



## COUNCIL

Wednesday, 26 February 2020

### GENERAL FUND BUDGET AND COUNCIL TAX REPORT 2020/21

#### EXECUTIVE SUMMARY

1. The draft Medium Term Financial Strategy (MTFS) considered by the Cabinet on 3 December 2019 and updated on 4 February 2020 provided a baseline forecast of income and expenditure and looks at the overall financial climate. It provides a framework within which the Council's overall spending plans will be developed.
2. Overall, this period and the long-term Local Government financial picture continues to be characterised by an increased shift towards locally generated resources, with an accompanying transfer of both risk and opportunity. The Government has been working towards significant reform of the Local Government Finance System from 2020/21. However, with the announcement of a one-year only Government Spending Round and Local Government Settlement for 2020/21, these reforms have now been delayed until 2021/22. Consequently, whilst this brought a significant degree of certainty for next year, there is considerable uncertainty for the Council going forward in the MTFS period. This report sets out the assumptions made in identifying resources for the MTFS.
3. The predecessor Councils had signed up to a four-year Local Government Finance Settlements for the period 2016/17 to 2019/20 (with East Suffolk receiving the final year of the settlement), covering the elements of Revenue Support Grant, Transitional Grant, and Rural Services Delivery Grant. To take advantage of this offer each authority needed to submit an Efficiency Plan. Although not required in respect of the one-year 2020/21 Settlement, an updated Efficiency Plan will be produced during the year as the East Suffolk Strategic Plan is finalised.
4. A technical consultation on the 2020/21 Local Government Finance Settlement was issued on 3 October 2019. As well as deferring reforms to the system, the proposal for 2020/21 was essentially to roll forward the 2019/20 Settlement with relevant uplifts for inflation. These proposals were included in the Provisional Local Government Finance Settlement issued on 20 December 2019 and were confirmed in the Final Local Government Finance Settlement issued on 6 February 2020. At the time of writing, the Final Local Government Finance Settlement was yet to be debated and confirmed by Parliament, but is very unlikely to change. The Council will receive Revenue Support Grant and Rural Services Delivery

Grant and will also benefit financially from an additional year under the Business Rates Retention system in its present form. Partly offsetting these elements, the allocations for New Homes Bonus (NHB) for 2020/21 will also be for one year only for 2020/21, rather than for four years. The Government will consult further on incentives to promote housing growth, and indications are that NHB may not continue beyond 2020/21 in its present form. Council Tax referendum principles will remain the same as in previous years. Only business rates pilots in the original “devolution” areas will go ahead in 2020/21, with all other pilots cancelled.

5. The MTFs has been continually revised with updates including those resulting from budget monitoring forecasts; the Final Local Government Finance Settlement for 2020/21; and the emerging replacement for the East Suffolk Business Plan. The updated MTFs in this report highlights the difference between expenditure and sustainable resources. A balanced position for 2020/21 makes use of the business rates income resulting from the deferred local government finance changes. The currently reported budget gaps for 2021/22 to 2023/24 are in a range from around £5.3 million to around £6.7 million.
6. Having regard to the financial risks surrounding the budget planning process the Council aims to maintain 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 in the region of between £4.0 million and £6.0 million. As at 1 April 2019, the opening General Fund balance of East Suffolk stood at £8.0 million. £2.0 million 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.
7. The Council is required to approve a balanced budget for the following financial year and set the Band D rate of Council Tax. This report sets out the context and initial parameters in order to achieve that objective and contribute towards a sustainable position going into the major changes now planned for the medium term.
8. In this report, the Council is asked to:
  - consider the Chief Financial Officer’s report attached at **Appendix C**;
  - approve the Medium Term Financial Strategy for 2019/20 to 2023/24 attached as **Appendix A**, incorporating the General Fund Revenue Budget;
  - approve the movements to and from Earmarked Reserves and the General Fund Balance for 2020/21 to 2023/24 as set out in **Appendix A6** of the MTFs;
  - approve a proposed Band D Council Tax for East Suffolk Council of £171.27 for 2020/21, an increase of £4.95 or 2.98%;
  - approve the Efficiency Strategy attached as **Appendix B**;
  - approve the Pay Policy Statement attached as **Appendix D**;
  - approve the Council Tax Resolutions in **Appendix E**;
  - approve the items to be treated as special items in 2020/21 as set out in **Section 7**;

- note the Business Rates tax base for 2020/21; and
- note the Council Tax base for 2020/21 of 87,888.87 Band D equivalents.

Is the report Open or Exempt?	Open
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<b>Wards Affected:</b>	All wards in East Suffolk
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<b>Cabinet Member:</b>	Councillor Maurice Cook Cabinet Member with responsibility for Resources
<b>Supporting Officer:</b>	Simon Taylor Chief Finance Officer and Section 151 Officer 01394 444570 <a href="mailto:simon.taylor@eastsoffolk.gov.uk">simon.taylor@eastsoffolk.gov.uk</a>  Lorraine Rogers Finance Manager and Deputy Section 151 Officer 01502 523667 <a href="mailto:lorraine.rogers@eastsoffolk.gov.uk">lorraine.rogers@eastsoffolk.gov.uk</a>  Brian Mew Finance Consultant 01394 444571 <a href="mailto:Brian.Mew@eastsoffolk.gov.uk">Brian.Mew@eastsoffolk.gov.uk</a>

## 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. To ensure Members have a sound basis for planning and decision making, the MTFS is reviewed and updated at key points in the year these are:

- 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.
- 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 can deliver the aspirations of the Council as set out in the Strategic Plan, over the medium term.

## 2 MEDIUM TERM FINANCIAL STRATEGY

2.1 The MTFS for this period is attached as Appendix A. This incorporates the Draft General Fund Budget and Council Tax proposals for 2020/21, reflecting the detailed budget process. In the MTFS, the key uncertainties over this period relate to the proposed reforms to the Local Government finance system – Business Rates Retention and the Fair Funding Review – that have now been deferred until 2021/22.

2.2 The MTFS includes a number of Appendices that form part of the Council's Budget, including the Council Tax base, budget summary by Head of Service and a summary of Reserves and Balances.

2.3 Business Rates income for 2020/21 is based on the NNDR1 return submitted in January 2020. As outlined in the Executive Summary, reforms to the Local Government Finance environment have been deferred until 2021/22, including a resetting of the Business Rates baseline. The Council will benefit significantly for one year as a result of this delay. However, due to the uncertainty these reforms will have on the income to the Council in future years, a prudent approach has been taken with the estimates for Business Rates income. The income figures included for 2021/22 and beyond, are based on the current Business Rates system and only include estimates of baseline income, which is approximately £7 million, plus Section 31 Grant.

2.4 The table below outlines the updated MTFS Forecasts for 2019/20 to 2023/24. These indicate a balanced position for 2020/21 but underlying budget gaps from 2021/22 onwards. However, there is a high degree of uncertainty over this period.

<b>MTFS Forecast - East Suffolk</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2022/24 £'000</b>
February 2019	0	3,841	3,849	3,872	3,872
November 2019	0	0	3,212	2,981	2,547
February 2020	0	0	5,350	6,163	6,676

- 2.5 The significant increase in the budget gap shown above in the table is the result of the initial proposed budget increases received from the Norse partnership in respect of the services that they provide to the Council. Overall, these proposals indicate levels of expenditure over the MTFs period considerably above original budget levels, arising from a number of factors such as the National Living Wage. The initially proposed budgets have been incorporated into the MTFs of this report, with an increase to the budget of around £1.1 million in 2020/21 and rising to around £2.1 million in 2023/24. Obviously increases of this magnitude potentially have a very significant impact on the Council's financial position and at this point have not been agreed, but need to be included to ensure a balanced budget is set, and this would be the worst case scenario. These proposals need to be challenged and reviewed in detail, and are the subject of ongoing challenge, discussion, and negotiation with the Norse partnership, including Director level meetings. The result of these discussions will be reported to Cabinet during the 2020/21 financial year for them to make decisions and the budget will be revised as necessary and reported back to the Scrutiny Committee and Full Council as appropriate.
- 2.6 The proposed Capital Programme for 2019/20 to 2023/24 was considered by the Cabinet on 7 January 2020 and Council on 22 January 2020.
- 2.7 Attached as **Appendix B** is the Council's draft Efficiency Strategy for 2020/21. The Efficiency Strategy is produced annually for the period 2016/17 to 2021/22, and is approved by Full Council as part of approval of the Council's Budget. The Efficiency Strategy is produced to enable the Council to potentially take advantage of the flexibility to local authorities to use capital receipts to fund the revenue set up and implementation costs of projects designed to generate ongoing revenue savings. To date there has been no use of capital receipts to fund one-off revenue costs, and no use of this flexibility is currently proposed in respect of projects in 2020/21. The Efficiency Strategy will be revised during the course of 2020/21 to reflect the new Strategic Plan for East Suffolk.

### **3 LOCAL COUNCIL TAX REDUCTION SCHEME (LCTRS) AND COUNCIL TAX DISCOUNTS AND PREMIUMS**

- 3.1 The consideration of an annual review and potential proposed changes to the LCTRS scheme is a statutory requirement under the Local Government Finance Act 2012 which brought in the provisions for localisation of Council Tax support in April 2013. Full Council on 22 January 2020 approved that the Council retains the current Local Council Tax Reduction Scheme for 2020/21 as the 8.5% benefit scheme, i.e. the maximum benefit to working age claimants is 91.5%. Full Council also approved the introduction of a tolerance to the treatment of Universal Credit income in the Local Council Tax Reduction Scheme.
- 3.2 In addition to LCTRS, the Council has the discretion to set its own policy on Council Tax Discounts and Premiums. It is a statutory requirement for the Council to set and review annually its Discretionary Council Tax Discounts. Cabinet on 7 January 2020 approved that no further changes are made to Council Tax Discounts and Premiums to be applied from 1 April 2020, which were approved by the Shadow Council at its meeting on 3<sup>rd</sup> December 2018 (REP 9(SH)).
- 3.3 At its meeting on 28 February 2019, the East Suffolk Shadow Council approved Council Tax Long Term Empty Property Premiums as follows:
- 100% premium on Long Term Empty properties, empty for more than two years, raising the Council Tax to 200% from 1 April 2019.
  - 200% premium on Long Term Empty properties, empty for longer than five years, raising the Council Tax to 300% from 1 April 2020.

- 300% premium on Long Term Empty properties, empty for longer than 10 years, raising the Council Tax to 400% from 1 April 2021.

#### **4 BUSINESS RATE DISCRETIONARY RELIEFS**

- 4.1 The Government have announced, in a written ministerial statement, additional business rates measures that will apply from 1 April 2020.
- 4.2 These measures will increase the current retail discount and extend that discount to cinemas and music venues; extend the duration of the local newspapers office space discount; and introduce an additional discount for public houses as follows:
- a) currently retail premises receive a discount of one-third. In 2020/21 this will be increased to 50% for eligible retail premises that occupy a property with a rateable value of less than £51,000. Eligible retail premises have been extended to include cinemas and music venues;
  - b) offices occupied by Local Newspapers will receive a discount of £1,500 for 5 years from 1 April 2020 until 31 March 2025; and
  - c) Public Houses with a rateable value less than £100,000 will receive a £1,000 discount in 2020/21. This will be in addition to the retail discount detailed above and will apply after the retail discount.
- 4.3 The Government have issued guidelines on the operation of these reliefs and State Aid rules will apply in the usual way.
- 4.4 Local Authorities are expected to use their discretionary relief powers (section 47 of the Local Government Act 1988, as amended) to grant these reliefs in line with the relevant eligibility criteria set out in the guidelines. However, the full cost of granting this relief will be compensated through a Section 31 Grant from Government.
- 4.5 In the recommendations, the Council is requested to use discretionary relief powers to grant these reliefs.

#### **5 RISK ASSESSMENT AND REPORT OF THE CHIEF FINANCIAL OFFICER**

- 5.1 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.
- 5.2 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. This report is attached as **Appendix C**.
- 5.3 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 Medium Term Financial Strategy and the contributions to and use of earmarked reserves will assist the Council to deliver its required changes in this period of uncertainty.

## **6 PAY POLICY STATEMENT**

- 6.1 Section 38 (1) of the Localism Act 2011 requires local authorities to produce a Pay Policy for each financial year. There is a requirement for the Council to compare the policies on remunerating Chief Officers and other employees, and to set out the policy on the lowest paid employees.
- 6.2 The interpretation of the meaning of “Chief Officer(s)” as used above in the context of the Pay Policy Statement includes the Chief Executive, the Strategic Directors, the Heads of Service, and the Chief Finance Officer. The Pay Policy Statement for 2020/21 is attached in **Appendix D**.
- 6.3 The Council is also required by law to report annually in April, on their gender pay gap and publish this information. This must include mean and median gender pay gaps; the mean and median gender bonus gaps; the proportion of men and women who received bonuses; and the proportions of male and female employees in each pay quartile.

## **7 SPECIAL ITEMS**

- 7.1 Section 35 of the Local Government Finance Act 1992 provides for certain items of expenditure to be treated as ‘special items’ chargeable to part only of the District when setting the Council Tax. The items referred to are:
- (a) any precepts issued or anticipated by the Council in calculating its budget requirement believed to be applicable to part of the area; i.e. precepts of town and parish councils;
  - (b) any expenses of the Authority which are its special expenses and which were included in the budget requirement.
- 7.2 The item to be treated as special items in 2020/21 under s35 (2) of the Act is the precepts by Town/Parish Councils and parish meetings.

## **8 PROPOSALS FOR COUNCIL TAX**

- 8.1 In the Key Principles of the MTFs, the Council Tax strategic objective is to “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”.
- 8.2 In considering the budget for 2020/21, the Cabinet proposed that the Council increases its Band D Council Tax by £4.95 or 2.98% from £166.32 to £171.27.
- 8.3 The Council’s Council Tax is only a small proportion of the total Council Tax required to fund all local authority and police services in the East Suffolk area. The following table shows the approved tax to be levied in 2020/21. The Band D tax for Suffolk County Council has been increased by 3.98% and includes 2.00% increase for the Social Care Precept as permitted by Government. The Police and Crime Commissioner for Suffolk has recommended an increase of 4.70%. The Council Tax Resolutions are set out in **Appendix E**.

	<b>2019/20</b> <b>£</b>	<b>2020/21</b> <b>£</b>	<b>Increase</b> <b>%</b>
East Suffolk Council	166.32	171.27	2.98
Suffolk County Council	1,292.13	1,343.61	3.98
Police and Crime Commissioner for Suffolk	212.76	222.75	4.70
<b>Sub-Total</b>	<b>1,671.21</b>	<b>1,737.63</b>	<b>3.97</b>
Town & Parish Councils (average)	69.92	72.60	3.83
<b>Total</b>	<b>1,741.13</b>	<b>1,810.23</b>	<b>3.97</b>

## **9 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?**

- 9.1 The MTFS sits beneath the East Suffolk Business Plan in the Council's hierarchy of plans and strategies and is effectively the mechanism by which the key Business Plan objective of Financial Self-Sufficiency will be delivered over the medium term.

## **10 FINANCIAL AND GOVERNANCE IMPLICATIONS**

- 10.1 All Financial and Governance implications are contained within the MTFS documents.

## **11 OTHER KEY ISSUES**

- 11.1 This report has been prepared having taken into account the results of an Equality Impact Assessment. The annual budget collates the financial implications of the Council's individual policies, projects, and initiatives and Equality Impact Assessments are produced for these specific actions. The proposed Council Tax increase for 2020/21 is a new policy measure and through the Equality Impact Assessment it has identified this as having a likely impact on some groups in the community. However, it is considered that the Local Council Tax Support scheme provides mitigation against the increase for those most in need in the community. Consultation on the budget is detailed in paragraph 12.1 below.

## **12 CONSULTATION**

- 12.1 The Council has consulted on its strategy and detailed financial plans for the coming year with staff, residents, partners, and business through a variety of methods. Business Plan and Budget briefings were held with stakeholders including Town and Parish Councils in Lowestoft and Melton on 13 and 14 January respectively. Scrutiny Committee considered the Draft General Fund Budget and Council Tax report at its meeting on 23 January 2020.

## **13 OTHER OPTIONS CONSIDERED**

- 13.1 The MTFS is an essential element in achieving a balanced budget and a sustainable medium term position, whilst setting a balanced budget for the coming year is a statutory requirement. Consequently, no other options are appropriate in respect of this.

## **14 REASON FOR RECOMMENDATION**

- 14.1 To bring together all the relevant information to enable Members to review, consider and comment upon the Council's General Fund revenue budget.
- 14.2 The Council is required to set a balanced budget for the following financial year and to agree the Council Tax for 2020/21.

14.3 There is a statutory requirement under the Local Government Finance Act 2012 to annually consider the Local Council Tax Reduction Scheme.

14.4 To seek wider Member consideration of the forward budgets beyond 2020/21, and Council Tax proposals in this report to balance the budget for 2020/21 and future years.

## RECOMMENDATIONS

That Council is recommended to:

1. Consider the Chief Financial Officer's report attached at **Appendix C**;
2. Approve the Medium Term Financial Strategy for 2019/20 to 2023/24, including the General Fund Revenue Budget for revised 2019/20; proposed 2020/21; and forecast budgets for 2021/22 to 2023/24 as set out in **Appendix A**;
3. Approve the movements to and from Earmarked Reserves and the General Fund Balance for 2020/21 to 2023/24 as set out in **Appendix A6**;
4. Approve the items to be treated as special items in 2020/21 as set out in **Section 6** – the precepts by town/parish councils and parish meetings;
5. Approve a Band D Council Tax for 2020/21 of £171.27, representing an increase of £4.95 or 2.98% on 2019/20;
6. Approve the Efficiency Strategy attached as **Appendix B**;
7. Approve the Pay Policy Statement set out in **Appendix D**;
8. Approve the Council Tax Resolutions in **Appendix E**;
9. Grant the discretionary business rate reliefs referred to in paragraph 4.2 under Section 47 of the Local Government Act 1988;
10. Note the Business Rates base (total net Business Rates income) of the district for 2020/21 of £96.159 million; and
11. Note the Council Tax Base of 87,888.87 for 2020/21.

## APPENDICES

<b>Appendix A</b>	Medium Term Financial Strategy
<b>Appendix A1</b>	MTFS Key Principles and Risk Analysis
<b>Appendix A2</b>	East Suffolk Council Tax Base 2020/21
<b>Appendix A3</b>	NHB Reserve 2019/20 to 2023/24
<b>Appendix A4</b>	MTFS Key Movements
<b>Appendix A5</b>	General Fund Revenue Budget Summary 2019/20 to 2023/24
<b>Appendix A6</b>	General Fund Reserves Summary 2019/20 to 2023/24
<b>Appendix B</b>	Efficiency Strategy

<b>Appendix C</b>	Report by the Chief Finance Officer
<b>Appendix D</b>	Pay Policy Statement 2020/21
<b>Appendix E</b>	Council Tax Resolutions 2020/21

#### **BACKGROUND PAPERS**

Please note that copies of background papers have not been published on the Council's website [www.eastsuffolk.gov.uk](http://www.eastsuffolk.gov.uk) but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

<b>Date</b>	<b>Type</b>	<b>Available From</b>
October 2019	2020/21 Local Government Finance Settlement Technical Consultation	Financial Services
November 2019	Equality Impact Assessment	Financial Services
December 2019	Provisional Local Government Finance Settlement 2020/21	Financial Services
February 2020	Final Local Government Finance Settlement 2020/21	Financial Services