



SCRUTINY COMMITTEE

Thursday, 20 January 2022

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| Subject | GENERAL FUND BUDGET AND COUNCIL TAX REPORT 2022-23 |
| Report by | Councillor Maurice Cook Cabinet Member with responsibility for Resources |
| Supporting Officer | Brian Mew Chief Finance Officer & S151 Officer brian.mew@eastsoffolk.gov.uk 01394 444571 |

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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. | N/A |
| Wards Affected: | All Wards |

Purpose and high-level overview

Purpose of Report:

At the end of the 2022/23 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. This report sets out the context and initial parameters in order to achieve that objective and contribute towards a sustainable position.

This report provides the Scrutiny Committee with an opportunity to review and make recommendations upon Cabinet recommendations for the proposed Budget and the Band D Council Tax for 2022/23. The recommendations will be considered by Cabinet at its meeting on 1 February 2022.

Options:

Setting a balanced budget for the coming year is a statutory requirement. Consequently, no other options are appropriate.

Recommendations:

That the Scrutiny Committee reviews and makes recommendations to Cabinet on the following Cabinet recommendations;

1. Approves the 2022/23 General Fund Revenue Budget as set out in this report and summarised in **Appendix A6** and notes the budget forecast for 2023/24 and beyond;
2. Approves the Reserves and Balances movements as presented in **Appendix A7**; and
3. Approves a proposed Band D Council Tax for East Suffolk Council of £176.22 for 2022/23, an increase of £4.95 or 2.89%.

Corporate Impact Assessment

Governance:

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. The 2022/23 budget 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:

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 January 2022 is shown in the following table. This table is supported by **Appendix A4**.

| MTFS Updates | 2021/22 £'000 | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| Additional Cost | 1,133 | 2,700 | 2,534 | 2,975 | 3,638 |
| Additional Income | (6,693) | (7,563) | (2,116) | (1,886) | (2,670) |
| Reduced Income | 140 | 2,582 | 283 | 283 | 283 |
| Saving | (1,309) | (1,151) | (1,110) | (890) | (1,154) |
| Use of Reserves | 6,729 | (2,010) | (293) | 0 | 0 |
| Net Total - January 2022 | 0 | (5,442) | (702) | 482 | 97 |

As result of the above updates, the latest MTFS position shows a balanced position for the current year and 2022/23 , with a budget gap of £5m to £5.9m from 2023/24 and beyond – supported by **Appendix A6**.

| MTFS Position | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---------|---------|---------|---------|---------|
| MTFS February 2021 Budget Gap/(Surplus) | 0 | 5,442 | 5,704 | 5,418 | 5,417 |
| MTFS November 2021 Budget Gap/(Surplus) | (338) | 1,014 | 6,401 | 6,229 | 6,163 |
| MTFS January 2022 Budget Gap/(Surplus) | 0 | 0 | 5,002 | 5,900 | 5,514 |

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**.

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| 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. The results from the Survey are provided in Appendix B and includes responses from residents and businesses. |
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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? | | | |

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 | |
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| 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 | 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: <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 | The key underlying principles of the MTFS are: <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 | 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 | Economic Outlook 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 | As per the Labour Force Survey (LFS), the unemployment rate fell to 4.2% in the three months to October 2021 and a high degree of uncertainty remains about the near-term outlook for the labour market. The LFS unemployment rate is now expected to fall to around 4% in 2021 Quarter 4, compared to the MPC forecast of 4.5% in November 2021. |
| 2.3 | Twelve-month CPI inflation rose from 4.2% in October to 5.1% in November, the highest rate for 10 years. CPI is expected to remain around that level through the winter, accounted for by further increases in fuel, energy, core goods, and food price inflation. CPI is forecast to peak at around 7% in April 2022. This is one percent higher than expected in the MPC’s November 2021 report. The upward pressure on CPI is expected to ease, as supply disruptions start to settle, and global demand rebalances. Despite the |

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| | higher than previously forecast CPI for Spring 2022, the projection remains for CPI inflation to fall back in the second half of 2022, with CPI to be slightly above 2% in two years' time and just below by 2024. |
| 2.4 | At its 15 December 2021 meeting, the Bank of England Monetary Policy Committee voted 8-1 to increase the bank rate by 0.15 percentage points to 0.25% amid concerns over inflation. This is the first rise in three years. |
| 2.5 | Local Government Finance 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 | Distribution of the additional funding was announced in the Provisional Local Government Finance which was announced on 16 December 2021. 2022/23 is a one-year settlement with no significant reset of the system or changes to funding formulae, maintaining ESC and the Suffolk pool's advantageous position on business rates for at least another year, with changes now possible in 2023/24. |
| 2.8 | Key points from the Settlement are shown below, with more detail provided in Section 4 of Appendix A : <ul style="list-style-type: none"> • Core Spending Power for ESC (basically the assumed total of all income streams including council tax) increased by 6.8%. • Council Tax referendum limit for shire districts remains at 2% or £5, whichever is the greater. • Revenue Support Grant £0.339m (MTFS assumption £0.337m) • Rural Services Delivery Grant £0.260m (MTFS assumption £0.266m) • Lower Tier Services Grant £0.311m (LTSG is largely the product of other funding movements and could not necessarily be guaranteed) • 2022/23 Services Grant £0.477m (new one-off grant not assumed in MTFS) • New Homes Bonus (NHB) £0.525m legacy payment from earlier allocation round, plus £1.124m one-year allocation (only legacy payment assumed in MTFS). |
| 2.9 | Council Tax For Shire District Councils in two-tier areas, the referendum limit for 2021/22 was the higher of 2% or £5 and this referendum limit has been confirmed for 2022/23 in the provisional settlement. |
| 2.10 | 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 £0.288m of additional Council Tax income to the Council based on the current District Band D Council Tax of £171.27. |
| 2.11 | MTFS Position The MTFS has been updated as of January 2022 and is shown below; |

| MTFS Position | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---------|---------|---------|---------|---------|
| MTFS February 2021 Budget Gap/(Surplus) | 0 | 5,442 | 5,704 | 5,418 | 5,417 |
| MTFS November 2021 Budget Gap/(Surplus) | (338) | 1,014 | 6,401 | 6,229 | 6,163 |
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A summary of the General Fund Budget is provided in **Appendix A6**.

2.12 Reserves and Balances

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 year for Covid related use. Earmarked Reserves are categorised into the following groups;

- **Grants/Funding Carried Forward** – this is external funding the Council has received for specific purposes and is drawn down from reserves when spend is incurred.
- **Planned Future Revenue Spending** – Council funding has been set aside for specific service areas and/or projects.
- **Planned Future Capital Spending** – this is revenue funding set aside to provide funding for the Capital Programme.
- **Risk Based** – Council funding has been set aside for unforeseen budget pressures and fluctuations in budget areas of volatility. This will include for example, pension capital costs, Business Rates income and Housing Benefit Subsidy.

2.13 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 £38m.

| Reserves | April 2021 £'000 | MTFS April 2022 £'000 | MTFS April 2023 £'000 | MTFS April 2024 £'000 | MTFS April 2025 £'000 | MTFS April 2026 £'000 |
|---------------------------------------|---------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Unallocated Financial Reserves | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| Earmarked Reserves: | | | | | | |
| Grants/Funding carried Forward | 7,373 | 5,719 | 4,768 | 4,632 | 4,452 | 4,276 |
| Planned Future Capital Spending | 7,419 | 4,356 | 2,659 | 2,331 | 2,703 | 2,945 |
| Planned Future Revenue Spending | 22,206 | 15,190 | 12,829 | 12,079 | 11,987 | 11,912 |
| Risk Based | 14,653 | 17,138 | 16,624 | 16,157 | 16,122 | 16,087 |
| COVID Reserve | 15,732 | 6,906 | 3,515 | 2,727 | 2,727 | 2,727 |
| Other | 667 | 617 | 517 | 417 | 317 | 267 |
| Total Earmarked Reserves | 68,050 | 49,926 | 40,912 | 38,343 | 38,308 | 38,214 |

Appendix A7 provides a summary of all General Fund revenue reserves.

2.14 The General Fund balance remains at £6m, with no planned use over the MTFS period.

3 How to address current situation

3.1 Local Council Tax Reduction Scheme (LCTRS); Council Tax Discounts and Premiums; Council Tax Base and Local Council Tax Support Grants

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

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| | on 26 January will consider some relatively minor proposed revisions to the current Local Council Tax Reduction Scheme for 2022/23, although the core of the scheme continues to be the 8.5% benefit scheme, i.e. the maximum benefit to working age claimants is 91.5%. |
| 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. It is recommended that no changes be made to the Council Tax discounts to be applied from 1 April 2022, which were approved by the Shadow Council at its meeting on 3 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: <ul style="list-style-type: none"> • 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, and • 300% premium on Long Term Empty properties, empty for longer than 10 years, raising the Council Tax to 400% from 1 April 2021. |
| 3.4 | At its meeting on 7 December 2021 Cabinet approved the Council Tax Base for 2022/23 for the East Suffolk district as 89,023.43 Band D equivalent properties, Appendix A2 . |
| 3.5 | Risk Assessment and Report of The Chief Financial Officer 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. |
| 3.6 | 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. |
| 3.7 | 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. |
| 3.8 | The Chief Finance Officer's report will be reported to Full Council when it considers the budget for 2022/23 on 23 February 2022. The report statement will clearly set out the budget assumptions used to arrive at the final recommendations. |
| 3.9 | MTFS Position The forecast budget gap primarily results from the probable changes to the local government finance system in 2023/24, together with notable increases from 2024/25 with pressure arising from establishment costs and capital charges associated with the Capital Programme. The level of this gap is subject to significant uncertainty due to the local government finance reforms, and this position is unlikely to become clearer until during the course of next year. However, it is likely that a combination of actions will be needed ensure a longer term sustainable position including a phased use of reserves, |

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| | maximisation of income, and the achievement of savings. These will need to be worked up over the coming year, as it is increasingly likely that funding reforms will finally be implemented in 2023/24. |
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4 Reason/s for recommendation

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| 4.1 | To bring together all the relevant information to enable Members to review, consider and comment upon the Council's General Fund revenue budgets before making recommendations to Council on 23 February 2022. |
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Appendices

Appendices:

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| Appendix A | Medium Term Financial Strategy (November 2021 update) |
| Appendix A1 | MTFS Key Principles and Risk Analysis |
| Appendix A2 | East Suffolk Council Tax Base 2022/23 |
| Appendix A3 | NHB Reserve Summary 2021/22 to 2025/26 |
| Appendix A4 | MTFS Key Movements |
| Appendix A5 | MTFS Changes by Strategic Theme(ST)/Other Factors |
| Appendix A6 | General Fund Revenue Budget Summary 2021/22 To 2025/26 |
| Appendix A7 | General Fund Reserve Summary 2021/22 to 2025/26 |
| Appendix A8 | Financial Provision to Support the Council's Green Agenda - Caring For Our Environment. |
| Appendix B | Residents Survey Results – Autumn 2021 |

Background reference papers:

| Date | Type | Available From |
|---------------|--|---|
| November 2021 | Budget Working papers | Financial Services |
| 04/11/2021 | Bank of England Monetary Policy Report Nov-21 | Monetary Policy Report - November 2021 Bank of England |
| 27/10/2021 | Autumn Budget and Spending Review 2021 | https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents |
| 16/12/2021 | Provisional local government finance settlement: England, 2022 to 2023 | Provisional local government finance settlement: England, 2022 to 2023 - GOV.UK (www.gov.uk) |