908	5,805	5,457	5,417
Net Total of MTFS Updates	2,694	(3,550)	(2,337)	2,538	2,588
<b>MTFS November 2022 Update Budget Gap/(Surplus)</b>	<b>2,694</b>	<b>1,358</b>	<b>3,468</b>	<b>7,995</b>	<b>8,005</b>

The budget gap for next financial year has reduced significantly from £4.9m to £1.36m, predominately due to the assumed deferral of Business Rates system changes until 2025/26 at the earliest. East Suffolk is in an advantageous position under the current system and deferral of the reform by another year should enable the Council to benefit by £3m in 2023/24 and 2024/25. However, the current economic situation is extremely volatile and the local government finance position is very uncertain at this stage.

**Human Resources:**

There are no HR implications directly arising from this report.

**ICT:**

There are no ICT implications directly arising from this report.

**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 Chief Finance Officer (Section 151).

**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**.

<b>External Consultees:</b>	Budget-related consultation questions now form a standing part of the permanent residents survey which is live via the ESC website, and via other channels. This will be promoted again in the Autumn edition of the residents magazine, and there will also be increased promotion to businesses. A summary of responses as at early December will be reported to Cabinet as part of its consideration of the draft budget in January 2023.
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## Strategic Plan Priorities

Select the priorities of the <a href="#">Strategic Plan</a> which are supported by this proposal: (Select only one primary and as many secondary as appropriate)		Primary priority	Secondary priorities
<b>T01</b>	<b>Growing our Economy</b>		
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"/>
<b>T02</b>	<b>Enabling our Communities</b>		
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"/>
<b>T03</b>	<b>Maintaining Financial Sustainability</b>		
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"/>
<b>T04</b>	<b>Delivering Digital Transformation</b>		
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"/>
<b>T05</b>	<b>Caring for our Environment</b>		
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	<b>Governance</b>		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>How does this proposal support the priorities selected?</b>  By ensuring the robustness of the Medium-Term Financial Strategy and adequate reserves and balances the Council. The MTFS underpins and supports the delivery of the East Suffolk Strategic Plan.			

## 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"> <li>• November/December – as a framework for initial detailed budget discussions for the forthcoming financial year.</li> <li>• January – an update to include additional information received at a national level and corporate issues identified through service planning and the detailed budget build.</li> <li>• February – with the final Budget for the new financial year.</li> </ul>
1.3	<p>The key underlying principles of the MTFS are:</p> <ul style="list-style-type: none"> <li>• securing a balanced budget with reduced reliance on the use of reserves and general balances to support its everyday spending;</li> <li>• setting modest increases in Council Tax when appropriate; and</li> <li>• delivering service efficiencies and generating additional income where there are opportunities to do so.</li> </ul>
1.4	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.

2 Current position	
2.1	<p><b>Economic Outlook:</b></p> <p>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 must be negotiated and managed. Specific contractual inflation has been incorporated into the Council's financial position, where appropriate, based on the actual contractual indices.</p>

	<p>Following the pandemic, the UK economy is being impacted by a series of other events, including rising energy costs, the Russian invasion of Ukraine, a labour shortage, and UK fiscal policy and financial market turbulence. The OBR economic and fiscal outlook and forecast to be published on 31 October will provide an independent judgement about the economic and fiscal prospects and impact of the Government's policies.</p> <p>The next publication of the Monetary Policy Committee (MPC) projections is on 3 November 2022. The outlook for the economy continues to be affected by the evolving situation of the pandemic. It will also depend on how governments, households, businesses and financial markets response to those developments.</p>
2.2	The UK unemployment rate fell to 3.5% in the three months to August 2022 compared to 3.8% in the previous three months. This latest figure is also 0.5 percentage points below pre-pandemic levels and the lowest level since February 1974.
2.3	Twelve-month CPI inflation rose from 9.9% in August to 10.1% in September, mainly driven by rising food prices. The Bank of England projects for CPI inflation to peak at 11% in October and to remain above 10% for the following few months. It expects inflation to fall to the official target of 2% in around two years.
2.4	At its 21 September 2022 meeting, five members of the MPC voted to increase the bank rate by 0.5% to 2.25%. Three members preferred an increase of 0.75% to 2.5% and one member preferred an increase of 0.25% to 2%. The Committee voted to increase the bank rate to 2.25% after taking into consideration the CPI inflation rate and the labour market. This is the highest level in 14 years.
2.5	<p><b>Local Government Finance:</b></p> <p>Following the Chancellor's Mini Budget/Growth Plan 2022 in September and the Medium-Term Financial Plan measures brought forward on 17 October, it is unlikely that there will be additional funding for local government for 2023/24 and 2024/25. This includes funding for inflationary pressures, with the possible exception being social care. The worse-case scenario would be for cuts to be made to the Spending Review 2021 funding allocations.</p>
2.6	The publication of the Chancellor's full Medium-Term Fiscal Plan at the end of October should provide some further indications of any change to funding allocations for local government and how a two-year settlement may be presented. The Provisional Local Government Finance Settlement is anticipated in early / December. Local government funding reforms are now not expected until 2025/26 at the earliest.
2.7	<p><b>Business Rates:</b></p> <p>Together with deferral of funding reforms, there is also unlikely to be a Business Rates baseline reset before 2025/26 at the earliest. A delay to the reform of the Business Rates system is of financial benefit to the Council, with each year of remaining under the current regime resulting in estimated income of £3m plus Pooling Benefit.</p>
2.8	<p><b>Council Tax:</b></p> <p>For Shire District Councils in two-tier areas, the referendum limit for 2022/23 was the higher of 2% or £5 and this is expected to remain for 2023/24. Details of referendum limits for next year are expected to be confirmed as part of the Provisional Settlement.</p>
2.9	The increase in the tax base for East Suffolk is currently estimated to be 1,186.55 (1.33%) Band D equivalent properties, increasing the overall tax base for East Suffolk from 89,023.43 to 90,209.98 for 2023/24. This equates to around £0.209m of additional Council Tax income to the Council based on the current District Band D Council Tax of £176.22.
2.10	<p><b>MTFS Forecasts 2022/23 to 2026/27:</b></p> <p>As of November 2022, key areas of the budget that are yet to be finalised include;</p>

	<ul style="list-style-type: none"><li>• Establishment (staffing) costs</li><li>• Utility costs</li><li>• Partnerships</li><li>• Revenue implications of the capital programme</li><li>• Business rates income</li><li>• Council Tax income</li><li>• Fees and Charges income</li><li>• Announcement of the Local Government Settlement for 2023/24</li><li>• Use of reserves.</li></ul>																								
2.11	<p>As at November the current budget gaps are set out below:</p> <table><tr><th>MTFS Position</th><th>2022/23 £'000</th><th>2023/24 £'000</th><th>2024/25 £'000</th><th>2025/26 £'000</th><th>2026/27 £'000</th></tr><tr><td>MTFS February 2021 Budget Gap/(Surplus)</td><td>0</td><td>4,908</td><td>5,805</td><td>5,457</td><td>5,417</td></tr><tr><td>Net Total of MTFS Updates</td><td>2,694</td><td>(3,550)</td><td>(2,337)</td><td>2,538</td><td>2,588</td></tr><tr><td><b>MTFS November 2022 Update Budget Gap/(Surplus)</b></td><td><b>2,694</b></td><td><b>1,358</b></td><td><b>3,468</b></td><td><b>7,995</b></td><td><b>8,005</b></td></tr></table>	MTFS Position	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	MTFS February 2021 Budget Gap/(Surplus)	0	4,908	5,805	5,457	5,417	Net Total of MTFS Updates	2,694	(3,550)	(2,337)	2,538	2,588	<b>MTFS November 2022 Update Budget Gap/(Surplus)</b>	<b>2,694</b>	<b>1,358</b>	<b>3,468</b>	<b>7,995</b>	<b>8,005</b>
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2.12	Section 5.2 of <b>Appendix A1</b> highlights areas that may have significant financial impact but cannot yet be quantified or quantified with a degree of certainty. This includes national pay awards, workforce pay pressure/grade inflation and partnerships.																								
2.13	The total balance of General Fund Earmarked Reserves was £57.6m (excluding Port Health) as of 1 April 2022, and the current projected balance at the end of the MTFS period is £46m. This does not yet included any revisions to capital reserves or use of reserves to fund updated budget gaps presented in this report. The General Fund balance remains at £6m, with no planned use over the MTFS period.																								
2.14	The Covid reserve will be used further in 2022/23 to deal with accounting timing differences related to the pandemic impact on business rates, and to fund post pandemic grant work and recovery initiatives. There is currently in the region of £1m of the Covid support grant being held in the reserve. The balance of this funding will be monitored and transferred to an appropriate reserve at the end of the year if no longer required for post pandemic recovery work.																								

### 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 2023 meeting.
3.2	As mentioned in 2.11 a budget gap currently remains for 2023/24 and there are areas still to be finalised which will impact on the final position.
3.3	The Finance team continue to work with Officers and Members throughout the budget setting process which will lead to continual updating of the MTFS for the Council until a balance budget is achieved.
3.4	The use of reserves will be taken into consideration as necessary to achieve a balance budget position for 2023/24 whilst ensuring a financially sustainable and robust level of reserves is maintained.

4 Reason/s for recommendation	
4.1	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 2022/23 (revision of the current year budget) to 2026/27.

## Appendices

Appendices:	
<b>Appendix A</b>	Medium Term Financial Strategy (November 2022 update)
<b>Appendix A1</b>	MTFS Key Principles and Risk Analysis
<b>Appendix A2</b>	MTFS Changes November 2022
<b>Appendix A3</b>	MTFS Changes by Strategic Theme/Other Factors
<b>Appendix A4</b>	Caring for Our Environment Budgets

Background reference papers:
None