

MID SUFFOLK DISTRICT COUNCIL

TO: Cabinet	REPORT NUMBER: MCa/2029
FROM: Councillor John Whitehead, Cabinet Member for Finance	DATE OF MEETING: 8 February 2021
OFFICER: Katherine Steel, Assistant Director, Corporate Resources	KEY DECISION REF NO. CAB220

GENERAL FUND BUDGET 2021/22 AND FOUR-YEAR OUTLOOK

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the General Fund Budget for 2021/22 and four-year outlook.
- 1.2 To enable Cabinet Members to consider key aspects of the 2021/22 Budgets, including Council Tax and make any recommendations to feed into the final Budget report to Council on 18 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 General Fund Budget proposals for 2021/22 and four-year outlook set out in the report be endorsed for recommendation to Council on 18 February 2021.
- 3.2 That the 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 for endorsement 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 £1.1m 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 £1m 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.

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 £177k has been built into the 2021/22 budget. The remainder is to be transferred to either earmarked reserves or reallocated to cover Business Rates or Council Tax losses.

4.20 The headlines are as follows:

- No increase to the Business rates baseline funding - as part of the Council's own forecast budget additional income of £1.6m (including renewable energy business rates income of £479k) is expected.
- Part of the S31 grant allocation is £150m compensation for under-indexing the Business Rates multiplier, of which Mid Suffolk's share is £118k. Again, after calculating all elements of the S31 grant as part of the Council's own forecast, the net impact, is an overall increase in S31 grants of £4k.
- The Business Rates Levy and Suffolk Business Rates Pool forecasts will be calculated once all information has been received from the other Local Authorities in Suffolk in February 2021.
- Rural Services Delivery Grant increased by 4.9%, for Mid Suffolk this is an additional £21k.

- 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.
- New for 2021/22 only, a Lower Tier Services grant introduced of £111m to ensure no council sees a reduction in core spending power as a result of the £285m reduction to the 'final year' of New Homes Bonus payments. Mid Suffolk's allocation of the Lower Tier Services grant 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

Of the £102k allocated to Mid Suffolk, £32k will be distributed to Town and Parish Councils as part of the first instalment of their precept payment in April 2021. See Appendix C for a detailed breakdown. The remaining £70k will be transferred to the Business Rates and Council Tax earmarked reserve to help mitigate the impact of expected increases in Local Council Tax Support during 2021/22.

4.21 Table 1 below shows the Provisional Finance Settlement compared to the provisional 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)
LCTS grant	-	102	(102)
Included as funding	1,668	1,845	(177)
Other funding announced			
5th Tranche of COVID19 funding		438	(438)
Compensation for under-indexing the business rates multiplier. Included as part of S31 grants		118	(118)
Total	1,668	2,401	(733)

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

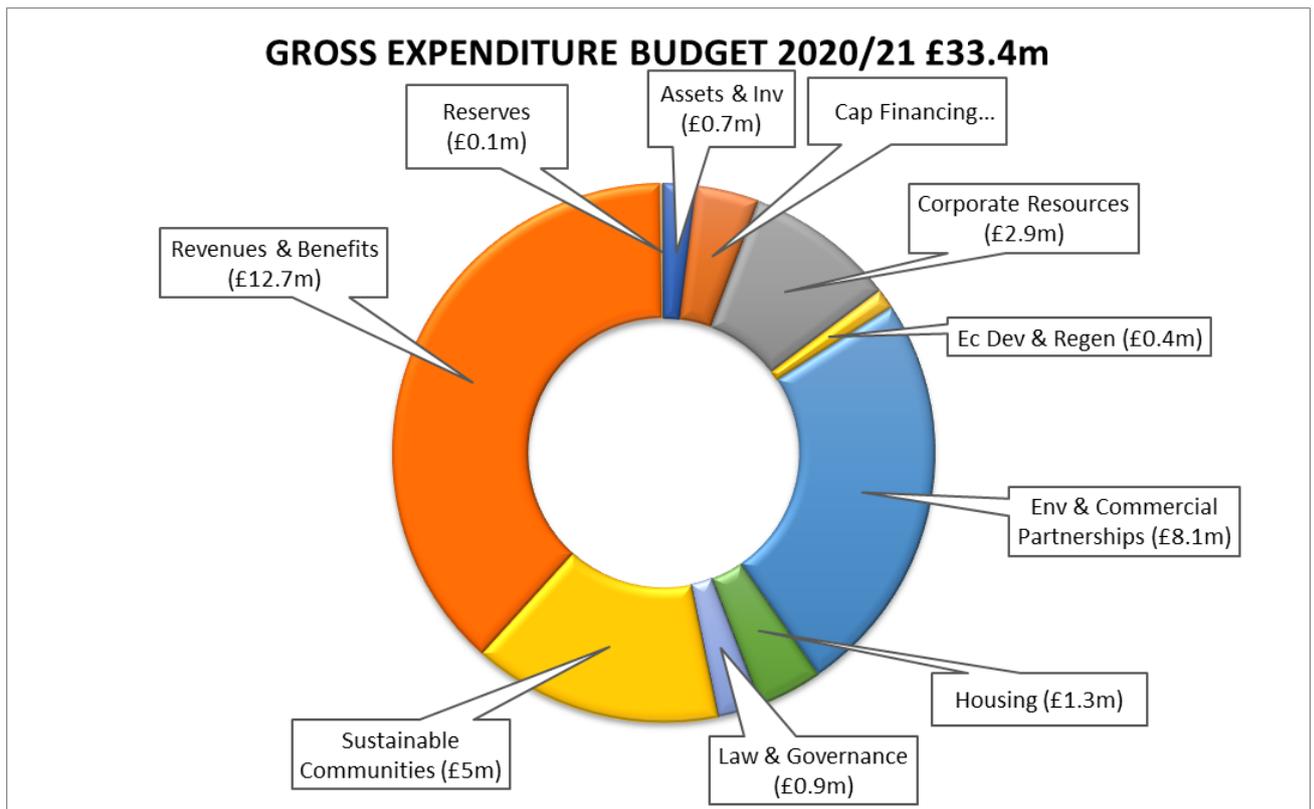
The Council's 2020/21 gross expenditure is £33.4m and Income is £23.4m giving a net cost of service of £10m. Table 2 below shows how this is funded.

Table 2: Revenue Budget 2020/21

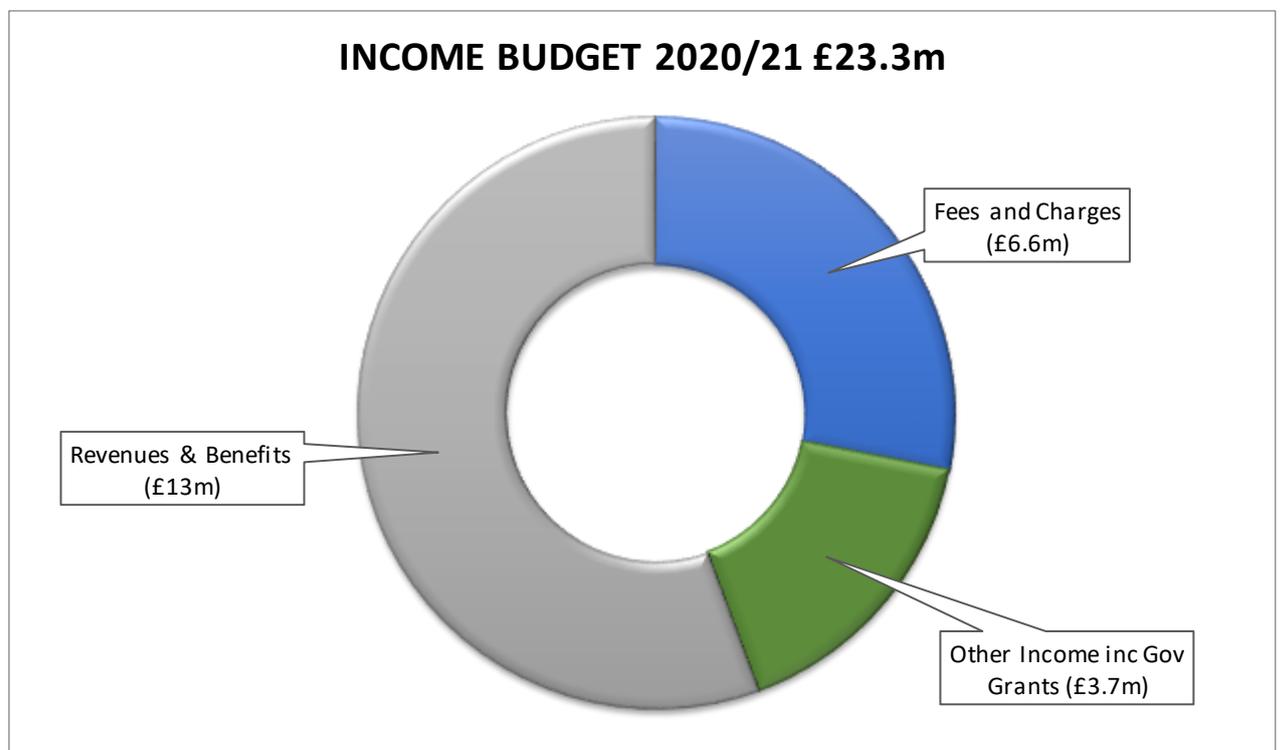
	£,000
Gross Expenditure	33,371
Income	(23,339)
Net expenditure 2020/21	10,033
Transfer to Commercial Development Risk Management Reserve	1,000
Funded by:	
Earmarked Reserves	(986)
New Homes Bonus	(1,613)
S31 Grant	(1,405)
Business Rates	(2,300)
Collection Funds (Surplus)	(27)
Rural Services Delivery Grant	(433)
Council Tax	(6,296)
Total Funding	(13,060)
Budget deficit / (surplus)	(2,027)

- 5.1 Graph 1 below shows how the £33.4m gross expenditure is allocated across the services and Graph 2 below shows the breakdown of the £23.3m 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. In order for the Council to thrive, a strong focus is placed on the wellbeing of our staff.

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
- Reduced climate change and biodiversity impact

- 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 £770k 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 £1.409m S31 grants and £1.061m New Homes Bonus to reserves as well as the surplus for the year of £3.034m.
- 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) increases by 1% 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)		(4,167)	2,808	(4,992)
Commercial Development Risk Management	(1,500)	(1,000)			(2,500)		(1,631)		(4,131)
Business Rates and Council Tax	(2,853)	140	(2,276)		(4,989)		(1,376)	2,276	(4,089)
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)		(34)	124	(343)
Temporary Accommodation	(256)		(74)	9	(320)		(95)	15	(401)
Planning (Legal)	(439)		-	333	(107)		(250)	25	(332)
Neighbourhood Planning Grants	(74)		(90)	25	(139)			32	(107)
Community Housing Fund	(243)			38	(205)			26	(180)
Strategic Planning	(64)			50	(14)				(14)
Joint Local Plan	(138)			138	-				-
Planning Enforcement	(45)				(45)		(50)		(95)
Repairs and Renewals	(292)				(292)				(292)
Welfare Benefits Reform	(7)				(7)				(7)
Well-being	(275)			1	(274)			56	(217)
Waste	(38)			20	(18)				(18)
Total Earmarked Reserves excluding CIL	(17,884)	-	(8,577)	10,969	(15,492)	-	(8,128)	5,516	(18,104)
Community Infrastructure Levy (CIL)	(16,833)				(16,833)				(16,833)
Total Earmarked Reserves	(34,717)	-	(8,577)	10,969	(32,325)	-	(8,128)	5,516	(34,937)

- 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 Councils 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 £1.631m to the Commercial Development Risk Management reserve in 2021/22 increasing the reserve to a total of £4.1m. As these developments come to fruition the level of the reserves may not be needed.
- 7.8 It is proposed that £1,376m be transferred to the Business Rates and Council Tax reserve to offset any potential impacts of non-collection, bad debts or appeals that may arise during 2021/22 and beyond.
- 7.9 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.
- 7.10 To support the unpredictable nature of planning appeals and associated legal costs, it is proposed that an additional £250k be transferred to the Planning (Legal) earmarked reserve and £50k to the Planning Enforcement earmarked reserve.
- 7.11 In addition to the earmarked reserves, the Council also holds a general fund reserve of £1.05m, 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 £2.7m a decrease on the 2021/22 position of £2.7m. 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

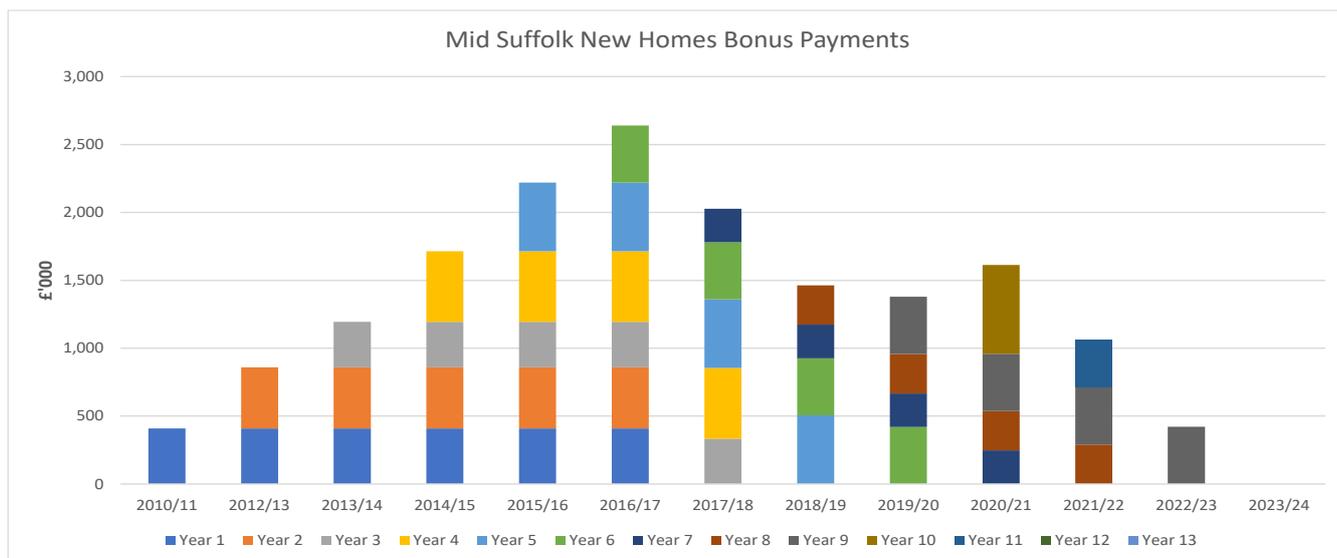
	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Amount of NHB received	2,028	1,463	1,380	1,612	1,061
NHB used to balance the budget	267	354	0	0	0
% NHB used to balance the budget	13%	24%	0%	0%	0%

- 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	Provisional	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							
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 above the 2021/22 level.
- d) Nothing has been included for forecast Business Rates surplus or deficit beyond 2020/21 based on the assumption that the business rates and council tax earmarked reserve will accommodate this.
- 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 2022/23 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 4% 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.

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:					
Other Earmarked Reserves	(736)	(520)	(127)	(49)	(49)
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)	(1,409)	(1,409)	(1,409)	(1,409)
Government Support					
(a) Baseline business rates	(2,540)	(4,128)	(4,128)	(4,128)	(4,128)
(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 surplus	(120)	(678)	-	-	-
(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	-	-
Local Council Tax Support Grant	-	(102)	-	-	-
Total Funding	(13,060)	(14,883)	(13,051)	(12,765)	(12,916)

2021/22 Budget

- 8.15 The summary in Table 7 below shows breakdown of the Council's net cost of service for 2021/22 (£9.379m) compared to 2020/21 (£10.033m), a decrease of £652k.

The Council's 2021/22 gross expenditure is £32m and Income is £22.7m giving a net cost of service of £9.3m.

Table 7:

GENERAL FUND REVENUE BUDGET SUMMARY				
		2020/21	2021/22	Movement
		£'000	£'000	£'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	4,294	(884)
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	224	157
15	Charge to HRA	(1,137)	(1,192)	(55)
15	Charge to Capital	(4)	(4)	(0)
16	Gross Expenditure	33,371	32,066	(1,304)
17	Revenues and Benefits income	(13,118)	(11,764)	1,354
18	Other Income	(6,863)	(6,515)	348
	<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)	(22,687)	652
25	Net Service Cost	10,033	9,379	(652)
26	Transfers from Reserves - earmarked	(736)	(520)	216
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)	(1,409)	(4)
30	Baseline business rates	(2,540)	(4,128)	(1,588)
31	Business rates levy	727	727	-
32	Business rates – collection fund deficit / (surplus)	(120)	(678)	(558)
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	Local Council Tax Support Grant	-	(102)	(102)
39	Total Funding	(13,060)	(14,883)	(1,823)
40	Shortfall / (Surplus) funding	(3,027)	(5,504)	(2,475)
41	Transfer to Growth and Efficiency Fund	2,027	1,697	(330)
42	Transfer to Commercial Development Risk Management reserve	1,000	1,631	631
43	Transfer to Business Rates and Council Tax reserve	-	1,376	1,376
43	Transfer to Climate Change & Biodiversity earmarked reserve	-	500	500
44	Transfer to Planning (Legal) earmarked reserve	-	250	250
45	Transfer to Planning Enforcement earmarked reserve	-	50	50

8.16 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.

8.17 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.

8.18 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

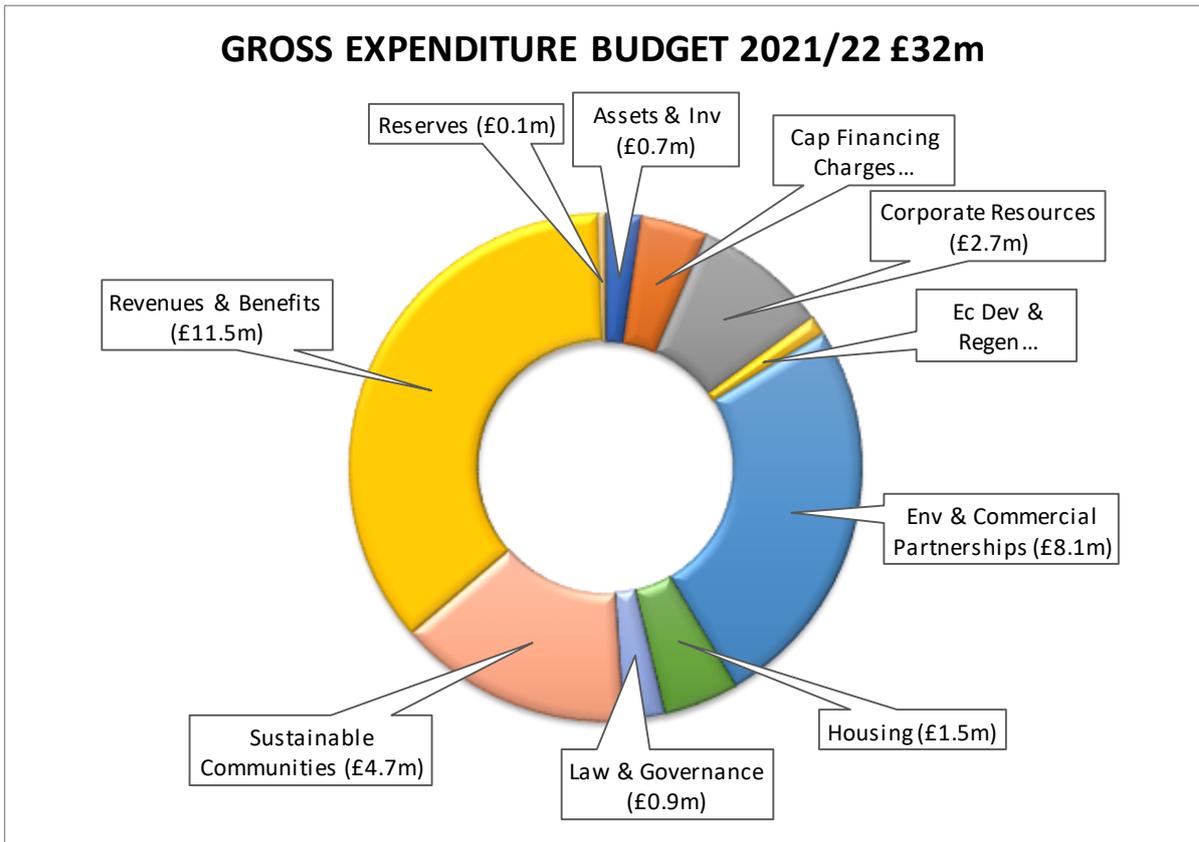
- As a result of Covid19 car parking income projections have been reduced by 30%, resulting in a reduction to income of £245k.
- Fees and charges inflationary increase of 3% totalling £62k for services including food and safety, street naming and numbering, public rights of way, rents, emptying of dog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

Capital Financing charges and Investment Income

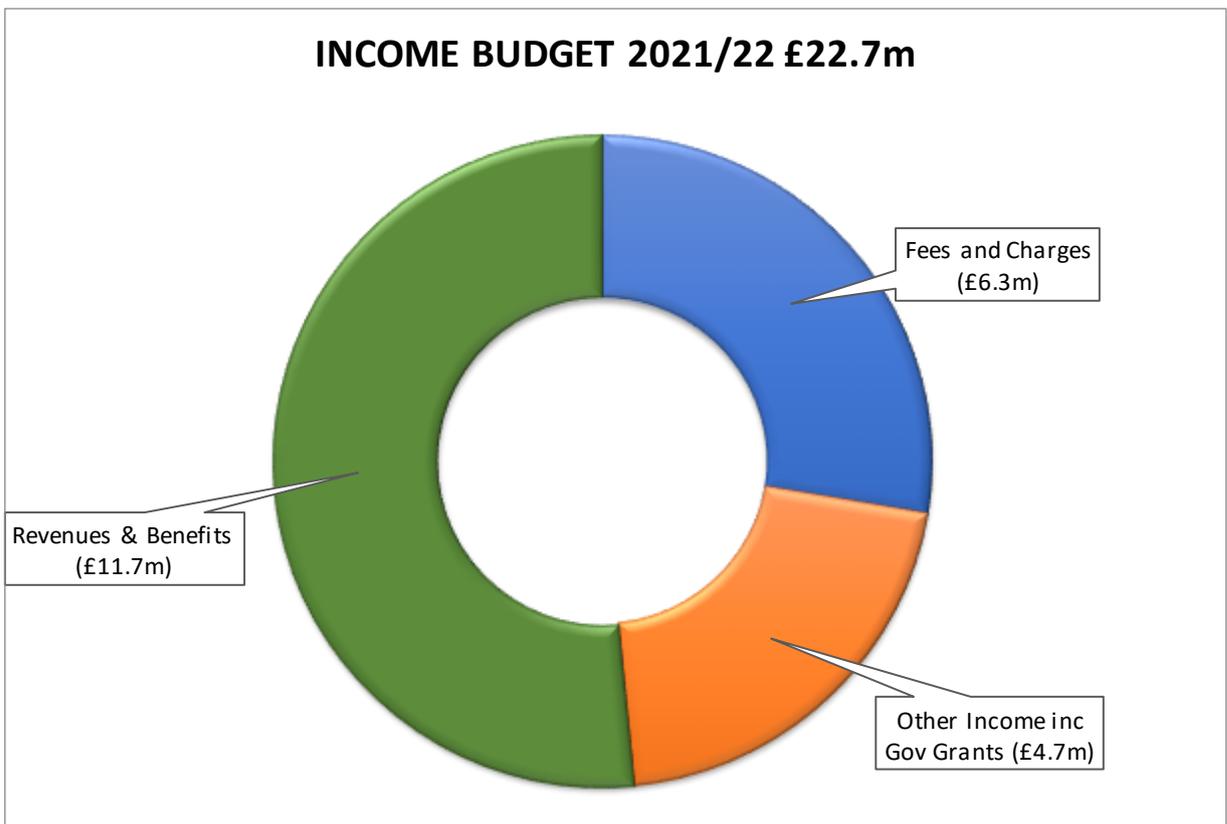
- An increase to the Council's borrowing requirements to fund the Capital Programme in 2021/22 has resulted in additional Minimum Revenue Provision (MRP) of £116k
- The Council is continuing to take advantage of low short-term interest rates for another year, saving £246k.
- With the full investment of CIFCO expected by the end of 2020/21, additional income has been included of £458k.
- Gateway14 Ltd – additional accrued income of £598k

8.19 Graph 4 below shows how the £32m gross expenditure is allocated across the services and Graph 7 below shows the breakdown of the £22.7m 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



8.20 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

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

8.22 The position for 2021/22 is a £5.5m surplus which is being used to increase the Commercial Development Risk Management reserve by £1.631m, the business rates and council tax reserve by £1.376m, the Climate Change and Biodiversity reserve by £500k, the Planning (Legal) reserve by £250k and the Planning Enforcement reserve by £50k with the remaining £1.697m being transferred to the Growth and Efficiency reserve.

8.23 Over the next three years the net cost of service increases by £0.8m, 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 73% of this increase. Whilst the Council loses £1.1m in NHB funding over the same period, the Council's use of reserves reduces by £472k.

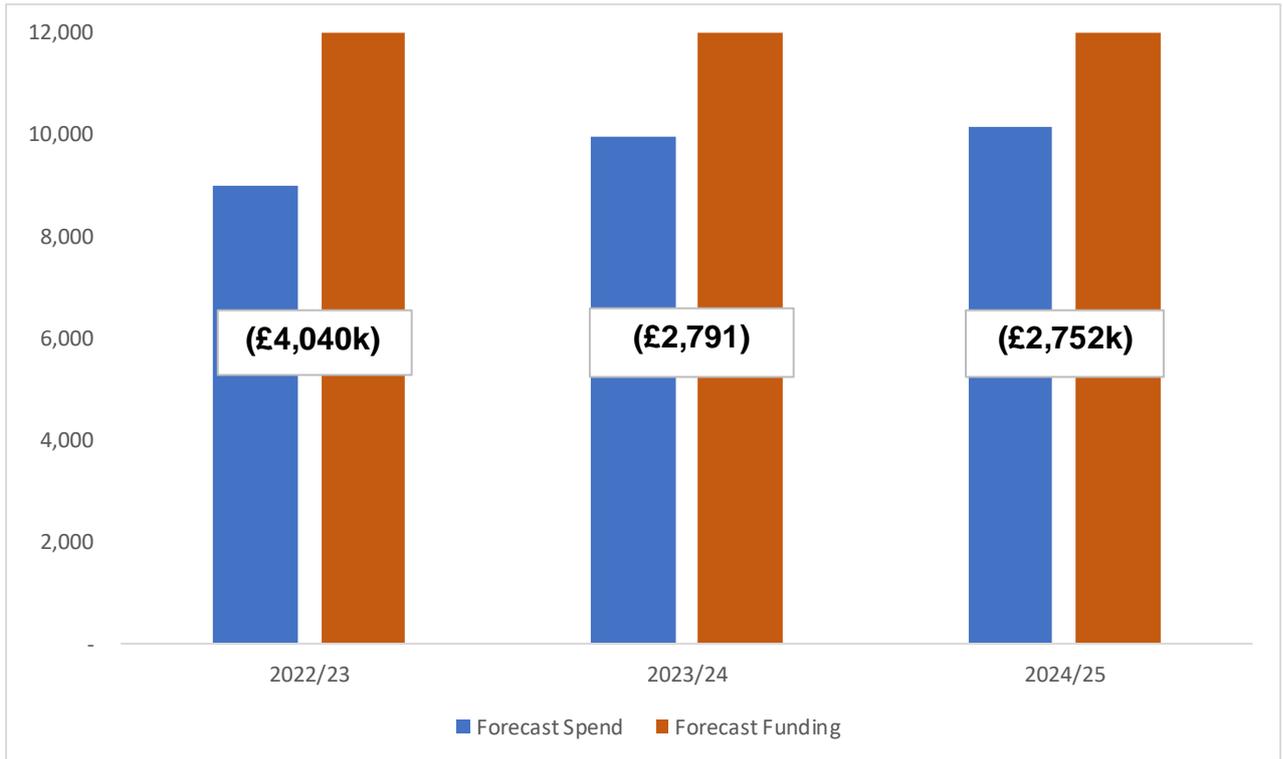
8.24 This puts the Council in a comfortable position once NHB is completely removed of achieving annual surpluses of approx. £2.7m. Over the three-year period from 2022/23 the Council's projected cumulative surplus with NHB is £9.6m.

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

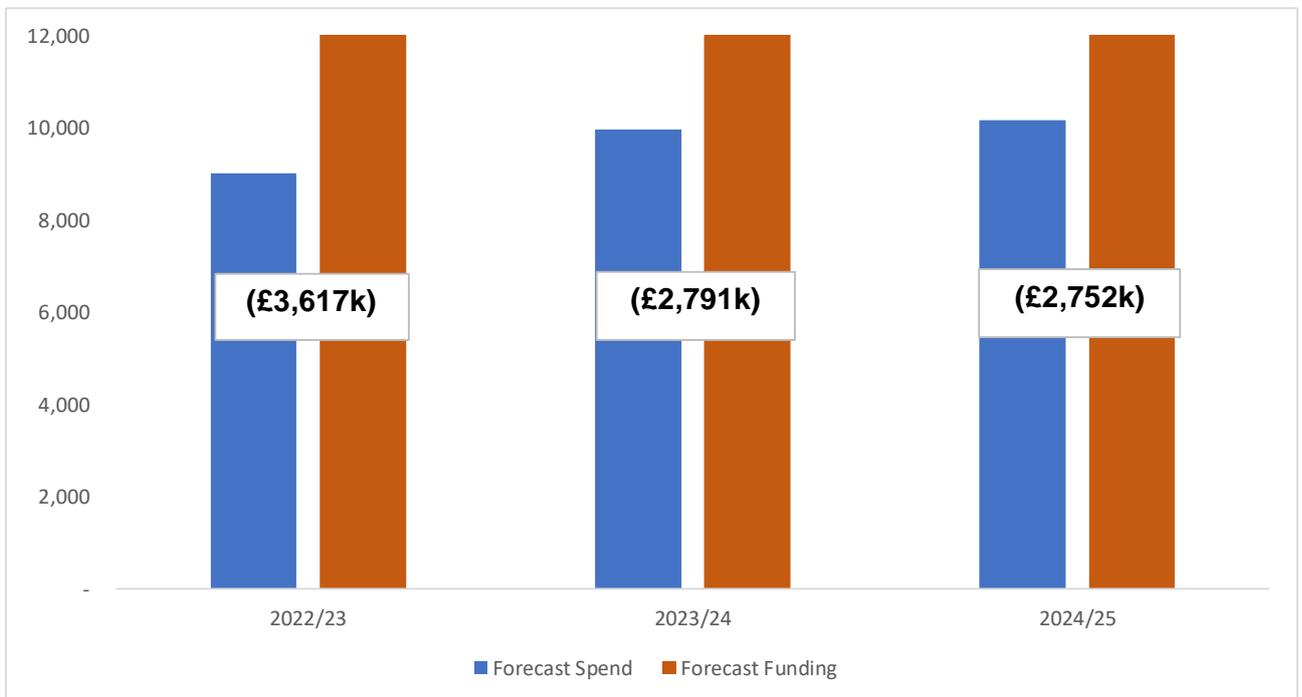
	Mid Suffolk		
	2022/23	2023/24	2024/25
Net Service Cost current year	9,012	9,974	10,165
Funding	(13,051)	(12,765)	(12,916)
Annual Deficit /(Surplus)	(4,040)	(2,791)	(2,752)
Cummulative Deficit/(Surplus)	(4,040)	(6,831)	(9,583)

	Mid Suffolk		
	2022/23	2023/24	2024/25
<u>Excluding NHB</u>			
Net Service Cost current year	9,012	9,974	10,165
Funding	(12,629)	(12,765)	(12,916)
Annual Deficit /(Surplus)	(3,617)	(2,791)	(2,752)
Cummulative Deficit/(Surplus)	(3,617)	(6,409)	(9,160)

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 was presented to Cabinet in January 2021. The impact of the charges being proposed have been built into the budget for 2021/22.

11. CAPITAL PROGRAMME

- 11.1 The detailed Capital Programme is attached at Appendix A, the 2021/22 budget totals £20m. The most significant item of planned spend is £16m for further investment in the redevelopment of the Gateway 14 site.
- 11.2 Following review by Joint Audit and Standards Committee in January 2021, 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,

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 balance 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.

Risk Description	Likelihood	Impact	Mitigation Measures
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 – Capital Programme	Attached
Appendix B - Budget, Funding and Council Tax Requirements and Robustness of Estimates and Adequacy of Reserves	Attached
Appendix C – Grant allocations to Town and Parish Councils	Attached
Appendix D - Budget Book 2021/22	Attached

20. BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement

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

CAPITAL PROGRAMME 2021/22 TO 2024/25

APPENDIX A

Mid Suffolk District Council - General Fund Capital Budgets 2021/22 to 2024/25	2020/21 Anticipated C/Fwds (A) £'000	2021/22 Budget for Approval (B) £'000	2021/22 Total Spend Required (A + B) £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000	Total Spend Required 2021/22 - 2024/25 £'000
Housing							
Mandatory Disabled Facilities Grant	666	579	1,245	376	376	376	2,372
Renovation/Home Repair Grants	0	100	100	100	100	100	400
Empty Homes Grant	169	100	269	100	100	100	569
Grants for Affordable Housing	340	0	340	0	0	0	340
Total Housing	1,175	779	1,955	576	576	576	3,682
Environment and Projects							
Replacement Refuse Freighters-Jnt Scheme	0	0	0	1,922	188	0	2,110
Hydrotreated Vegetable Oil (HVO) Fuel Storage Tanks	0	50	50	0	0	0	50
Bins	0	100	100	100	100	100	400
Total Environment and Projects	0	150	150	2,022	288	100	2,560
Communities and Public Access							
Vehicle and Plant Renewals	0	162	162	90	90	90	432
Leases on Car Parks (under new IFRS16)	0	0	0	91	0	0	91
Planned Maintenance / Enhancements-Car Parks	177	163	340	95	40	40	515
Total Community Services	177	325	501	276	130	130	1,037
Sustainable Communities							
Play equipment	0	65	65	50	50	50	215
Community Development Grants	0	189	189	189	189	189	756
Total Sustainable Communities	0	254	254	239	239	239	971
Leisure Contracts							
Stowmarket Leisure Cent - Improvements	0	405	405	100	100	100	705
Stradbroke Pool - Improvements	0	212	212	50	50	50	362
Stowmarket Leisure Cent - Refurbishment	1,880	0	1,880	0	0	0	1,880
Stradbroke Pool - Refurbishment	349	0	349	0	0	0	349
Solar Car Ports	223	377	600	0	0	0	600
Total Leisure Contracts	2,452	993	3,445	150	150	150	3,895
Investment and Commercial Delivery							
Planned Maintenance / Enhancements - Corporate Buildings	80	30	110	30	30	30	200
Leases on Property (under new IFRS16)	0	0	0	439	0	0	439
Strategic Investment Fund	3,000	0	3,000	0	0	0	3,000
Wingfield Barns	0	20	20	20	20	20	80
Regeneration Fund - HQ Sites	0	994	994	0	0	0	994
Gateway 14	997	16,003	17,000	0	0	0	17,000
Needham Lake Visitor Centre	470	220	690	0	0	0	690
Total Investment and Commercial Delivery	4,547	17,267	21,814	489	50	50	22,403
ICT & Customer							
ICT - Hardware / Software costs	196	250	446	250	250	250	1,196
Total Corporate Resources	196	250	446	250	250	250	1,196
TOTAL General Fund Capital Spend	8,547	20,017	28,565	4,002	1,683	1,495	35,744
GF Financing							
Government Grants	686	879	1,565	376	376	0	2,317
S106	0	65	65	0	0	0	65
Reserves	4,947	200	5,147	0	0	0	5,147
Borrowing	2,915	18,873	21,788	3,626	1,307	1,495	28,215
Total GF Capital Financing	8,547	20,017	28,565	4,002	1,683	1,495	35,744

Budget, Funding and Council Tax Requirements

- 1) The precept requirements of Parish / Town Councils must be aggregated with the requirement of this authority to arrive at an average Council Tax figure for the district / parish purposes. This figure however is totally hypothetical and will not be paid by any taxpayer (other than by coincidence). A schedule of the precept requirements from Parish / Town Councils will be reported to Council on 18 February 2021.
- 2) The County and the Police and Crime Commissioner's precept requirements are added to this.
- 3) The legally required calculation is set out below:
 - 1) The General Fund Budget requirement for the District Council purposes in 2021/22 will be £171.59, based on an increase to Council Tax of £2.80 per annum for a Band D property which is the equivalent to 1.66%.
 - 2) The County Council precept requirement is still to be determined but is likely to be £1,397.35 for a Band D property in 2021/22, an increase of 4%.
 - 3) The Police and Crime Commissioner's precept requirement is still to be determined but is likely to be £237.75 an increase of 6.7%.
 - 4) At the time of preparing this report, not all Parish / Town Councils have supplied formal notification of their 2021/22 precept. The final figures will be reported to Council.
- 4) Mid Suffolk is a billing authority and collects council tax and non-domestic rates on behalf of the other precepting authorities i.e. Suffolk County Council, Suffolk Police and Crime Commissioner and Parish / Town Councils. The dates that monies collected are paid over to the County Council, and the Police and Crime Commissioner ("precept dates") need to be formally agreed under Regulation 5(i) of the Local Authorities (Funds) (England) Regulations 1992.
- 5) Established practice is for payments to be made in 12 equal instalments on the 15th of each month or the next banking day if the 15th falls on a weekend or bank holiday. Accordingly, the precept dates applicable for 2021/22 are expected to be as follows:

15 April 2021	17 May 2021	15 June 2021	15 July 2021
16 August 2021	16 September 2021	15 October 2021	16 November 2021
15 December 2021	17 January 2022	15 February 2022	15 March 2022

Section 25 report on the robustness of estimates and adequacy of reserves

1. Background

- 1.1 Section 25 of the Local Government Act 2003 requires Councils, when setting its annual General Fund budget and level of council tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This report fulfils that requirement for the setting of the budget and council tax for 2021/22.
- 1.2 This is to ensure that when deciding on its budget for a financial year, Members are made aware of any issues of risk and uncertainty, or any other concerns by the Chief Financial Officer (CFO). The local authority is also expected to ensure that its budget provides for a prudent level of reserves to be maintained.
- 1.3 Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its CFO and is heading for financial difficulty. The Section 151 Officer and Members, therefore, have a responsibility to ensure in considering the budget that:
 - It is realistic and achievable and that appropriate arrangements have been adopted in formulating it.
 - It is based on clearly understood and sound assumptions and links to the delivery of the Council's strategic priorities.
 - It includes an appropriate statement on the use of reserves and the adequacy of these.

2. Basis of Advice for Section 25 Report

- 2.1 In forming the advice for this year's Section 25 report, the CFO has considered the following:
 - a) The role of the Chief Finance Officer
 - b) The effectiveness of financial controls
 - c) The effectiveness of budget planning and budget management
 - d) The adequacy of insurance and risk management
 - e) The mitigation of strategic financial risks
 - f) The Capital Programme

a) Role of the Chief Finance Officer

- 2.2 The statutory role of the Chief Finance Officer in relation to financial administration and stewardship of the Council, and its role in the organisation are both key to ensuring that financial discipline is maintained.
- 2.3 The statutory duties of the Chief Finance Officer are set out in the Financial Regulations which form part of the Council's Constitution. These include the requirement to report to council if there is an unbalanced budget (under Section 114 of the Local Government Act 1988).

2.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Statement on the Role of the Chief Financial Officer (CFO) in Local Government. The Statement requires that in order to meet best practice the CFO:

- a) is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- b) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
- c) must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- d) must lead and direct a finance function that is resourced to be fit for purpose; and
- e) must be professionally qualified and suitably experienced.

2.5 In October 2019, CIPFA published The CIPFA Financial Management Code, introduced in April 2020 and fully operational from April 2021. This code complements the Statement on the Role of the Chief Financial Officer, developing a set of financial management standards to be complied with. The standards emphasise how financial management is a collective responsibility of the Council's Corporate Leadership Team, acting alongside the CFO, stating that "it is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. Although not yet adopted these standards have been considered in drafting this statement.

b) Financial Controls

2.6 In December 2019, CIPFA provided the Council's Section 151 Officer with analysis relating to Mid Suffolk District Council from its newly developed 'Resilience Index' tool, designed to support and improve discussions surrounding local authority financial resilience. The tool is based on a series of indicators relating to the sustainability of reserves, external debt, fees & charges and income from local taxation (business rates and council tax). The information is based on the latest available annual data and reserves measures. The 2020 version has yet to be published by CIPFA and it is anticipated for some time in February. Information will be provided in the final report for Council if it is published in time. The following paragraphs describe how Mid Suffolk compared to its nearest neighbours last year, which are the councils that are statistically similar and is likely to be similar to what will be published this year.

2.7 The tool shows that the only areas where Mid Suffolk is higher risk is on external debt and interest payable compared to its nearest neighbours. This reflects the fact that we had to take on a significant amount of debt in relation to our housing stock in 2012 and our strategy to borrow money to generate a return to the council e.g. CIFCO and Gateway 14 to replace reduced government funding. Based on this, I would expect Mid Suffolk to be higher than other authorities, but the decisions taken have been based on robust business cases and full consideration of the risks.

- 2.8 As a counterbalance to the higher risk on debt and interest costs, Mid Suffolk is low risk in terms of its level of reserves and changes in the level of reserves. Reserves could be used in the short term to offset the effect of any changes to investment plans, if required.
- 2.9 Alongside the statutory role of the CFO the Council has in place a number of financial management policies and financial controls which are set out in the Financial Regulations.
- 2.10 Other safeguards which ensure that the Council does not over-commit financially include:
- a) the statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment;
 - b) the balanced budget requirement of the Local Government Finance Act 1992 (Sections 32, 43 and 93); and
 - c) the auditors' consideration of whether the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).
- 2.11 The Council conducts an annual review of the effectiveness of the system of internal control and reports on this in the "Annual Governance Statement".
- 2.12 The internal and external audit functions play a key role in ensuring that the Council's financial controls and governance arrangements are operating satisfactorily. This is backed up by the review processes of Cabinet and the Joint Audit and Standards Committee undertaking the role of the Council's Audit Committee.

c) Budget Planning and Budget Management

- 2.13 The financial planning process is Councillor-led as Cabinet decides the principles and policies that underpin budget planning. The Budget Report describes the strategy for 2021/22 and beyond.
- 2.14 Cost pressures and variations in key areas of income and expenditure have been carefully considered and reflected in the budget.
- 2.15 Key assumptions have been made and updated during the budget process to reflect the changing economic position and latest information. The continuing impact of Covid-19 on the Council's finances and budget assumptions for 2021/22 has also been considered and included in the process.
- 2.16 Detailed scrutiny, review and challenge of budgets has been undertaken by finance officers and the Senior Leadership Team.
- 2.17 There has been an examination by the Overview and Scrutiny Committee in advance of the budget being approved. The recommendations made by the Committee are considered by Cabinet before the budget is presented to Council.

2.18 A key factor in effective budget management is the Council's regular monitoring of spending against budgets throughout the year and at year-end. Budget managers are required to update their forecasts during the year and these are subject to review by Cabinet on a quarterly basis. The development of budget managers and initiatives to strengthen budgetary control and financial management throughout the Council is an ongoing process.

2.19 The Council has a proven track record on budget management, which is confirmed by Ernst & Young in their Annual Audit Letter. The auditors are required to form a conclusion on the arrangements the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. There has been a delay in the external audit process for 2019/20, but an unqualified opinion was achieved for 2018/19 and is expected again for 2019/20.

2.20 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.

d) Adequacy of Insurance and Risk Management

2.21 The Council's insurance arrangements are in the form of external insurance premiums with regular reviews being undertaken of the level at which risks are insured.

2.22 A critical area where risk management thinking can add significant value is to enhance the planning and budgeting process. Utilising a risk-based approach directly links to the Council's risk appetite to its core financial and economic performance, supported by the Council's Significant Risk Register. The goal when integrating risk management into budget planning is to understand the assumptions that the budget is based on.

2.23 The effective application of the Council's risk management principles enhances many processes within the context of managing its services and enables management to make better and more informed decision.

2.24 Our approach is to identify the major line items of each service budget, the personnel who contributed to them and the basis of estimation and then to ask key questions such as:

- What are the potential risks that could interfere with the accuracy of the estimate?
- What is the likelihood of these risks materialising?
- What would the impact on the organisation be if they did materialise?

e) Mitigation of Strategic Financial Risk

2.25 No budget can be completely free from risk and this is especially true with the ongoing Covid-19 pandemic affecting the Councils finances. Some comments on the areas of the budget having key financial impacts or significant changes for 2021/22 are set out below:

- **Covid-19** – With the prolonged duration of the Covid-19 pandemic there is likely to be an ongoing financial impact into 2021/22 and beyond in terms of increased costs and reduced income. The cost pressures are likely to be seen for homelessness, leisure provision and community grants. The reduced income is likely to be seen for car parking, council tax and business rates, but depending upon the extent of the continuing impacts it could also be seen in terms of trade and garden waste, planning income and commercial income. The Government has announced that funding support measures will continue into the first quarter of 2021/22 to assist with these impacts.
- **Pay and Pensions** – The budget includes provision for pay increases of 2% for each of the 4 years to 2024/25 and continues to provide for annual progression through pay scales where employees are not at the top of their grades. A public sector pay freeze was announced as part of the provisional local government financial settlement, but as local authorities are part of a different pay agreement the allowance at 2% has been retained. A 1% change in pay amounts to around £96k per annum.

Based on the 2019 triennial pension fund valuation a decrease of 1% per annum has been included for each of the three years that commenced from 2020/21.

The Council's establishment budget is based on a full establishment. To allow for in-year vacancy savings the budget includes an annual vacancy saving of £410k, which equates to 5%.

- **Price Increases** – Allowances for price increases have been made on some budgets including major contracts, where there is a contractual requirement to do so. For other areas the budget assumes any price inflation is absorbed by the service. A 1% change in the refuse and ICT contracts and the Shared Revenues Partnership is around £39k.
- **Income from Fees and Charges** – A significant part of the Council's costs continues to be met from fees and charges. For some of these headings it is difficult to predict the level of income to be received e.g. planning fees, so progress against these income targets will need to be monitored throughout the year, particularly in the light of continuing economic volatility as a result of the Covid-19 pandemic. A 30% reduction in the car parking income has been built into the budget to reflect an anticipated reduction in visitor numbers to car parks during 2021/22. A 1% change in income from planning, building control, garden waste, car park and recycling performance payments income is around £46k.
- **Investment Income and Interest Payable** – Since 2009 interest rates have produced low returns from investments, but the Council has diversified its investments into a property fund and other pooled funds, following advice from Arlingclose, to increase the return on investment. Following implementation of International Financial Reporting Standards (IFRS) and how changes to the year-end values of pooled funds have to be treated could encourage the redemption of holdings and reduce the anticipated level of return, but this will not come into force until April 2023.

The Council has made other commercial investments to generate income or regenerate an area, but the income generation aspect will be restricted in future following the changes to the lending terms of the Public Works Loan Board (PWL) from November 2020. Where this investment is relying

on borrowing as the funding source then any return will be subject to changes in interest rates. The 2021/22 budget includes the full year effect of the second £25m investment in CIFCO to generate additional income, but no further investments will be made, enabling the Council to access the PWLB for housing and other economic development and regeneration purposes.

- **Business Rate Retention** – As business rates is an increasingly important source of income for the Council, measures for closer monitoring have been put in place. Under the current retention system, the General Fund's exposure to variances can come from economic decline, cessation of business from a major ratepayer and appeals to rateable values, all of which have been seen during the Covid-19 pandemic in the current year. The Council operates a Business Rates and Council Tax Reserve to cover for this possibility as appropriate and the Government is providing some funding to cover irrecoverable tax losses.

The change to 75% retention of business rates and the reset have been deferred and a more fundamental review of the system may take place during 2021/22. The figures beyond 2021/22 assume a continuation of resources at the current level, but this is unknown. If baseline funding levels should reduce, the Business Rates and Council tax Reserve could be used to support a short-term reduction, but medium-term plans and resources would need to be reviewed.

- **Council Tax Income and the Tax Base** - The increasing numbers of people claiming Council Tax Reduction Support (LCTRS) during the current year and increasing arrears from collection have had a negative impact on the tax base calculation for 2021/22. A 2.2% reduction has been calculated and used in the budget process, but if LCTRS numbers increase more than anticipated at the end of the furlough scheme, this will have a negative impact on council tax income. The Government has provided an LCTRS grant for 2021/22 to mitigate the impact, but this may not be sufficient.
- **Government Funding** – The Council's share of Revenue Support Grant (RSG) ended after 2018/19 and in theory is now in a negative RSG position i.e. money to be paid to the Government for redistribution. This has again been offset by centrally retained business rates money for 2021/22 as it was for 2019/20 and 2020/21. The Council's core Government funding is now reduced to Rural Services Delivery Grant (RSDG), New Homes Bonus (NHB) and a new Lower Tier Services Grant for 2021/22 only. 2021/22 is a further one-year settlement from the Government with a new 4-year Comprehensive Spending Review expected during 2021/22. Funding levels beyond 2021/22 are therefore currently uncertain, so the medium-term figures are based on the current level of RSDG continuing and NHB reducing each year and disappearing by 2023/24.
- **Welfare Reforms, Benefits and Council Tax Reductions** – At a forecast of £14m for 2021/22, housing benefit remains one of the Council's largest financial transactions, which due to the welfare reforms and introduction of Universal Credit and the Council Tax Reduction scheme is subject to increasing risk and change. This will continue to be closely monitored in order to protect the Council from any emerging risks and liabilities.

f) **Capital Programme**

- 2.27 The Council's capital programme for the next 4 years is £9.9m which is largely funded through borrowing and is based upon reasonable estimates of cost and capacity to deliver the programme. The programme has been developed to support the key deliverables of the Council and its ambition through the Joint Corporate Plan.
- 2.28 A key risk therefore to consider in the Council's budget planning is the interest cost and provision for repayment of debt (Minimum Revenue Provision – MRP) that it will need to meet commitments on the borrowing it undertakes for capital purposes.
- 2.29 Review of the capital programme on an ongoing basis is required to ensure that future borrowing is targeted on projects that deliver the most for the district and are affordable within the current revenue resources.
- 2.30 The borrowing strategy and MRP policy are set out in detail in the Capital, Investment and Treasury Management Strategies document.

Conclusion

- 2.31 Taking all of the above into consideration, the Section 151 Officer's opinion is that the Council's budget and estimates are reasonable based on the assumptions and available information, but cannot be absolutely robust, so a full assurance cannot be given that there will be no unforeseen adverse variances.
- 2.32 This is an expected and acceptable situation for any organisation that is dealing with a large number of variables. Also, the general economic situation resulting from the ongoing Covid-19 pandemic continues to impact on expenditure and income. The minimum safe level of reserves proved to be sufficient to manage the impact of the Covid-19 pandemic in 2020/21, alongside the support provided by the Government, which has been the single largest impact on local authorities finances in recent years, so provided this is maintained, any variations arising as a result of lack of robustness in the estimates should be manageable.

3 **Adequacy of Reserves**

- 3.1 There is no available guidance on the minimum level of reserves that should be maintained. Each authority should determine a prudent level of reserves based upon their own circumstances, risk and uncertainties. Regard has been had to guidance that has been issued to CFO's and the risks and uncertainties faced.
- 3.2 The Council is required to maintain adequate financial reserves to meet the needs of the authority. This is the General Reserve and provides a safe level of contingency.
- 3.3 The CFO's opinion is that the minimum level of unearmarked reserves should be maintained at the current level of £1.2m without increasing the risk to the Council, as this has proven to be sufficient during the Covid-19 pandemic alongside the level of support provided by the Government. This represents 12% of the annual General Fund Budget, so no action is required as part of the 2021/22 budget. This is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2021/22 as set out below.

- 3.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account but including the Transformation Fund) are forecast to be £18.1m as at 31 March 2022. The Transformation Fund is continuing to support the delivery of the Council's Joint Corporate Plan in 2021/22.

4. Background Documents

Local Government Act 2003; Guidance Note on Local Authority Reserves and Balances – CIPFA 2003; Medium Term Financial Strategy

Katherine Steel
Assistant Director, Corporate Resources
(Section 151 Officer)

LCTRS Grant allocations to Town and Parish Councils

Town & Parish Council	LCTS Grant Allocation £
Akenham	0.00
Ashbocking	102.00
Ashfield-cum-Thorpe	53.00
Aspall	0.00
Athelington	9.00
Bacton	372.00
Badley	0.00
Badwell Ash	293.00
Barham	457.00
Barking	104.00
Battisford	121.00
Baylham	0.00
Bedfield	109.00
Bedingfield	72.00
Beyton	191.00
Botesdale	343.00
Braiseworth	0.00
Bramford	938.00
Brome and Oakley	175.00
Brundish	46.00
Burgate	34.00
Buxhall	113.00
Claydon	707.00
Coddenham	204.00
Combs	164.00
Cotton	152.00
Creeting St Mary	203.00
Creeting St Peter	54.00
Crowfield	128.00
Debenham	774.00
Denham	49.00
Drinkstone	140.00
Earl Stonham	146.00
Elmswell	1,242.00
Eye	1,026.00
Felsham	161.00
Finningham	138.00
Flowton	0.00
Framsden	82.00
Fressingfield	405.00

LCTRS Grant allocations to Town and Parish Councils

Town & Parish Council	LCTS Grant Allocation £
Gedding	47.00
Gipping	15.00
Gislingham	342.00
Gosbeck	52.00
Great Ashfield	115.00
Great Blakenham	616.00
Great Bricett	93.00
Great Finborough	249.00
Harleston	73.00
Haughley	643.00
Helmingham	51.00
Hemingstone	47.00
Henley	189.00
Hessett	137.00
Hinderclay	122.00
Horham	85.00
Hoxne	309.00
Hunston	0.00
Kenton	51.00
Langham	0.00
Laxfield	355.00
Little Blakenham	70.00
Little Finborough	0.00
Mellis	158.00
Mendham	132.00
Mendlesham	531.00
Metfield	160.00
Mickfield	71.00
Monk Soham	54.00

LCTRS Grant allocations to Town and Parish Councils

Town & Parish Council	LCTS Grant Allocation £
Needham Market	1,775.00
Nettlestead	0.00
Norton	307.00
Occold	171.00
Offton	148.00
Old Newton with Dagworth	408.00
Onehouse	210.00
Palgrave	284.00
Pettaugh	47.00
Rattlesden	314.00
Redgrave	198.00
Redlingfield	0.00
Rickinghall Inferior	179.00
Rickinghall Superior	223.00
Ringshall	76.00
Rishangles	0.00
Shelland	14.00
Somersham	213.00
Southolt	0.00
Stoke Ash	75.00
Stonham Aspal	141.00
Stonham Parva	118.00
Stowlangtoft	63.00
Stowmarket	6,993.00
Stowupland	870.00
Stradbroke	528.00
Stuston	44.00
Syleham	47.00
Tannington	0.00
Thorndon	182.00
Thornham Magna	72.00
Thornham Parva	14.00
Thrandeston	28.00
Thurston	908.00
Tostock	151.00

LCTRS Grant allocations to Town and Parish Councils

Town & Parish Council	LCTS Grant Allocation £
Walsham-le-Willows	402.00
Wattisfield	149.00
Westhorpe	51.00
Wetherden	174.00
Wetheringsett-cum-Brockford	231.00
Weybread	136.00
Whitton	22.00
Wickham Skeith	107.00
Wilby	87.00
Willisham	64.00
Wingfield	121.00
Winston	34.00
Woolpit	683.00
Worlingworth	233.00
Wortham	225.00
Wyverstone	108.00
Yaxley	142.00
Darmsden	0.00
Thwaite	36.00
TOTAL TOWN & PARISH COUNCIL ALLOCATION	31,880.00