

MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Overview and Scrutiny	REPORT NUMBER: MOS/20/1
FROM: Councillor John Whitehead, Cabinet Member for Finance	DATE OF MEETING: 14 January 2021
OFFICER: Katherine Steel, Assistant Director, Corporate Resources	KEY DECISION REF NO. N/A

DRAFT GENERAL FUND BUDGET 2021/22 AND FOUR-YEAR OUTLOOK

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the draft General Fund Budget for 2021/22 and four-year outlook.
- 1.2 To enable Cabinet Members to consider key aspects of the draft budgets, including Council Tax, and make recommendations to Council for the final Budget report in February 2021.

2. OPTIONS CONSIDERED

- 2.1 Setting a balanced budget is a statutory requirement, therefore no other options are appropriate in respect of this.

3. RECOMMENDATIONS

- 3.1 That the draft General Fund Budget proposals for 2021/22 and four-year outlook set out in the report be endorsed for recommendation to Council on 23 February 2021, subject to further consideration at the next Cabinet meeting on 4 February 2021 following consideration at Overview and Scrutiny Committee on 18 January 2021.
- 3.2 That the draft General Fund Budget for 2021/22 is based on an increase to Council Tax of 1.66% which equates to £2.80 per annum (23p per month) for a Band D property.

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils General Fund budget before the February Cabinet and recommendations to Council.

4. KEY INFORMATION

Strategic Context

- 4.1 The 2021/22 budget has been prepared during one of the most challenging and uncertain times due to the ongoing impacts of Covid19 on the Council's finances, staff, residents, and local economy.
- 4.2 Government spending to combat Covid19 and mitigate its impact on businesses and individuals has led to record levels of public sector borrowing, and there is continuing uncertainty over the core funding that will be available to local authorities over the medium term.
- 4.3 One of the key outcomes of the Corporate Plan is achieving a robust financial strategy, the 2021/22 budget and medium-term financial strategy has been aligned to the Council's 6 Strategic Priorities:
- Environment
 - Economy
 - Housing
 - Wellbeing
 - our Customers and;
 - our Communities
- 4.4 Further details on the Councils medium term financial strategy can be found in section 6 of this report.

Financial Impact of Covid19

- 4.5 The Council has played a significant role in responding to Covid19, in supporting businesses and the most vulnerable in our communities as well as running essential services.
- 4.6 The financial impact of Covid19 has been an evolving picture throughout 2020/21 and this will continue into 2021/22. The Council is forecasting additional costs in 2020/21 in the region of £800k including homelessness prevention, redeployment costs, support for the two Leisure Centres, additional PPE, community grants and cleaning costs.
- 4.7 The Council's income streams have also been affected, with projected losses in the region of £1.3m including trade and garden waste, car parking, planning income, rental income and council tax and business rates losses.
- 4.8 The Government has provided support to local authorities through £4.6bn, new burdens funding, and £3.2m towards homelessness. However, Mid Suffolk District Council's share of this £2.2m, falls short of the projected costs and losses in 2020/21.
- 4.9 The Council's capital programme has also been severely impacted by COVID19 with several projects falling behind schedule and supply difficulties, for example increased costs from suppliers to cover the cost of additional PPE.

- 4.10 The financial impact of Covid19 for 2021/22 and beyond is difficult to predict, income streams have been reviewed and revised where appropriate and minimal costs are anticipated at this stage. The financial impact on the business rates and council tax collection fund budgets in 2020/21 is expected to be in the region of £200k due to a lower tax base, anticipated fall in collection rates and an increased call on the Local Council Tax Reduction Scheme. This will be partially funded from the Business Rates Equalisation Reserve and as required by Government, this will over a three-year period from 2021/22 to 2023/24.

Economic Background

- 4.11 In November 2020, the Office for Budget Responsibility (OBR) published its independent economic and fiscal forecasts.
- 4.12 The Covid19 pandemic has delivered the largest peacetime shock to the global economy on record. It has required the imposition of severe restrictions on economic and social life; driven unprecedented falls in national income; fuelled rises in public deficits and debt surpassed only in wartime; and created considerable uncertainty about the future. The UK economy has been hit relatively hard by the virus and by the public health restrictions required to control it.
- 4.13 In the central forecast, the combined impact of the virus on the economy and the Government's fiscal policy response pushes the deficit this year to £394 billion (19% of GDP), its highest level since 1944-45, and debt to 105% of GDP, its highest level since 1959-60. Borrowing falls back to around £102 billion (3.9% of GDP) by 2025-26, but even on the loosest conventional definition of balancing the books, a fiscal adjustment of £27 billion (1% of GDP) would be required to match day-to-day spending to receipts by the end of the five-year forecast period.
- 4.14 The support provided to households and businesses has prevented an even more dramatic fall in output and attenuated the likely longer-term adverse effects of the pandemic on the economy's supply capacity. The Government's furlough scheme has prevented a larger rise in unemployment. Grants, loans, and tax holidays and reliefs to businesses have helped them to hold onto workers, keep up to date with their taxes, and avoid insolvencies. Nonetheless, OBR anticipate a significant rise in unemployment – to 7.5% in our central forecast – as this support is withdrawn in the spring.
- 4.15 The economic outlook remains highly uncertain and depends upon the future path of the virus, the stringency of public health restrictions, the timing and effectiveness of vaccines, and the reactions of households and businesses to all of these. It also depends on the outcome of the continuing Brexit negotiations. In such circumstances, the value of a single 'central' forecast is limited.
- 4.16 CPI inflation falls from 1.8% last year to 0.8% in 2020, due in part to lower indirect taxes and energy prices, as well as increased slack in the economy. Thanks primarily to relatively weak average earnings growth, inflation remains subdued over the next three years, returning to the 2% target by the end of 2024. Whole economy inflation (as measured by the GDP deflator) is erratic in the short term, driven by the statistical treatment of public sector output (for example, school closures and the cancellation of non-virus-related operations are treated as raising the implicit price of education and health services). In the medium term, GDP deflator inflation settles at 2%.

Spending Review 2020 (SR20) 2021/22

- 4.17 The Government's three year Comprehensive Spending Review (CSR) was planned to conclude in July 2020, however, on 24 March 2020 the Chancellor announced that the CSR would be delayed 'to enable the Government to remain focussed on responding to the public health and economic emergency'
- 4.18 On 21 October 2020, the Chancellor announced the decision to provide a one-year Spending Review in order to prioritise the response to Covid19 and focus on supporting jobs. Details of this SR20 were published on 25 November 2020. The key points that are relevant to Local Government are as follows:
- a) Core spending power (CSP) for local authorities in 2021/22 is estimated to increase by 4.5% in cash terms. In calculating CSP, it has been assumed that authorities will increase Band D by the maximum amount, and that each authority's taxbase has increased in line with their average taxbase growth since 2016-17.
 - b) £3bn worth of financial support to local authorities in 2021/22 in relation to Covid19 pressures as follows:
 - £1.55bn of grant funding to meet additional expenditure pressures as a result of Covid19.
 - £670m grant funding to help households that are least able to afford council tax payments.
 - Estimated £762m compensation payments for 75% of irrecoverable loss of council tax and business rates revenues in 2020/21.
 - Extending the current sales, fees and charges reimbursement scheme for a further 3 months until the end of June 2021.
 - c) Maintaining the existing New Homes Bonus scheme for a further year with no new legacy payments. This was confirmed in the provisional settlement on 17 December 2020 as two payments in respect of years 8 and 9 as planned, and a further one-off payment (year 11), this can be seen in the chart in paragraph 8.11 table 5. The Government is inviting views on a replacement for NHB.
 - d) Continuation of the option for shire districts with the lowest council tax levels allowed increases in council tax of up to 2% or £5 whichever is higher, the £5 was confirmed in the provisional settlement.
 - e) Rural Services Delivery Grant (RSDG) will continue in 2021/22.
 - f) £254m of additional resource funding to tackle homelessness and rough sleeping in 2021/22.
 - g) The Government have indicated that they are unlikely to extend further Covid19 related support through business rates reliefs, outline plans for 2021/22 reliefs are expected in the New Year.

- h) Public sector pay freeze in 2021/22 for some workforces, pay rises for NHS workers and increases for the lowest paid. The Government has no formal role in the decisions around annual local government pay increases, these are developed through negotiations between the LGA and the relevant trade unions.
- i) Confirmation that the Fair Funding Review, Business Rates Review and business rates reset will be delayed. A fundamental review of the business rates system will be undertaken, and the Government are considering responses to the call for evidence. A final report with conclusions of this review is expected spring 2021.
- j) To support businesses in the near-term, the Government has decided to freeze the business rates multiplier in 2021/22, saving businesses in England an estimated £575m over the next five years. Local authorities will be fully compensated through S31 grants.
- k) Reform of the Public Works Loan Board (PWLB) lending terms, ending the use of the PWLB for investment property bought primarily for yield. The Government cut PWLB lending rates to gilts + 100bps for Standard Rate and gilts + 80bps for Certainty Rate, with effect from 26 November 2020.
- l) The government is launching a new Levelling Up Fund worth £4bn (£600m in 2021/22), to invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery. Bids for projects of around £20m that can be delivered in 2-3 years will be considered. The Prospectus is likely to be released early in the New Year.
- m) £300m of new grant funding for adult and children's social care, in addition to the £1bn announced at SR19 that is being maintained in 2021/22. In addition, local authorities will be able to levy a 3% adult social care precept.
- n) Negative Revenue Support Grant is now fully funded.

4.19 The Provisional Finance Settlement was announced on the 17 December 2020 and provided Mid Suffolk with additional funding of 733k of which £75k has been built into the 2021/22 budget. The remainder to be transferred to either earmarked reserves or reallocated to cover Business Rates or Council Tax losses this will be confirmed in the final budget report.

4.20 The headlines are as follows:

- No increase to the Business rates baseline funding
- £150m compensation for under-indexing the Business Rates multiplier, Mid Suffolk's share of this is £118k. At this stage this has not been built into the baseline numbers as this will form part of the forecast Business Rates budgets that will be calculated in January along with the Suffolk Business Rates Pool forecasts.
- Rural Services Delivery Grant increased by 4.9% for Mid Suffolk this is an additional £21k

- New one off Lower Tier Services grant introduced of £111m to ensure no council will have less funding available in 2021/22 than 2020/21. Mid Suffolk's allocation is £228k.
- Mid Suffolk's share of the £1.55bn 5th tranche of Covid19 grant funding has been confirmed at £438k. This has not been included in the funding at this stage, the financial impacts of Covid19 will be assessed during 2021/22, in the meantime this grant will be placed in the Covid19 earmarked reserve.
- New Local Council Tax Support Grant £670m – outside the core settlement and is to fund authorities for the expected increase in Local Council Tax Support in 2021/22. This grant is to be allocated between Suffolk County Council, Suffolk Police and Crime Commissioner and Mid Suffolk. Provisional allocations are as follows:

	£
Mid Suffolk	102,105
Suffolk County Council	558,998
Suffolk Police and Crime Commissioner	92,673
Total	753,776

This has not been included in the funding at this stage until further work can be undertaken to establish how to fairly allocate Mid Suffolk's share.

- New Homes Bonus is £174k less than originally estimated mainly due an increase in the number of empty properties, this element of the allocation was not included in the original estimate.

4.21 Table 1 below shows the Provisional Finance Settlement compared to the budget for 2021/22.

Table 1: Provisional Finance Settlement

	2021/22 Assumed	2021/22 Provisional Settlement	(Increase)/ Decrease
	£'000	£'000	£'000
New Homes Bonus	1,235	1,061	174
Rural Services Delivery Grant	433	454	(21)
Lower Tier Services Grant	-	228	(228)
Included as funding	1,668	1,743	(75)
Other funding announced			
LCTS grant		102	(102)
5th Tranche of COVID19 funding		438	(438)
Compensation for under-indexing the business rates multiplier		118	(118)
Total	1,668	2,401	(733)

5. HOW IS THE COUNCIL'S REVENUE BUDGET BEING SPENT IN 2020/21?

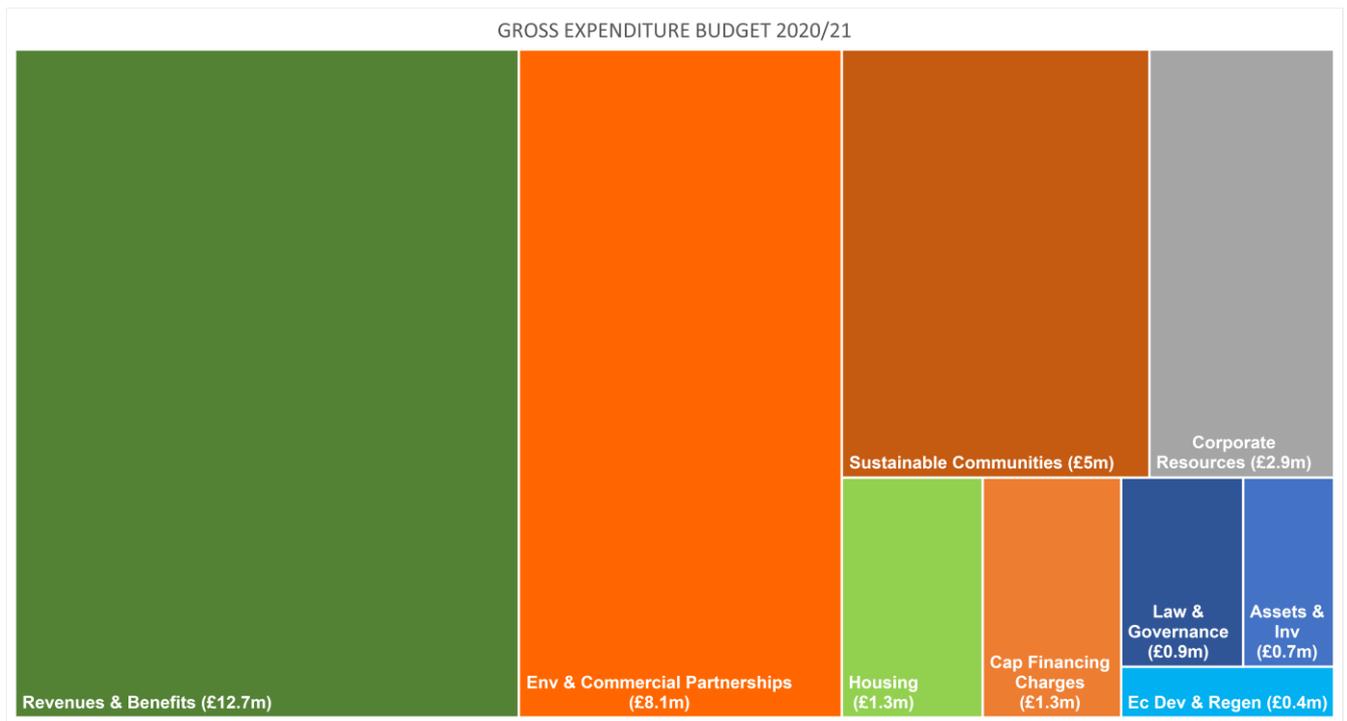
The Council's 2020/21 gross expenditure is £34.3m and Income is £24.3m giving a net cost of service of £10m. Table 2 below shows how this is funded.

Table 2: Revenue Budget 2020/21

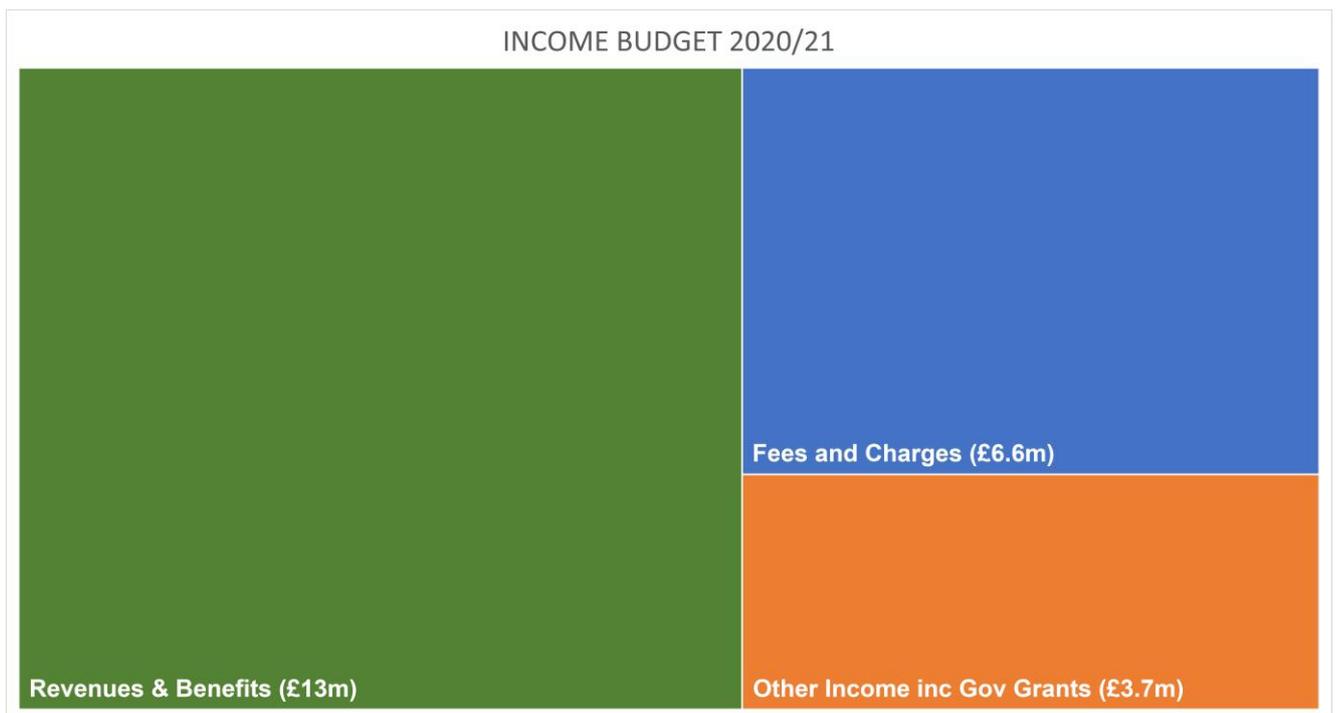
	£,000
Gross Expenditure	34,380
Income	(24,347)
Net expenditure 2020/21	10,033
Transfer to Commercial Development Risk Management Reserve	1,000
Funded by:	
Earmarked Reserves	(986)
New Homes Bonus	(1,613)
S31 Grant	(1,405)
Business Rates	(2,300)
Collection Funds (Surplus)	(27)
Rural Services Delivery Grant	(433)
Council Tax	(6,296)
Total Funding	(13,060)
Budget deficit / (surplus)	(2,027)

- 5.1 Graph 1 below shows how the £34.3m gross expenditure is allocated across the services and Graph 2 below shows the breakdown of the £24.3m income. The funding element is not shown in these graphs.

Graph 1 Gross Expenditure by service area in 2020/21



Graph 2 Income by service area in 2020/21



5.2 The Revenues and Benefits element (£13m) in both the expenditure and the income charts above includes housing benefit paid out to claimants and reimbursed from the Government.

5.3 The forecast position for 2020/21 at quarter 2 reported to Cabinet in December 2020 showed a projected surplus of £848k. However, there almost certainly will be further variances that occur throughout the remainder of the year. An updated position will be reported to Cabinet in March 2021 and the final outturn position in July 2021.

6. MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2021-2025

Strategic Aims

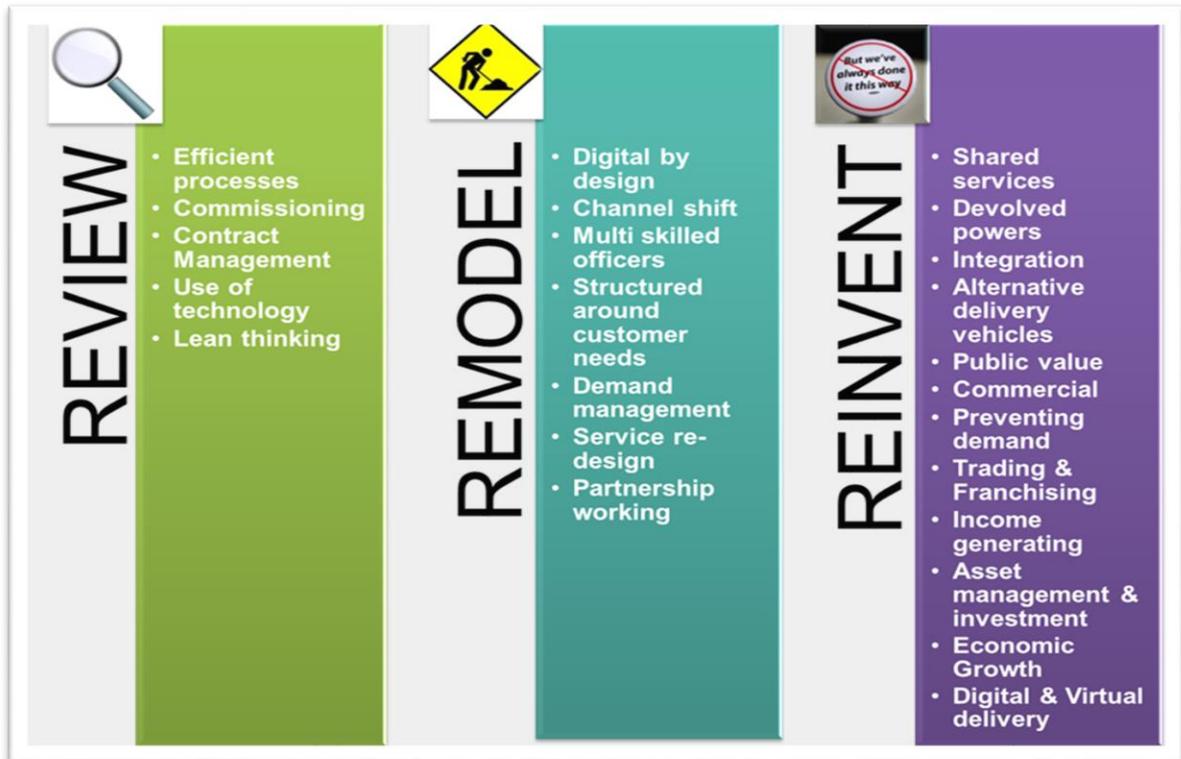
- 6.1 In order to achieve the Council's Vision, the Council needs to take a medium-term view of the budget through a robust financial strategy that is focused on delivering the 6 corporate strategic priorities.
- 6.2 The Council's main strategic financial aim remains to become self-financing i.e. not reliant on Government funding. The Council's parallel aim is to generate more funds than are required purely for core services, in order to enable additional investment into the district.
- 6.3 There are 3 key elements that need to be carefully balanced to ensure success. These are:
 1. Cost management;
 2. Income generation; and
 3. Service levels.

Principles

- 6.4 The approach over the medium term is to transform the Council into an organisation that is thriving and not just surviving, by continuously reviewing, remodelling and reinventing the way the Council operates.

The following overarching principles are considered when evaluating ideas and opportunities for change:

- Reduce our costs (both internally and across the wider system)
 - Increase our income
 - Provide better / "best" value
 - Increased social value
 - Provide a better service for our customers
 - Reduction in administration costs, without compromising service
- 6.5 The focus is on:
 - internal efficiencies and improvements;
 - continuously streamlining work and reducing waste in processes;
 - greater cross-functional working and multi-skilling;
 - improving ways of working to move away from 'professional silos' and toward integrated services for the public;
 - customer demand understood, analysed and met through new services and business models;
 - demand is re-shaped and managed while engaging service users to ascertain priorities.
 - 6.6 The approach below shows in more detail for each element the methodology that will be adopted to achieve this.



6.7 Work is underway across the Council re-designing our service delivery using these three underpinning strands. However, during 2020/21 the focus for many service areas was diverted to responding swiftly and effectively to needs of our communities, residents and businesses to help mitigate the impact of the Covid19 pandemic.

Achievement during 2020/21

- Business process reengineering programme of work
- Customer transformation programme
- ICT review and new strategy
- Reviewed complaints and FOI processes
- Review of performance framework
- New model for Disabled Facilities Grants
- Development of the Asset Management Plan
- Staff survey action plan
- Commissioning and procurement review
- New economic evidence base, refreshed strategy and action plan

6.8 Further work will continue in 2021/22 and is likely to require a longer-term approach and may require additional resources and investment. The Council will continue this approach in order to transform the way it operates over the next three years.

7. RESERVES

- 7.1 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.
- 7.2 The Council has been making significant savings for a number of years and with each year the challenge gets more difficult without negatively impacting on service standards. The approach outlined above will deliver savings or generate income to invest in improved service delivery across the District. However, some of these will not be realised until 2022/23 onwards and investment from reserves may be required to deliver them.
- 7.3 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.
- 7.4 In 2021/22 the Council is using £837k from earmarked reserves against specific service expenditure, this includes £250k for Locality budgets from the Growth and Efficiency fund. The Council is able to transfer all of the £1.405m S31 grants and £1.061m New Homes Bonus to reserves as well as the surplus for the year of £731k.
- 7.5 Table 3 below shows the earmarked reserves balance from 31 March 2020, forecast through to 31 March 2022. This shows that the level of reserves (excluding CIL) drops by 11% over the two years.

Table 3: Forecast Earmarked Reserve Levels

MID SUFFOLK									
Transfers to / from Earmarked Reserves	Balance 31 March 2020	Transfers between	Forecast transfers to	Forecast transfers from	Balance 31 March 2021	Transfers between	Forecast transfers to	Forecast transfers from	Balance 31 March 2022
Growth and Efficiency Fund	(9,395)	1,640	(6,045)	10,166	(3,634)		(4,163)	2,804	(4,992)
Commercial Development Risk Management	(1,500)	(1,000)			(2,500)		(1,000)		(3,500)
Business Rates Equalisation	(2,853)	140			(2,713)			84	(2,629)
Business Rates Retention Pilot	(904)			132	(772)			92	(680)
Climate Change and Biodiversity	-	(500)			(500)		(500)		(1,000)
Government Grants	(253)			26	(227)		(5)		(232)
Commuted Maintenance Payments	(665)		(14)	25	(654)			63	(591)
COVID19	-	(280)			(280)				(280)
Elections Fund	(28)		(20)		(48)		(20)		(68)
Elections Equipment	(35)				(35)				(35)
Homelessness	(381)		(59)	6	(433)			130	(304)
Temporary Accommodation	(256)		(74)	9	(320)		(95)	15	(401)
Planning (Legal)	(439)		-	333	(107)			25	(81)
Neighbourhood Planning Grants	(74)		(90)	25	(139)			9	(130)
Community Housing Fund	(243)			38	(205)			26	(180)
Strategic Planning	(64)			50	(14)				(14)
Planning Enforcement	(45)				(45)				(45)
Repairs and Renewals	(292)				(292)				(292)
Welfare Benefits Reform	(7)				(7)				(7)
Well-being	(275)			1	(274)			36	(238)
Waste	(38)			20	(18)				(18)
Total Earmarked Reserves excluding CIL	(17,746)	-	(6,301)	10,831	(13,216)	-	(5,783)	3,283	(15,716)
Community Infrastructure Levy (CIL)	(16,833)				(16,833)				(16,833)
Total Earmarked Reserves	(34,579)	-	(6,301)	10,831	(30,049)	-	(5,783)	3,283	(32,549)

- 7.6 There is an agreed process for CIL bids, however nothing has been included in this table for CIL income and expenditure for 2021/22 as this is difficult to predict.
- 7.7 The level of risk has been assessed regarding the Councils in-district planned brownfield and greenfield commercial developments. These include Needham

Market and Stowmarket middle schools, the Council's former offices in Needham Market and the major development planned for the Gateway 14 site in Stowmarket. The income from these redeveloped sites is anticipated a way in the future, therefore, a prudent decision has been made to transfer a further £1m to the Commercial Development Risk Management reserve in 2021/22 increasing the reserve to a total of £3.5m. As these developments come to fruition the level of the reserves may not be needed.

- 7.8 It is proposed that a further £500k be transferred to the Climate Change and Biodiversity earmarked reserve which was established in 2020/21 increasing the reserve to a total of £1m. This will help to ensure funding is available for the recommendations from the Climate Change Taskforce.
- 7.9 In addition to the earmarked reserves, the Council also holds a general fund reserve of £1.052m, which equates to approximately 11% of the net cost of service. This is a prudent level of reserve to hold, as has been evidenced by the Covid19 pandemic this year, to mitigate against unexpected financial risks that cannot be offset by savings during the year or with use of the earmarked reserves in Table 3.

8. FORECAST BUDGET POSITION TO 2024/25

- 8.1 To establish the medium-term budget position several assumptions have been made as to the expected level of funding and a number of cost pressures and savings have been identified over the period.

Funding

- 8.2 Funding arrangements for councils have changed significantly in recent years, the revenue support grant has been completely removed for the Council and New Homes Bonus (NHB) legacy payments continue to be phased out. Government has indicated that a consultation paper on the future of NHB will be published shortly.
- 8.3 2019/20 was the last year of the four-year Comprehensive Spending Review where councils had some certainty about their funding levels. 2020/21 and 2021/22 continue to be one off Spending Reviews, therefore the medium-term position continues to be more difficult to forecast.
- 8.4 MHCLG is still committed to delivering the wider reforms to local government funding however whether this is achievable for 2022/23 remains to be seen, as fully worked proposals for consultation would need to be ready before Summer 2021.
- 8.5 Government has recognised that councils are now more reliant on council tax and business rates as the main sources of funding. A full review of the business rates system is expected to be published in Spring 2021. This is needed now more than ever with the impact of Covid19 on the economy.
- 8.6 Since NHB was introduced in 2011/12 the Council has received £16.6m in total.
- 8.7 As shown in Table 4 below, the use of NHB to balance the budget increased from 13% in 2017/18 to 24% in 2018/19. Since 2019/20 the Council continues to be in the position of being able to balance the budget without any use of NHB transferring the full allocation to earmarked reserves. From 2011/12 to 2020/21 £8.4m NHB has been transferred to the Growth and Efficiency Fund

8.8 Whilst the Council is not reliant on NHB to balance the budget in any year up to 2024/25, the anticipated surplus reduces year on year as NHB is phased out and inflationary pressures continue to increase the Councils net cost of service. By 2024/25 the projected surplus is £1.1m a significant decrease on 2021/22 position of £3.2m. If the Council wishes to continue to have resources for investment, actions will need to be taken over the next 3 years under the principles of Medium-Term Financial Strategy.

Table 4: New Homes Bonus used from 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Amount of NHB received	2,028	1,463	1,380	1,612	1,061	7,544
NHB used to balance the budget	267	354	0	0	0	621
% NHB used to balance the budget	13%	24%	0%	0%	0%	8%

8.9 Table 5 and Graph 3 below shows the NHB over the last ten years plus the estimated allocations for 2021/22 to 2023/24. This assumes 0.8% growth over and above the 0.4% threshold, one more year's growth for 2021/22 only and the legacy payments being phased out from 2020/21 year on year with nothing being received in 2023/24.

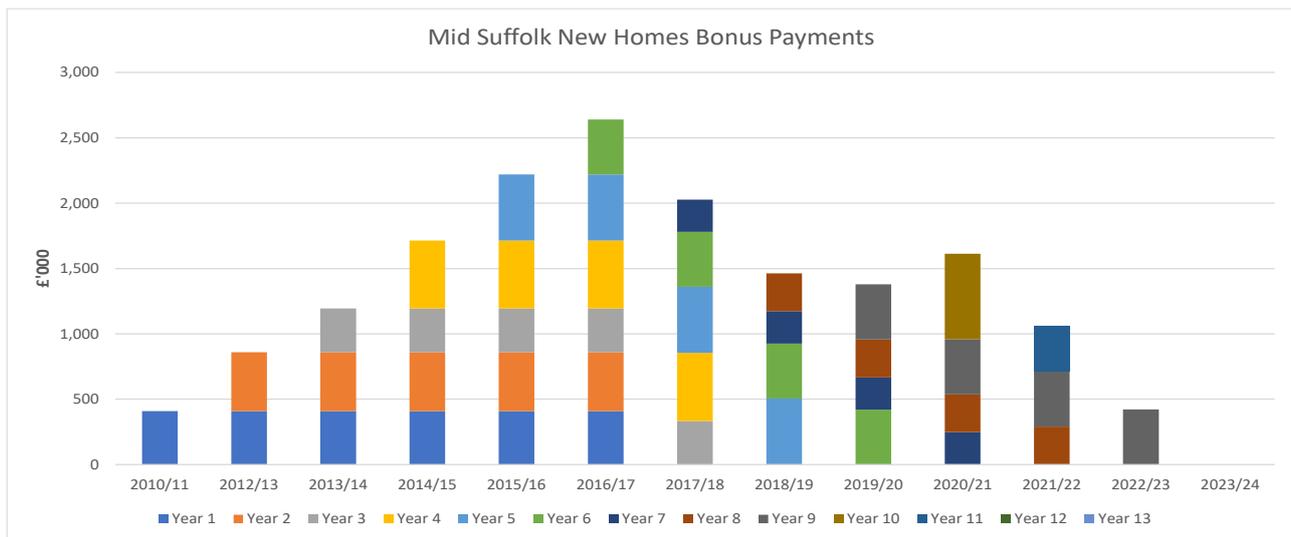
8.10 This shows how NHB has declined from a peak of £2.6m in 2016/17 to £1.1m in 2021/22, after the Government announced it would reduce the allocation from 6 years to 5 years in 2017/18 and to 4 years in 2018/19, as well as introducing a 0.4% growth baseline in 2017/18.

8.11 For 2021/22 the 0.4% growth for Mid Suffolk means that the first 171 new homes built will receive no payment.

Table 5: New Homes Bonus sums per year

Payments	2010/11	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Estimated		
											2021/22	2022/23	2023/24
Year 1	409	409	409	409	409	409							
Year 2		452	452	452	452	452							
Year 3			334	334	334	334	334						
Year 4				521	521	521	521						
Year 5					506	506	506	506					
Year 6						420	420	420	420				
Year 7							247	247	247	247			
Year 8								290	290	290	290		
Year 9									422	422	422	422	
Year 10										653			
Year 11											349		
Year 12													
Year 13													
Total	409	860	1,194	1,714	2,221	2,641	2,028	1,463	1,380	1,612	1,061	422	-

Graph 3: New Homes Bonus Payments - Estimated for 2021/22 to 2023/24



8.12 In calculating the expected level of funding across all sources, the following assumptions have been made:

- a) Minimal use of reserves after 2023/24.
- b) NHB as per Table 5 above.
- c) No growth in business rates income.
- d) Nothing has been included for forecast Business Rates surplus or deficit beyond 2020/21 based on the assumption that the equalisation earmarked reserve will accommodate this. The 2020/21 forecast deficit of £252k, has been spread equally over three years as required by Government.
- e) Rural Services Delivery grant has increased from £433k to £454k and will continue at the higher level for the next three years.
- f) Council Tax increase of 1.66% each year for the next three years, generating on average an incremental additional £110k per annum.
- g) Tax base growth of 1% every year for the next four years, which generates approximately £68k per annum.
- h) As mentioned in paragraph 4.8, the impact of Covid19 has resulted in a lower taxbase for 2021/22 due to an increase in LCTRS caseload and an assumed lower collection rate. It is anticipated that this will start to recover from 2022/22 to 2023/24.

8.13 Table 6 below shows the forecast funding from 2021/22 to 2024/25. Ignoring the use of reserves, funding decreases by 6% over the 4-year period. This is mainly due to the assumed reduction and phasing out of NHB as shown in Table 5 above.

8.14 By 2023/24 Government funding is expected to reduce significantly except for Rural Services Delivery Grant. The main sources of funding for the Council are Business Rates and Council Tax.

8.15 For 2021/22 the Council it is using £587k from earmarked reserves to fund specific service expenditure, and £250k for Community capacity building. The Council is able to transfer all of the £1.4m S31 grants, and £1.1m of NHB as well as the GF surplus for the year of £731k to various earmarked reserves, totalling £3.197m as shown in table 7 below.

Table 6: Forecast Funding 2021/22 – 2024/25

Description	2020/21	2021/22	2022/23	2023/24	2024/25
	Budget	Budget	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000
Funding:			Estimated		
Other Earmarked Reserves	(736)	(587)	(189)	(110)	(26)
Growth and Efficiency Fund - Community Capacity Building	(250)	(250)	(250)	(250)	(250)
New Homes Bonus - provisional 2021/22 onwards	(1,613)	(1,061)	(422)	-	-
S31 Business Rates Grant	(1,405)	(1,405)	(1,405)	(1,405)	(1,405)
Government Support					
(a) Baseline business rates	(2,540)	(2,540)	(2,540)	(2,540)	(2,540)
(b) B/Rates – levy	727	727	727	727	727
(c) B/Rates – growth/pooling benefit	(367)	(367)	(367)	(367)	(367)
(d) B/Rates prior yr deficit	(120)	84	84	84	-
(e) Rural Services Delivery Grant	(433)	(454)	(454)	(454)	(454)
(f) Lower Tier Services Grant	-	(228)	-	-	-
Council Tax Collection Fund surplus	(27)	(31)	(31)	(31)	-
Council Tax - an increase of 1.66% per annum	(6,220)	(6,329)	(6,453)	(6,701)	(6,919)
(Growth) / Reduction in taxbase - 1% 2022/23 onwards	(76)	(124)	(174)	(104)	(68)
Impact of LCTRS on taxbase	-	71	37	-	-
Total Funding	(13,060)	(12,493)	(11,437)	(11,151)	(11,302)

2021/22 Budget

- 8.16 The summary in Table 7 below shows breakdown of the Council's net cost of service for 2021/22 (£9.296m) compared to 2020/21 (£10.032m), a decrease of £736k.

The Council's 2021/22 gross expenditure is £31.9m and Income is £22.6m giving a net cost of service of £9.3m.

Table 7:

GENERAL FUND REVENUE BUDGET SUMMARY

	2020/21 £'000	2021/22 £'000	Movement £'000
1 Employee Costs - excl grant & reserve funding 21/22 £347k	9,568	10,087	520
2 Premises	812	844	32
3 Supplies & Services	5,178	4,262	(916)
4 Transport	316	371	56
5 Contracts	3,560	3,948	388
6 Revenues and Benefits	12,593	11,257	(1,337)
<u>Capital Financing Charges</u>			
7 Interest Payable (Other)	97	97	-
8 Interest Payable (Pooled Funds)	30	30	-
9 Interest Payable (CIFCO)	510	474	(36)
10 Interest Payable (CIFCO - further investment)	106	91	(15)
11 Interest Payable (Other Commercial Investments)	421	175	(246)
12 MRP	1,255	1,371	116
13 Transfers to Reserves	67	120	53
15 Charge to HRA	(1,137)	(1,192)	(55)
15 Charge to Capital	(4.2)	(4.2)	0
16 Gross Expenditure	33,371	31,930	(1,441)
17 Revenues and Benefits income	(13,118)	(11,764)	1,354
18 Other Income	(6,863)	(6,463)	401
<u>Investment Income</u>			
19 Pooled Funds	(566)	(566)	-
20 Interest Receivable (Cash Surplus)	(4)	(31)	(27)
21 Interest Receivable (CIFCO)	(1,162)	(1,156)	6
22 Interest Receivable (CIFCO - further investment)	(594)	(1,023)	(430)
23 Interest Receivable (Other Commercial Investments)	(1,033)	(1,631)	(598)
24 Gross income	(23,339)	(22,634)	705
25 Net Service Cost	10,032	9,296	(736)
26 Transfers from Reserves - earmarked	(736)	(587)	149
27 Growth and Efficiency Fund - Community Capacity Building	(250)	(250)	-
28 New Homes Bonus	(1,613)	(1,061)	551
29 S31 Business Rates Grant	(1,405)	(1,405)	-
30 Baseline business rates	(2,540)	(2,540)	-
31 Business rates levy	727	727	-
32 Business rates – collection fund deficit / (surplus)	(120)	84	204
33 Business rates – growth/pooling benefit	(367)	(367)	-
34 Rural Services Delivery Grant	(433)	(454)	(21)
35 Lower Tier Services Grant	-	(228)	(228)
36 Council Tax	(6,296)	(6,382)	(85)
37 Council Tax Surplus on Collection fund	(27)	(31)	(4)
38 Total Funding	(13,060)	(12,493)	567
39 Shortfall / (Surplus) funding	(3,027)	(3,197)	(168)
40 Transfer to Growth and Efficiency Fund	2,027	1,697	(330)
41 Transfer to Commercial Development Risk Management reserve	1,000	1,000	-
42 Transfer to Climate Change earmarked reserve	-	500	500

8.17 The approach for the 2021/22 budget setting included “budget challenge sessions” which consisted of Corporate Managers taking a group of peers (comprising other Corporate Managers and Assistant Directors) through their budgets line by line. The peer group provided challenge and review to the budgets. As a result, a number of savings were identified, as shown in the explanations below.

8.18 This work will continue throughout 2021/22 as there were a number of areas that were identified that are aligned to the approach set out in section 6 of this report and will require further work in order to deliver efficiencies.

8.19 In calculating the 2021/22 budget, the following assumptions have been made:

Staffing

- Grant funding and reserves of £347k are being used to fund staffing costs in 2021/22.
- 2% pay award, however this will depend on the agreement between LGA and the relevant trade unions, this amounts to £191k.
- Incremental progression through grades to the value of £126k have been included.
- Pension fund assumptions
 - future rate contribution - 23%, no change from 2020/21.
 - pension deficit lump sum – 1% per annum reduction from 2021/22, saving £69k.
- Excluding the items mentioned above the staffing costs for the Council in 2021/22 have reduced by £121k.

Premises

- Insurance premium for theft from unoccupied buildings £23k increase.
- An increase in the repairs costs to PV Panels has been identified totalling £53k

Supplies & Services

- A change to management arrangements for the Mid Suffolk leisure centre contract has resulted in savings of £420k.
- The removal of planning appeal expenditure previously funded from reserves has resulted in savings of £330k.
- ICT cost savings have been identified of £128k as a result of migrating to Microsoft Teams, a review of licences and digital transformation.
- Increase to service charges for Endeavour house £43k, subject to discussions with Suffolk County Council.
- Savings to print post and stationery have been identified totalling £27k.

Transport

- Proposal to convert the Council's fleet to hydrogenated vegetable oil (HVO) to reduce the Council's carbon emissions, if approved, will increase vehicle running costs by £88k.
- Reduction to travel costs including essential user and disturbance allowances, saving £68k, but also contributing to the Council's reduction in carbon emissions.

Contracts

- Contracts – general 2% inflationary increase totalling £89k including, SRP and some ICT contracts.
- Major contracts – Waste increase of £235k.

Income

- As a result of Covid19 car parking income projections have been reduced by 30%, resulting in a reduction in income of £245k.
- Fees and charges inflationary increase of 3% totalling £62k for services including food and safety, street naming and numbering, public rights of way, rents, emptying of dog and litter bins, waste, licensing and land charges.

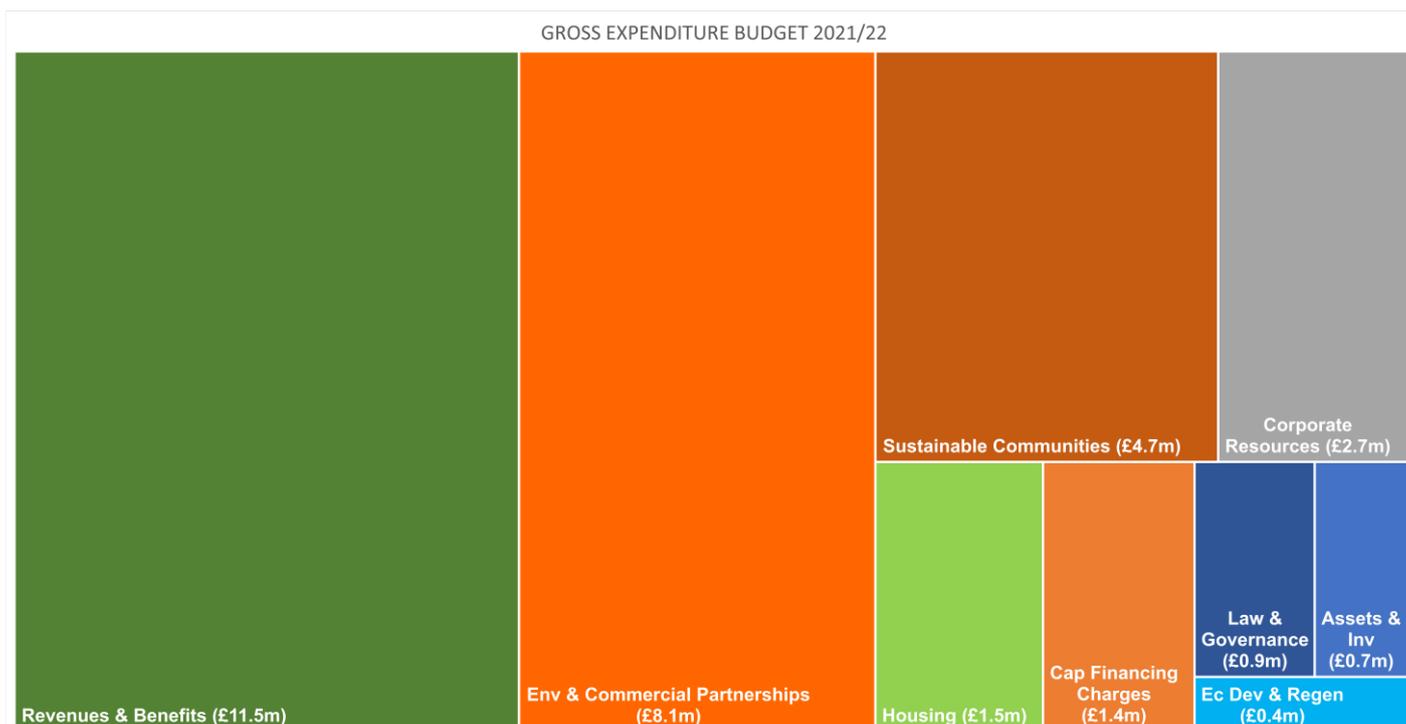
Capital Financing charges and Investment Income

- An increase to the Council's borrowing requirements to fund the Capital Programme in 2021/22 has resulted in additional Minimum Revenue Provision (MRP) of £116k
- The Council is continuing to take advantage of low short-term interest rates for another year, saving £246k.
- With the full investment of CIFCO expected by the end of 2020/21, additional income has been included of £458k.

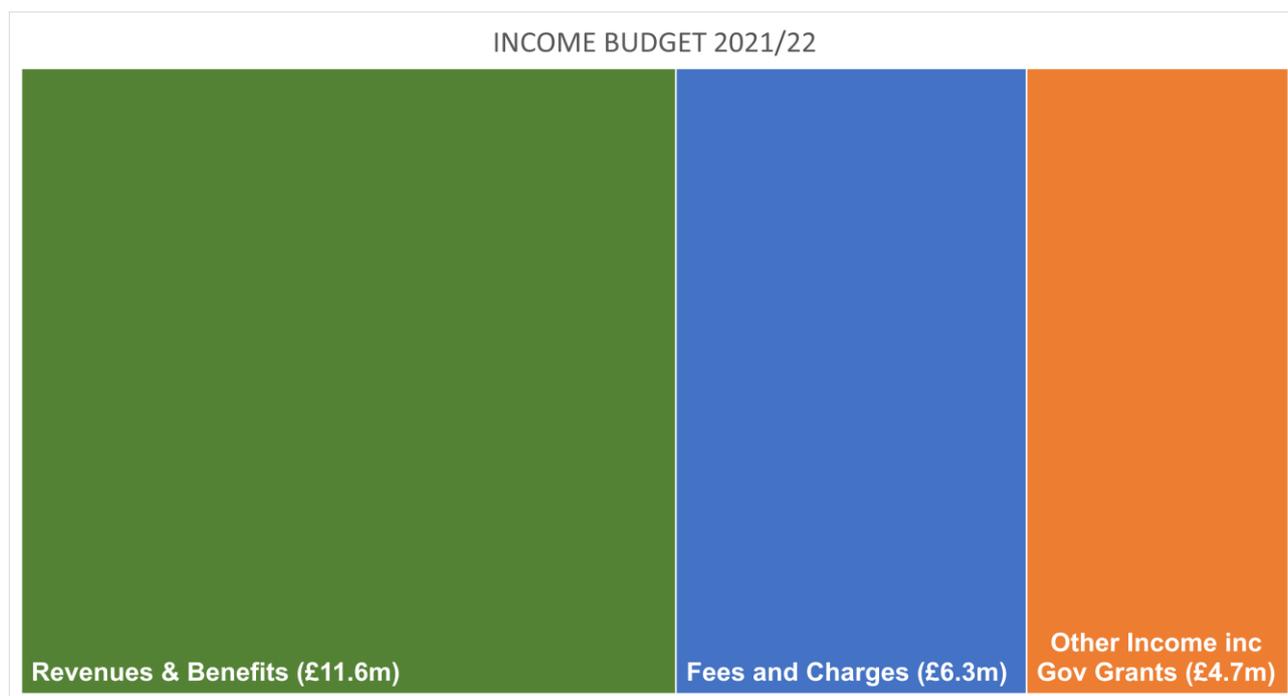
Gateway14 Ltd – additional accrued income of £598k

8.20 Graph 4 below shows how the £31.9m gross expenditure is allocated across the services and Graph 7 below shows the breakdown of the £22.6m income. The funding element is not shown in these graphs.

Graph 4 Gross Expenditure by service area in 2021/22



Graph 5 Income by service area in 2021/22



8.21 The Revenues and Benefits element (£11.6m) in both the expenditure and the income charts above includes housing benefit paid out to claimants and reimbursed from the Government.

Budget Surplus

8.22 Table 8 below shows the forecast surplus for 2022/23 - 2024/25 with and without New Homes Bonus.

8.23 The position for 2021/22 is a £3.2m surplus which is being used to increase the Commercial Development Risk Management reserve by £1m, the Climate Change and Biodiversity reserve by £500k with the remaining £1.697m being transferred to the Growth and Efficiency reserve.

8.24 Over the next three years the net cost of service increases by £0.9m, mainly due to pay award, increments and inflationary increases on major contracts. The 1.66% increase in council tax and taxbase growth over the same period (£574k) covers 62% of this increase. Whilst the Council loses £1.1m in NHB funding over the same period, the Council's use of reserves reduces by £562k.

This puts the Council in a comfortable position once NHB is completely removed of achieving annual surpluses of approx. £1.1m. Over the three-year period from 2022/23 the Council's projected cumulative surplus with NHB is £4.5m.

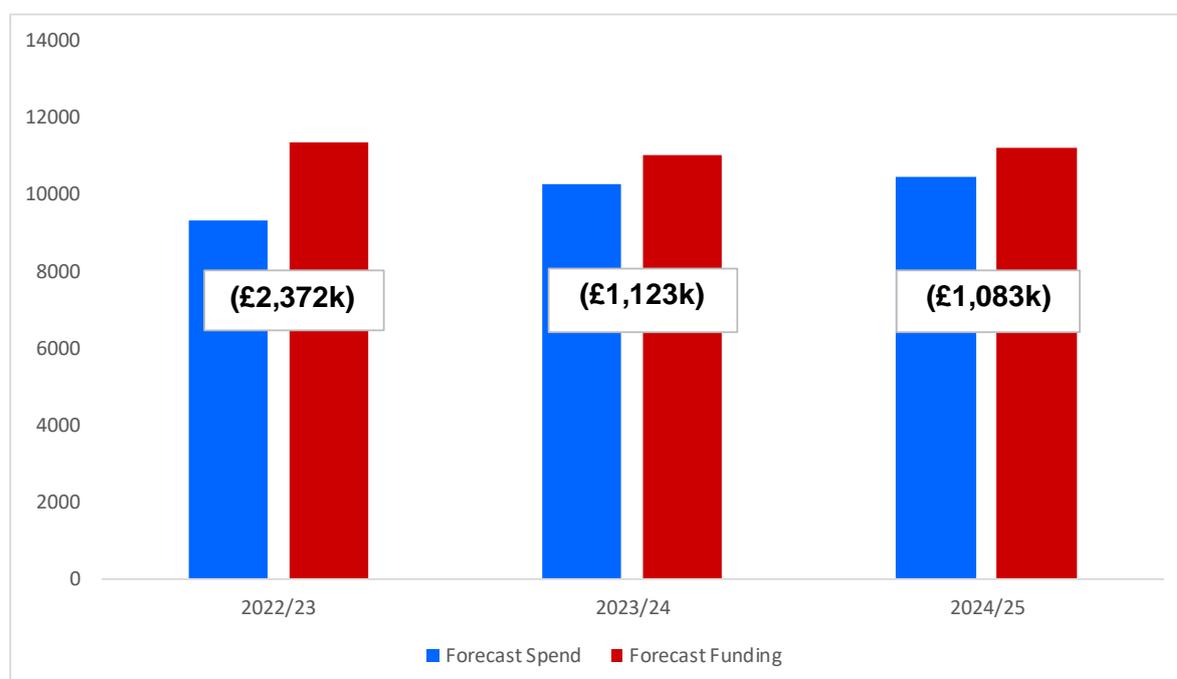
Table 8: Forecast Budget Surplus 2021/22- 2024/25

	Mid Suffolk		
	2022/23	2023/24	2024/25
Net Service Cost current year	9,065	10,028	10,219
Funding	(11,437)	(11,151)	(11,302)
Annual Deficit /(Surplus)	(2,372)	(1,123)	(1,083)
Cummulative Deficit/(Surplus)	(2,372)	(3,495)	(4,577)

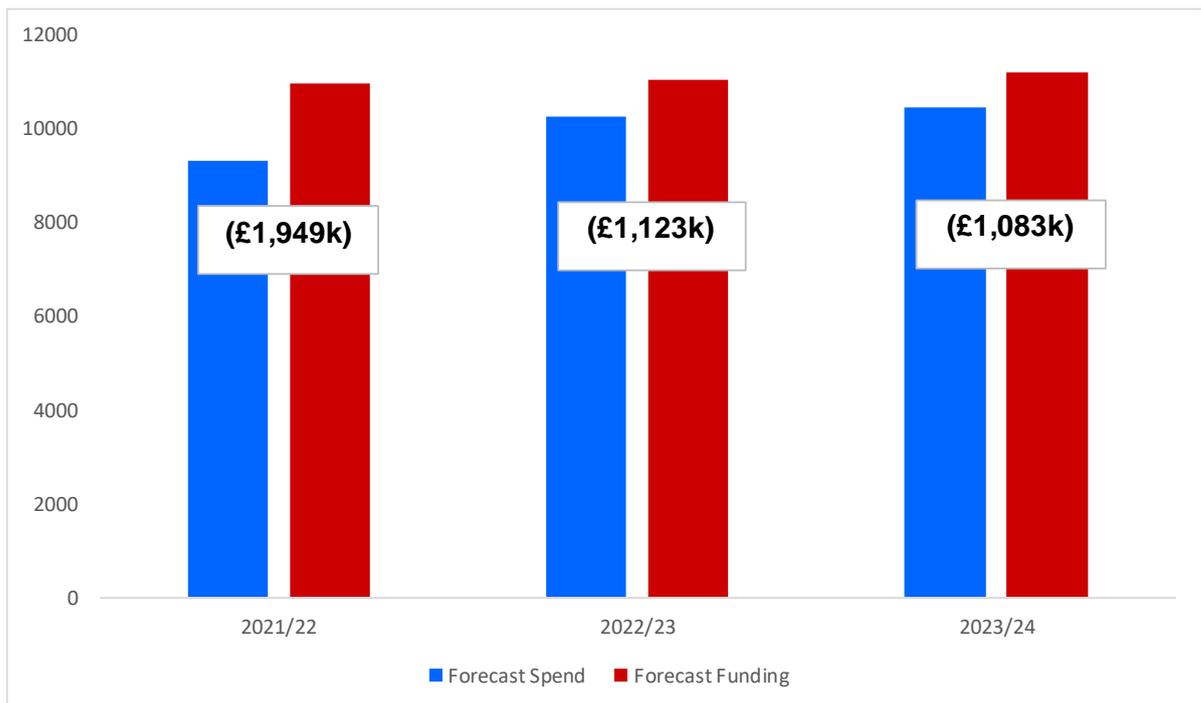


	Mid Suffolk		
	2022/23	2023/24	2024/25
<u>Excluding NHB</u>			
Net Service Cost current year	9,065	10,028	10,219
Funding	(11,014)	(11,151)	(11,302)
Annual Deficit /(Surplus)	(1,949)	(1,123)	(1,083)
Cummulative Deficit/(Surplus)	(1,949)	(3,072)	(4,155)

Graph 6: Forecast Budget surplus including NHB (annual) 2022/23 - 2024/25



Graph 7: Forecast Budget surplus, excluding NHB (annual) 2022/23 - 2024/25



9. CIPFA RESILIENCE INDEX

- 9.1 CIPFA's Financial Resilience Index, made publicly available for the first time in 2019, aims to support good practice in the planning of sustainable finance. The index does not come with CIPFA's own scoring, ranking or opinion on the financial resilience of an authority. However, users of the index can undertake comparator analysis drawing their own conclusions.
- 9.2 The 2020 index, which will provide the relative position for the 2019/20 financial year, will be made publicly available shortly. Councils performance will be ranked relative to those in the selected 'comparator group'.
- 9.3 As part of the audit work for the 2018/19 and 2019/20 financial statements, a going concern review was undertaken in light of Covid19. The Council has demonstrated that it is currently in a strong financial position with the level of reserves it has and the funding received from the Government mitigating the financial impact forecast at this stage.
- 9.4 The Council will continue to strive to remain self-financing over the next three years, using reserves as a last resort. Earmarked Reserves may be drawn on for their intended function, such as to mitigate the impact of Covid19, Climate Change initiatives, and funding specific projects. As such, the reserves indicators within the resilience index could move either way in future years.

CIPFA FM Code of Practice

- 9.5 CIPFA has developed the Financial Management Code (FM Code) 'designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.' The FM code has several components

including six Principles of Good Financial Management, setting the benchmark against which all financial management should be judged.

- 9.6 CIPFA expect the first full year of compliance with the FM Code to be 2021/22 and it is for individual authorities to determine whether they meet the standards. The Extended Leadership Team have taken part in the first workshop to develop awareness and understanding of the requirements of the code. Work will continue throughout 2021/22 to ensure the Council adopts best practice.

10. FEES AND CHARGES

- 10.1 Fees and charges have been reviewed by budget holders as part of this budget setting process and a separate report can be found on the agenda of this meeting. The impact of the charges being proposed have been built into the draft budget for 2021/22.

11. CAPITAL PROGRAMME

- 11.1 The detailed Capital Programme is attached at Appendix B, the 2021/22 budget totals £19.7m. The most significant item of planned spend is £16m for further investment in the redevelopment of the Gateway 14 site.
- 11.2 The Capital and Investment Strategy will have further details of the Council's borrowing capacity and the impacts of the capital programme, this will be presented to Cabinet in February along with the final budget report, following review by Joint Audit and Standards Committee in January 2021.

12. LINKS TO THE CORPORATE PLAN

- 12.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan and aligns to the corporate outcomes against a backdrop of efficiency, and sound financial robustness. The underlying principle of the Medium-Term Financial Strategy is to be financially sustainable.

13. FINANCIAL IMPLICATIONS

- 13.1 These are detailed in the report.

14. LEGAL IMPLICATIONS

- 14.1 The provisions of the Local Government Finance Act 1992 (LGFA 1992) requires the Council to set a balanced budget with regard to the advice of its Chief Finance Officer (Section 151).

15. RISK MANAGEMENT

- 15.1 This report is most closely linked with the Council's Significant Risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. 5E05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Council does not plan and identify options to meet the medium-term budget gap, then it will have a detrimental impact on the resources available to deliver services and the strategic priorities.	Unlikely - 2	Bad - 3	Clear priority outcomes and robust business cases for investment plus use of the Transformation Fund to support the MTFs and an Investment Strategy. The S151 Officer will submit the Section 25 report on the robustness of estimates and adequacy of reserves in February 2021.
If economic conditions and other external factors like Covid19 are worse than budgeted for it could have an adverse effect on the Councils 2021/22 and medium-term financial position	Probable – 3	Noticeable - 2	Maintain the focus and momentum on reducing the budget gap throughout the financial year. Announcement about additional Covid19 funding from the Government into 2021/22. Maintain sufficient minimum reserve level to withstand the impact.
If the Council does not plan for the impact of Brexit, then there could be additional unexpected financial costs and a negative impact on the Councils funding.	Unlikely - 2	Bad - 3	The Council has nominated a Brexit lead to work with Government and to plan for the impacts of Brexit across the Council. A corporate Brexit risk register has been created in consultation with all service areas.

16. CONSULTATIONS

- 16.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate.

17. EQUALITY ANALYSIS

- 17.1 An equality impact assessment will be undertaken with each Assistant Director for any changes within the budget proposals.

18. ENVIRONMENTAL IMPLICATIONS

- 18.1 Assistant Directors, Corporate Managers and other Budget Managers will consider the environmental impact of any savings proposals and throughout the year as they manage their budgets.
- 18.2 A number of initiatives are in progress to support the Council’s Climate Change ambitions, including HVO fuel being introduced across the Councils fleet and reduced travel and printing as a result of a large majority of staff working from home.

19. APPENDICES

Title	Location
Appendix A – Draft Capital Programme	Attached

20. BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement

General Fund Financial Monitoring 2020/21 – Quarter 2 MCa/20/11

	OUTTURN	OUTTURN	BUDGET	FORECAST	FORECAST	FORECAST
Mid Suffolk District Council - General Fund Capital Budgets	2020/21 Outturn	2020/21 Anticipated C/Fwds	2021/22 Budget	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
2021/22 to 2024/25	£'000	£'000	£'000	£'000	£'000	£'000
General Fund Account						
Housing						
Mandatory Disabled Facilities Grant	376	666	579	376	376	376
Renovation/Home Repair Grants	100	0	100	100	100	100
Empty Homes Grant	0	169	100	100	100	100
Grants for Affordable Housing	0	340	0	0	0	0
Total Housing	476	1,175	779	576	576	576
Environment and Projects						
Replacement Refuse Freighters-Jnt Schm	185	0	0	1,972	188	0
Bins	70	0	100	100	100	100
EV Charging Points	7	0	0	0	0	0
Total Environment and Projects	262	0	100	2,072	288	100
Communities and Public Access						
Vehicle and Plant Renewals	162	0	162	90	90	90
Leases on Car Parks (under new IFRS16)	0	0	0	91	0	0
Planned Maintenance / Enhancements-Car Parks	50	177	163	95	40	40
Total Community Services	212	177	325	276	130	130
Sustainable Communities						
Play equipment	85	0	65	50	50	50
Community Development Grants	320	0	189	189	189	189
Total Sustainable Communities	405	0	254	239	239	239
Leisure Contracts						
Stowmarket Leisure Cent - Improvements	0	0	405	100	100	100
Stradbroke Pool - Improvements	0	0	212	50	50	50
Stowmarket Leisure Cent - Refurbishment	1,274	1,880	0	0	0	0
Stradbroke Pool - Refurbishment	298	349	0	0	0	0
Solar Car Ports	0	223	377	0	0	0
Total Leisure Contracts	1,572	2,452	993	150	150	150
Investment and Commercial Delivery						
Planned Maintenance / Enhancements - Corporate Buildings	0	80	30	30	30	30
Leases on Property (under new IFRS16)	0	0	0	439	0	0
Strategic Investment Fund	0	3,000	0	0	0	0
Regal Theatre Regeneration	2,560	0	0	0	0	0
Wingfield Barns	20	0	20	20	20	20
Regeneration Fund	243	0	0	0	0	0
Regeneration Fund - HQ Sites	1,556	0	727	0	0	0
Gateway 14	850	997	16,003	0	0	0
CIFCO	18,605	0	0	0	0	0
Needham Lake Visitor Centre	150	470	220	0	0	0
Total Investment and Commercial Delivery	23,984	4,547	17,000	489	50	50
ICT & Customer						
ICT - Hardware / Software costs	200	196	250	250	250	250
Total Corporate Resources	200	196	250	250	250	250
TOTAL General Fund Capital Spend	27,111	8,547	19,700	4,052	1,683	1,495
GF Financing						
External Grants and contributions	376	686	879	376	376	0
s106	0	0	15	50	0	0
Capital Receipts	0	0	0	0	0	0
Transformation / GEF / BRRP Reserves	4,465	4,947	200	0	0	0
Borrowing	22,270	2,915	18,606	3,626	1,307	1,495
Other Reserves	0	0	0	0	0	0
Total GF Capital Financing	27,111	8,547	19,700	4,052	1,683	1,495