



## CABINET

Tuesday, 07 December 2021

<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@eastsoffolk.gov.uk">brian.mew@eastsoffolk.gov.uk</a> 01394 444571

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 2021/22 (revision of the current year budget) to 2025/26.

### **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**.
2. Approve that members and officers develop proposals to set a balanced budget for 2022/23 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 2022/23 which will be considered by Full Council at its meeting on 23 February 2022.

### **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 directly 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 2021. This assessment will be complete on the finalisation of the budget for approval in February 2022 and the results taken into consideration.

**Financial:**

The MTFS was last updated in February 2021. A summary analysis of the updates as of November 2021 is shown in the following table. This table is supported by **Appendix A2**.

MTFS Updates	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Additional Cost	814	1,838	1,169	881	1,584
Additional Income	(659)	(6,065)	(401)	(291)	(1,060)
Reduced Income	262	2,582	283	283	283
Saving	(542)	(62)	(62)	(62)	(62)
Use of Reserves	(213)	(2,721)	(293)	0	0
<b>Net Total - November 2021</b>	<b>(338)</b>	<b>(4,428)</b>	<b>696</b>	<b>811</b>	<b>745</b>

As result of the above updates, the latest MTFS position shows a budget gap remaining for 2022/23 and beyond.

MTFS Position	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
February 2021 Budget Gap/(Surplus)	0	5,442	5,705	5,418	5,418
Net Total of MTFS Updates	(338)	(4,428)	696	811	745
<b>November 2021 Budget Gap/(Surplus)</b>	<b>(338)</b>	<b>1,014</b>	<b>6,401</b>	<b>6,229</b>	<b>6,163</b>

The budget gap for next financial year has reduced significantly from £5.4m to £1.0m, predominately due to the assumed deferral of Business Rates system changes for at least one more year. East Suffolk is in an advantageous position under the current system and deferral of the reform by another year will enable the Council to benefit by £3m in 2022/23. However, future years show a worsening position on the budget gap, based on a central assumption of a reset of the Business Rates system from 2023/24 onwards.

**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**.

**External Consultees:**

A budget consultation has been included in the East Suffolk Council survey published in the October 2021 edition of the East Suffolk magazine and on the Council's website, and has also been sent by e-mail to town and parish councils and representatives of the business community. The results from the survey will be analysed after the closing date at the end of November.

The draft MTFS will be presented to the Scrutiny Committee at its meeting on 16 December 2021.

## Strategic Plan Priorities

Select the priorities of the <a href="#">Strategic Plan</a> which are supported by this proposal: <i>(Select only one primary and as many secondary as appropriate)</i>		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"/>
<b>XXX</b>	<b>Governance</b>		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p><b>How does this proposal support the priorities selected?</b></p> <p>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.</p>			

## Background and Justification for Recommendation

<b>1 Background facts</b>	
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	<b>Economic Outlook:</b> 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.
2.2	The labour market recovery has continued, and the latest indicators suggest that the end of the furlough scheme may only lead to a slight increase in unemployment. The unemployment rate is expected to be 4.5% by the end of the calendar, a slight increase on September of 4.4%.
2.3	CPI is then expected to rise to 4.5% in November and remain at around that level through the winter, accounted for by further increases in core goods and food price inflation. CPI is forecast to peak at around 5% in April 2022. The rising cost of utilities has also largely contributed to the inflationary pressure. Once global demand and supply chains settle and rebalance, CPI is expected to fall in the second half of 2022.
2.4	At its 4 November 2021 meeting, the Monetary Policy Committee (MPC) unanimously voted to maintain the bank rate at 0.1%., although a rate rise in December is not ruled out.
2.5	<b>Local Government Finance:</b> On 27 October 2021 the Chancellor delivered the Autumn Budget and Spending Review 2021 speech. The budget did not draw a line under Covid, but the Budget plans were focused on building a post-pandemic economy: stronger growth, public finances and employment.
2.6	The Spending Review 2021 which will cover the next three years (2022/23 to 2024/25) was broadly positive for local government, with funding much better than expected. Local government will receive an additional £4.8bn in grant funding over the next three years (£1.6bn in each year). The increase is very much front loaded with growth in grant funding in 2022/23 and no further general increases in the following two years.
2.7	Grants such as the Revenue Support Grant (RSG) and the Rural Services Delivery Grant (RSDG) are expected to continue for another year which would be in the region of £590k of income not previously assumed in the MTFS for the Council.
2.8	New Homes Bonus (NHB) funding remains an area of certainty for 2022/23, with no announcements to date as to its continuation. For the purpose of the MTFS it is currently assumed that no new allocation will be made for next year.
2.9	Whilst the Spending Review provides an insight as to the expectations for local government financing for next year, the detail will be in the Provisional Local Government Settlement, which is due to be released in the week commencing 6 December 2021.
2.10	<b>Business Rates:</b> There is evidence in the Spending Review that there will not be a Business Rates baseline reset before 2025/26, however, there could be other changes implemented. Again, this

	will be detailed in the Provisional Settlement. A delay to the reform of the Business Rates system is of financial benefit to the Council. Another year of remaining under the current regime results in an additional £3m of income in 2022/23, based on current estimates.																								
2.11	<p><b>Council Tax:</b> For Shire District Councils in two-tier areas, the referendum limit for 2021/22 was the higher of 2% or £5 and this is expected to remain for 2022/23. Details of referendum limits for next year are expected to be confirmed as part of the Provisional Settlement.</p>																								
2.12	The increase in the tax base for East Suffolk is currently estimated to be 1,684.00 (1.93%) Band D equivalent properties, increasing the overall tax base for East Suffolk from 88,7339.43 to 89,023.43 for 2022/23. This equates to around £288k of additional Council Tax income to the Council based on the current District Band D Council Tax of £171.27.																								
2.13	<p><b>MTFS Forecasts 2021/22 to 2025/26:</b> As of November 2021, 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>• Partnerships</li> <li>• Revenue implications of the capital programme</li> <li>• Business rates income</li> <li>• Council Tax income</li> <li>• Announcement of the Local Government Settlement for 2022/23</li> <li>• Use of reserves.</li> <li>•</li> </ul>																								
2.14	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.																								
2.15	<p>The MTFS has been updated as of November 2021 and is shown below;</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #00728f; color: white;"> <th style="text-align: left;">MTFS Position</th> <th style="text-align: center;">2021/22 £'000</th> <th style="text-align: center;">2022/23 £'000</th> <th style="text-align: center;">2023/24 £'000</th> <th style="text-align: center;">2024/25 £'000</th> <th style="text-align: center;">2025/26 £'000</th> </tr> </thead> <tbody> <tr> <td>February 2021 Budget Gap/(Surplus)</td> <td style="text-align: center;">0</td> <td style="text-align: center;">5,442</td> <td style="text-align: center;">5,705</td> <td style="text-align: center;">5,418</td> <td style="text-align: center;">5,418</td> </tr> <tr> <td>Net Total of MTFS Updates</td> <td style="text-align: center;">(338)</td> <td style="text-align: center;">(4,428)</td> <td style="text-align: center;">696</td> <td style="text-align: center;">811</td> <td style="text-align: center;">745</td> </tr> <tr style="background-color: #d9ead3;"> <td><b>November 2021 Budget Gap/(Surplus)</b></td> <td style="text-align: center;"><b>(338)</b></td> <td style="text-align: center;"><b>1,014</b></td> <td style="text-align: center;"><b>6,401</b></td> <td style="text-align: center;"><b>6,229</b></td> <td style="text-align: center;"><b>6,163</b></td> </tr> </tbody> </table> <p>The budget gap for next financial year has reduced significantly from £5.4m to £1.0m, predominately due to the deferral of the Business Rates system for at least one more year. East Suffolk is in an advantageous position under the current system and deferral of the reform by another year will enable the Council to benefit by £3m in 2022/23.</p>	MTFS Position	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	February 2021 Budget Gap/(Surplus)	0	5,442	5,705	5,418	5,418	Net Total of MTFS Updates	(338)	(4,428)	696	811	745	<b>November 2021 Budget Gap/(Surplus)</b>	<b>(338)</b>	<b>1,014</b>	<b>6,401</b>	<b>6,229</b>	<b>6,163</b>
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2.16	The total balance of General Fund Earmarked Reserves was £68m (excluding Port Health) as of 1 April 2021. However, it should be noted that of this balance, £15.7m relates to a Covid Specific Reserve which will be drawn down in the current year for Covid related use.
2.17	The projected balances on reserves will continue to be reviewed and updated throughout the budget process. There is a noticeable decline in reserve balances until 2023/24 and then levelling off for the remainder of the MTFS period, with total Earmarked Reserves standing at approximately £28m.  The General Fund balance remains at £6m, with no planned use over the MTFS period.

### 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 2022 meeting.
3.2	As per paragraph 2.17 above, a budget gap currently remains for 2022/23 as at November 2021. As previously mentioned, 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 2022/23 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 2021/22 (revision of the current year budget) to 2025/26.
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## Appendices

Appendices:	
<b>Appendix A</b>	Medium Term Financial Strategy (November 2021 update)
<b>Appendix A1</b>	MTFS Key Principles and Risk Analysis
<b>Appendix A2</b>	MTFS Changes November 2021
<b>Appendix A3</b>	MTFS Changes by Strategic Theme/Other Factors

**Background reference papers:**

<b>Date</b>	<b>Type</b>	<b>Available From</b>
November 2021	Budget Working papers	Financial Services
04/11/2021	Bank of England Monetary Policy Report November 2021	<a href="#">Monetary Policy Report - November 2021   Bank of England</a>
27/10/2021	Autumn Budget and Spending Review 2021: documents	<a href="https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents">https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents</a>