

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet		REPORT NUMBER: BCa/21/35
FROM:	Councillor Simon Barrett, Cabinet Member for Finance	DATE OF MEETING: 7 February 2022
OFFICER:	Katherine Steel, Assistant Director, Corporate Resources	KEY DECISION REF NO. CAB283

GENERAL FUND BUDGET 2022/23 AND FOUR-YEAR OUTLOOK

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the General Fund Budget for 2022/23 and four-year outlook.
- 1.2 To enable Cabinet Members to consider key aspects of the 2022/23 Budgets, including Council Tax and make any recommendations to feed into the final Budget report to Council on 21 February 2022.

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 2022/23 and four-year outlook set out in the report be endorsed for recommendation to Council on 21 February 2022.
3.2 That the General Fund Budget for 2022/23 is based on a 2% increase to Band D Council Tax.
REASON FOR DECISION
To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Council's General Fund budget for endorsement and recommendation to Council.

4. KEY INFORMATION

Background and COVID19

- 4.1 In February 2021 Babergh District Council approved the General Fund Budget 2021/22 and Four-Year Outlook. The budget was prepared during one of the most challenging and uncertain times due to the impacts of COVID19 on the Council's finances, staff, residents, and local economy. Income streams were reviewed when setting the budget and revised where appropriate and any COVID19 related costs were assumed to be funded from the COVID19 reserve.
- 4.2 The financial impact of COVID19 continues to be monitored during 2021/22 and the current forecast was presented to Cabinet in December as part of the second quarter budget monitoring report. As time passes more information is gathered about the impact and how this may affect the Council's finances going forward, but some uncertainty continues particularly in terms of what permanent changes in behaviour will be seen.
- 4.3 The Government provided some funding for the impact of COVID19 for the first quarter of 2021/22, in addition to what was allocated during 2020/21, but it is unlikely that any further funding will now be provided, so the Council needs to manage any continuing adverse impacts within the resources available.

2021/22 Budget and Forecast Outturn

- 4.4 On 23 February 2021 the Council set a balanced budget for 2021/22. This comprised gross expenditure of £33.7m and income of £23.3m, to give a net service budget of £10.4m, which is primarily funded from council tax, business rates and government grants. In addition, there was a new capital allocation totalling £6.2m. Chart 1 below shows how the £33.7m gross expenditure is allocated across the services and Chart 2 below shows the breakdown of the £23.3m income.

Chart 1: Gross Expenditure by service area in 2021/22 (£33.7m)

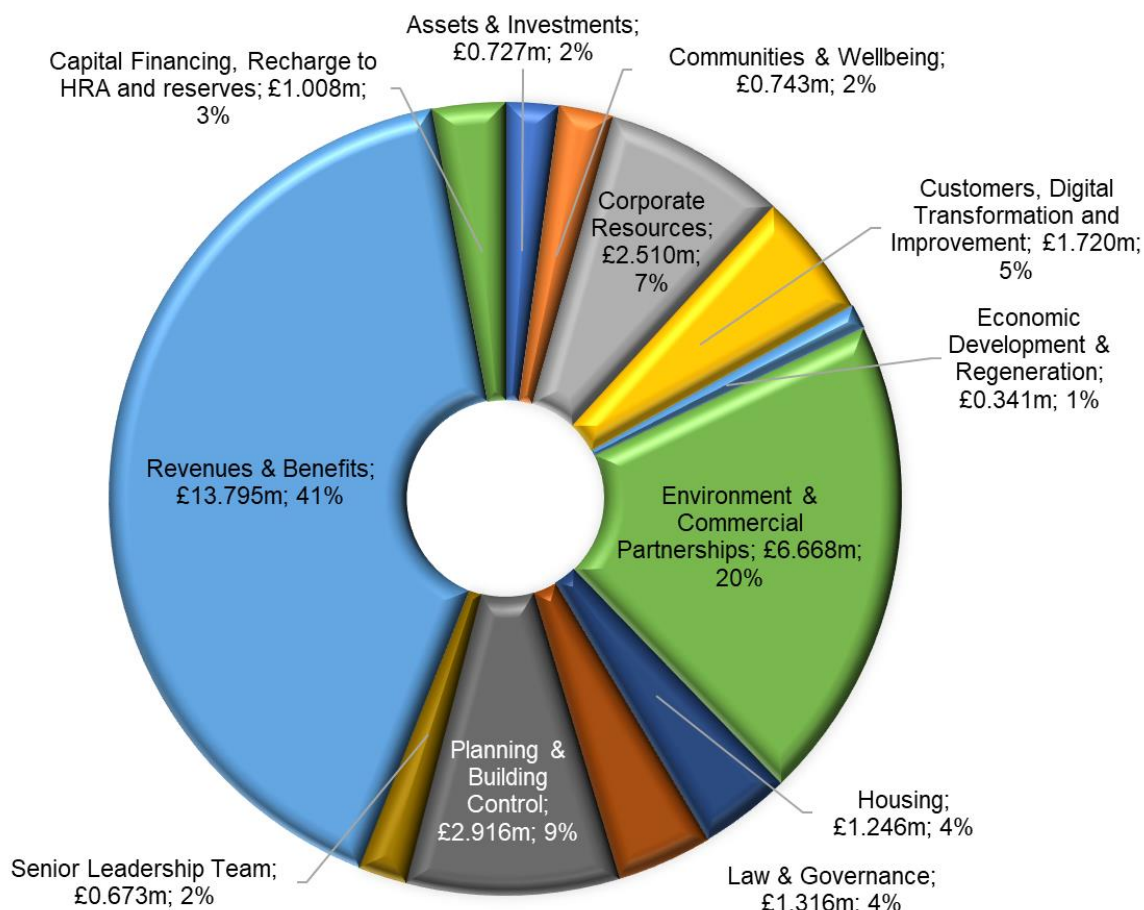
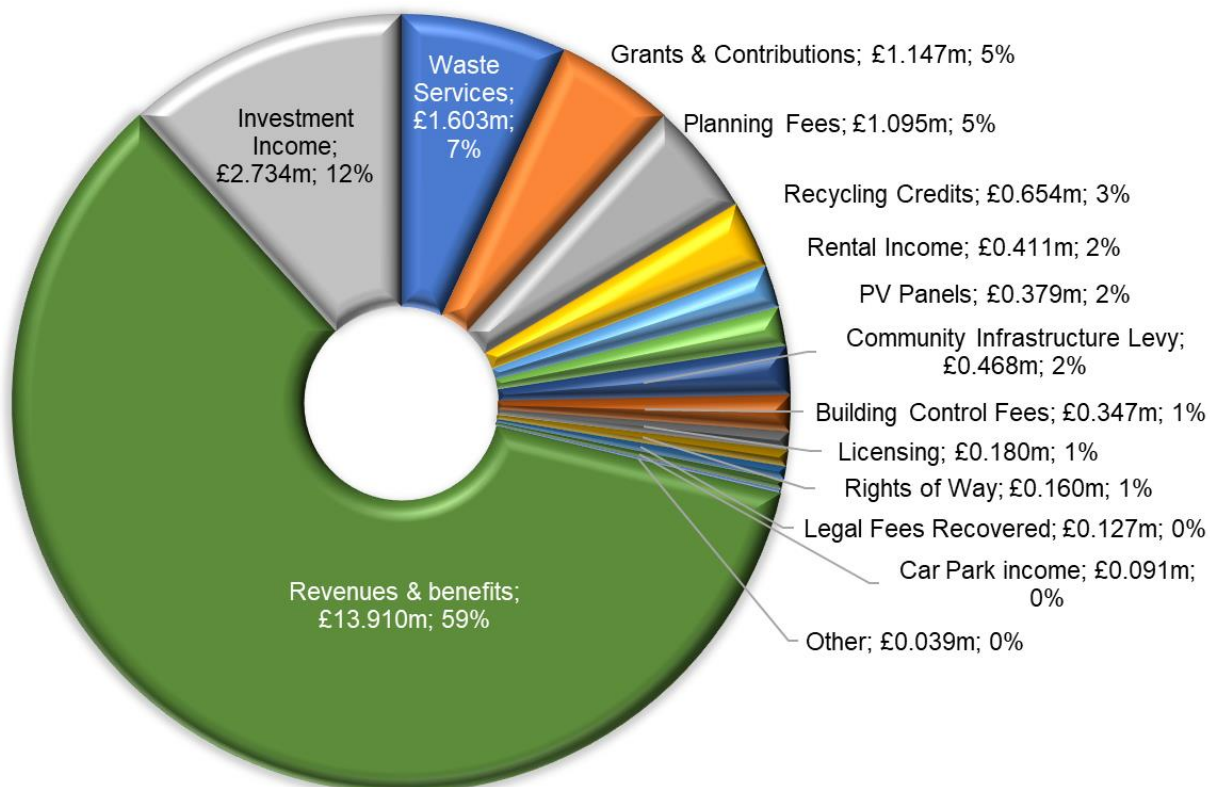


Chart 2: Service Income in 2021/22 (£23.3m)



- 4.5 The second quarter budget monitoring report was presented to Cabinet on 6 December 2021 showing a forecast surplus position as at 31 March 2022 of £320k. There are several variances which contribute to the overall position, that are detailed in the report, but two key factors are planning application income continues to exceed the budget and one-off additional income from the Suffolk business rates pool.
- 4.6 The third quarter position will be presented to Cabinet on 7 March 2022.

Medium Term Financial Strategy (MTFS) 2022-2026

- 4.7 To achieve the Vision, the Council needs to take a medium-term view of the budget through a robust financial strategy that is focused on delivering the six corporate strategic priorities.



- 4.8 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, to enable additional investment into the district.

4.9 There are 3 key elements that need to be carefully balanced to ensure success, which are:

- Cost management
- Income generation and
- Service levels.

4.10 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. For the Council to thrive, a strong focus is placed on the wellbeing of our staff and residents.

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, where financially viable

4.11 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.

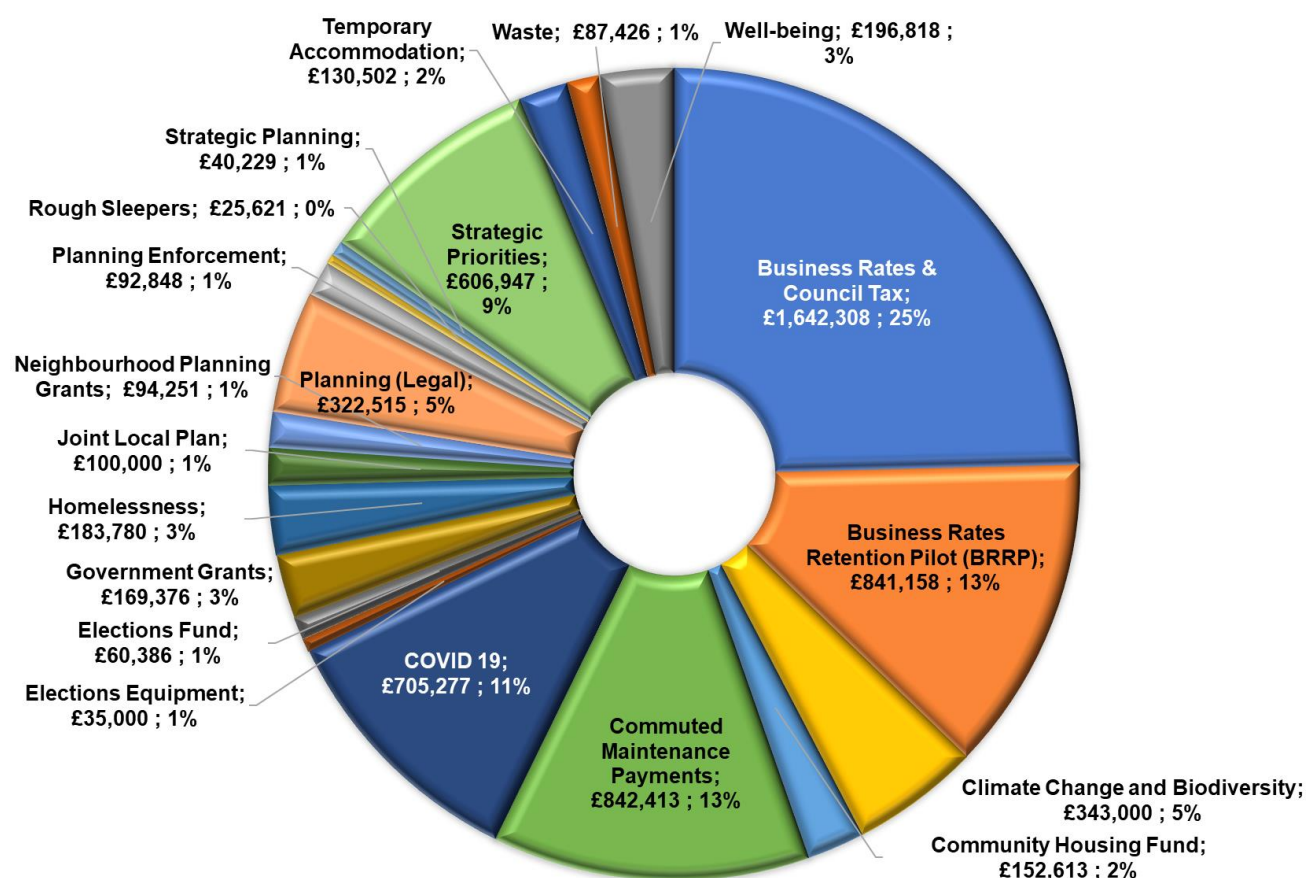
4.12 The approach below shows in more detail for each element the methodology that has been adopted to achieve this.



- 4.13 Further work will continue in 2022/23 and a corporate plan will be established early in the new year to drive out inefficiencies across the organisation, but this is likely to require additional resources and investment. The Council will continue this approach to further transform the way it operates over the next three years, including looking at new working methods by building on the changes made to practices during the COVID19 pandemic.
- 4.14 A further key element of the Strategy is having adequate reserves available to manage any unexpected changes to spending and funding plans. They are a fundamental part of the way the Council manages its business risks and maintains a stable financial position.
- 4.15 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.
- 4.16 Reserves only provide one-off funding, so a core principle is that reserves should not be used to cover ongoing gaps between expenditure and funding and should be replenished as soon as practicable when used.
- 4.17 There are generally two types of reserves: unallocated and earmarked. The unallocated reserve is known as the General Fund Balance and is held by the Council to manage the financial risks it faces, and to ensure that it can remain solvent should any of these risks become realised. This reserve currently stands at £1.2m. It traditionally represents about 10% of the net budget, but is currently standing at 12%. As it was not used during the COVID19 pandemic. it has been reviewed and it is proposed to reduce it to £1m for 2022/23 and the remaining £0.2m be used to supplement the communities grant programme. Earmarked reserves are held by the Council's services and used to pay for specific commitments or set aside for

anticipated projects and programmes. The projected earmarked reserves position as at 31 March 2022 is shown in the chart below.

Chart 3: Projected Earmarked Reserves Balances at 31st March 2022 (£6.7m)



Changing Landscape for Local Government

4.18 Over recent months there have been some consultations and announcements that indicate the Government's wish to ensure that local government focuses on its core functions rather than expanding into what are seen as more 'commercial' or 'private sector' type activities. Some examples are:

- Changes to the Public Works Loan Board (PWLB) lending criteria to exclude the ability to borrow to invest in commercial property to generate income.
- Consultations on the CIPFA Treasury Management and Prudential Codes to strengthen the intention around commercial investments and provide clarity about borrowing and investments
- Government consultation about minimum revenue provision and use of capital receipts from commercial activity

4.19 The Council will need to have regard to these changes and the new operating parameters when considering future activity under the MTFS.

National Economic Position

- 4.20 The Office for Budget Responsibility's (OBR) economic forecasts, provided alongside the Chancellor's Comprehensive Spending Review (SR21) in October, show improvement compared with the numbers from March 2021. The economic scarring from the pandemic is now forecast to be 2% of Gross Domestic Product (GDP) compared to 3% forecast in March 2021 and economic growth is forecast to be 6.5% in 2021, 6% in 2022 and 2.1% in 2023 showing a strong recovery from last year's deep recession. The forecasts for the years beyond are more worrying at 1.3% in 2024, 1.6% in 2025 and 1.7% in 2026, as this is below the long-term trend of 2% and may signal difficulty in the ability to generate tax receipts to fund growing spending pressures for social care and the NHS.
- 4.21 The central government budget deficit peaked at £320bn in 2020/21 before falling to an estimated £183bn in 2021/22. The figure for the current year is about £35bn less than the March 2021 estimate and net borrowing is expected to settle around £50bn per annum.
- 4.22 The Consumer Price Index (CPI) dropped significantly in 2020 during the pandemic but had risen to 3.1% in September and has gone up further to 5.1% in November and 5.4% in December 2021. It is expected to hit a peak in the next few months before returning to its target level of 2% by 2023 or 2024, although economic commentators are increasingly challenging that assumption.
- 4.23 The Chancellor presented the Comprehensive Spending Review (SR21) on 27 October 2021 in the context of the national economic position as detailed above. Some of the key headlines for local government and specifically our council, ahead of the provisional finance settlement set out in paragraph 4.25 below, are as follows:
- Core spending power estimated to increase annually by an average of 3.2%, but this assumes maximum council tax increases. Real terms average increase of 1%.
 - Additional £4.8bn in grant over the next 3 years.
 - An increase in grant in 2022/23 of £1.5bn to be distributed via the finance settlement but then no further growth. Any increase in funding beyond 2022/23 will have to come from council tax.
 - Core council tax increase thresholds assumed as 1.99% and a further 1% for social care.
 - No announcements at that time about New Homes Bonus, Fair Funding Review, Business Rates Reset or the length of the settlement.
 - Business rates announcements
 - Freezing the multiplier for 2022/23
 - 50% discount for retail, hospitality, and leisure sectors up to a maximum of £110k per business in 2022/23
 - Targeted reliefs and exemptions from April 2023 to support the decarbonisation of buildings
 - 100% relief on eligible property improvements to be implemented in 2023 (any increase in rates payable delayed for 12 months)
 - Extend transitional relief for small and medium-sized businesses for 1 year

- Local authorities will be fully funded for the loss of income from the multiplier, reliefs, and discounts
- Revaluations every 3 years from 2023
- Specific funding allocations announced that the Council may be eligible to bid for across a range of initiatives.

4.24 After the Chancellor's announcements, the Minister for the Department for Levelling-Up, Housing and Communities (DLUHC) announced that the move to 75% retention of business rates would be placed on hold as it was seen to contradict the aims of the levelling-up agenda.

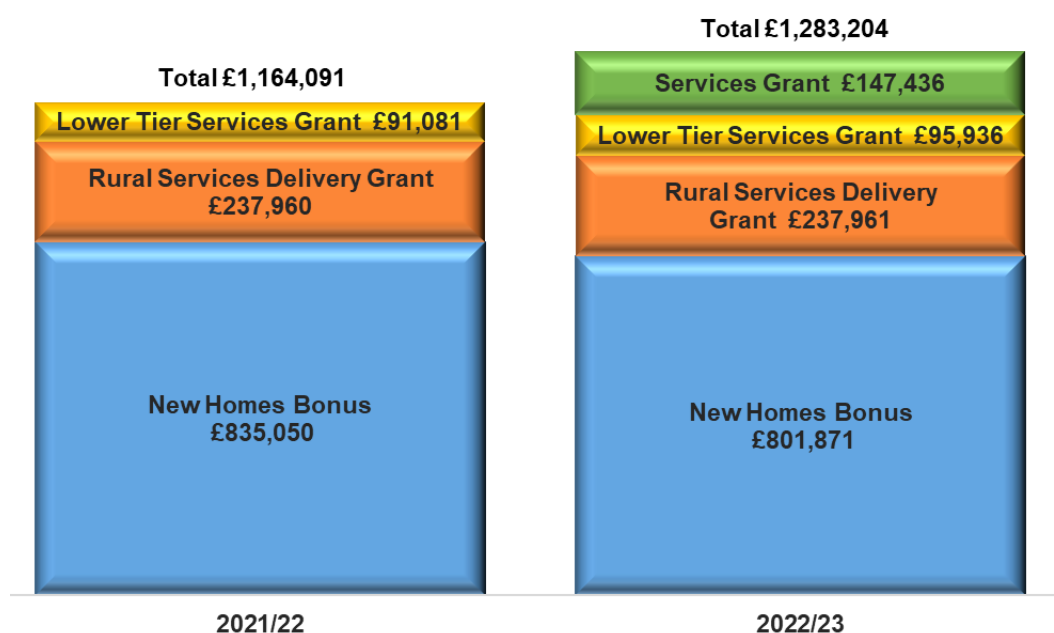
Funding

4.25 The provisional local government finance settlement for 2022/23 was announced on 16 December 2021. The key headlines are as follows:

- The settlement is for one-year only.
- A new one-off Services Grant in 2022/23 distributed via the Settlement Funding Formula. Distribution for 2023/24 and beyond will be considered in consultation with councils.
- For shire district councils' council tax can be increased by the higher of 2% or £5, which the Government believes protects local taxpayers from excessive council tax increases.
- The current approach to the New Homes Bonus is being applied to 2022/23 with a further one-year allocation for housing growth between October 2020 and October 2021.
- Rural Services Delivery Grant is being maintained at the same level as 2021/22.
- Lower Tier Services Grant is being maintained at the same level in 2022/23 despite the announcement when it was brought in last year that it was for one year only.
- A commitment to ensuring that funding allocations for councils are based on an up-to-date assessment of our needs and resources. The Government will work closely with the sector to look at challenges and opportunities before consulting on any potential changes. Part of this will look at options to support local authorities through transitional protection.

4.26 The 2022/23 grant allocations for Babergh compared to the budget for 2021/22 are shown below.

Chart 4: government grant allocations 2021/22 and 2022/23



New Homes Bonus

- 4.27 Since NHB was introduced in 2011/12 the Council has received £11.8m in total. The Council continues to be reliant on NHB to support the budget, but in the last three years has been able to use some to supplement the Transformation Fund. For 2022/23, reliance on NHB to balance the budget equates to £275k.
- 4.28 As shown in Table 1 below, the use of NHB to balance the budget increased from 99% in 2017/18 to 100% in 2018/19 and 2019/20 and then reduces to 34% in 2022/23.

Table 1: New Homes Bonus used from 2017/18 to 2021/22

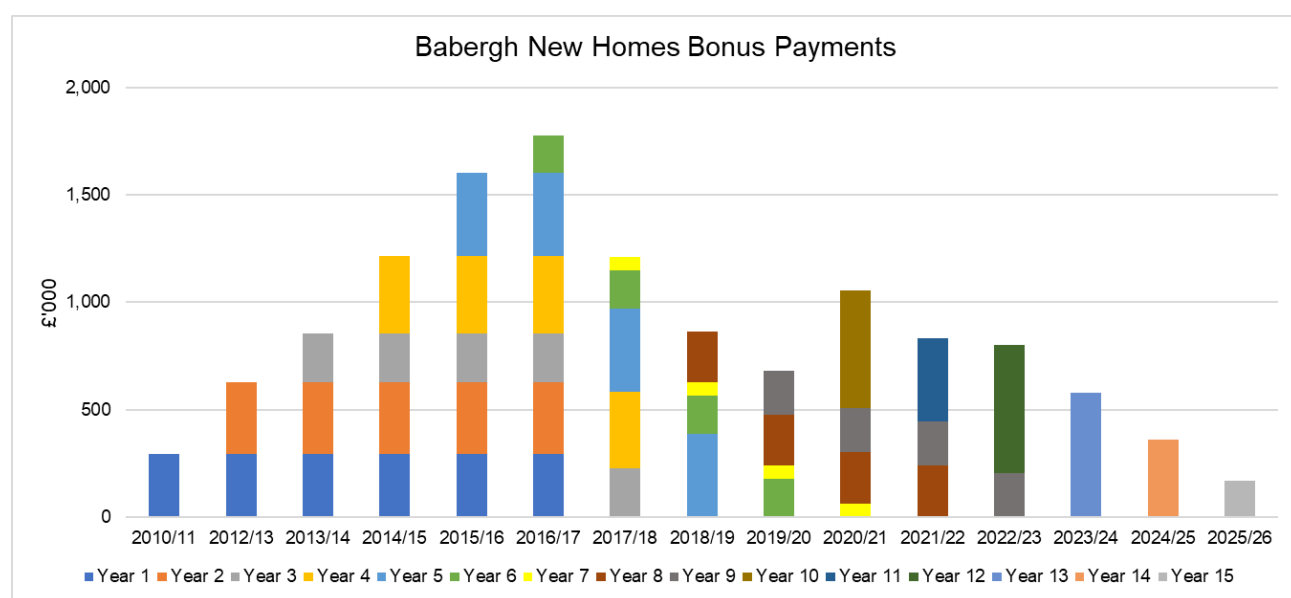
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Amount of NHB received	1,212	866	683	1,055	835	802
NHB used to balance the budget	1,197	866	683	343	692	275
% of NHB allocation to balance budget	99%	100%	100%	33%	83%	34%

- 4.29 Table 2 and Graph 1 below shows the NHB over the last eleven years plus the estimated allocations for 2023/24 to 2025/26. This assumes tax base growth of 1.86% in 2023/24, 1.5% in 2024/25 and 1.05% in 2025/26 and all the legacy payments having been phased out.
- 4.30 This shows how NHB has declined from a peak of £1.8m in 2016/17 to £802k in 2022/23, 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 and continued to phase out the legacy payments, as well as introducing a 0.4% growth baseline in 2017/18.
- 4.31 For 2022/23 the 0.4% growth baseline for Babergh means that the first 157 new homes built received no payment.

Table 2: 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	2021/22	Provisional 2022/23	Estimate		
													2023/24	2024/25	2025/26
Year 1	295	295	295	295	295	295									
Year 2		334	334	334	334	334									
Year 3			226	226	226	226	226								
Year 4				360	360	360	360								
Year 5					387	387	387	387							
Year 6						177	177	177	177						
Year 7							63	63	63	63					
Year 8								239	239	239	239				
Year 9									205	205	205	205			
Year 10										548					
Year 11											391				
Year 12												597			
Year 13													579		
Year 14														359	
Year 15															171
Total	295	630	856	1,215	1,602	1,779	1,212	866	683	1,055	835	802	579	359	171

Graph 1: New Homes Bonus Payments - Estimated for 2023/24 to 2025/26



Council Tax

- 4.32 The impact from Covid on collection rates, the number of Local Council Tax Reduction (LCTR) claimants and the build rate of new homes across the district has been less than anticipated when the budget for 2021/22 was set. This means that a 4.31% increase has been calculated for the tax base for 2022/23, which will generate additional council tax income of £251k.
- 4.33 An increase in Band D Council Tax of 2% has been included for 2022/23, which would generate additional income of £121k.
- 4.34 Due to the impact from Covid being less than anticipated in 2021/22, a surplus of £116k is currently projected for the Collection Fund in 2021/22, which is £181k more than in 2021/22. The way that the Collection Fund operates means that this surplus will be recognised in the Council's budget in 2022/23.

Business Rates

- 4.35 The headlines for Business Rates are as follows:

- No change to the business rates baseline funding or levy.
- The benefit from being part of the Suffolk business rates pool will increase by £21k and the impact of the Collection Fund forecast balance at the end of March 2022 increases the resources available by £4k.
- A Government return (NNDR1) that is required to be submitted by 31 January 2022, may result in some further changes to the business rates figures, but any impact will be managed through the Business Rates Reserve and hence will not change the bottom line.
- Additional income of £216k is forecast from the Enterprise Zone at Sproughton.

5. FORECAST BUDGET GAP TO 2025/26

- 5.1 To establish the medium-term 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

- 5.2 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 with one remaining legacy payment in 2022/23. Government undertook a consultation on the future of NHB that concluded on 7 April 2021. The outcome of the consultation is still awaited and changes are now expected to be implemented from 2023/24.
- 5.3 The provisional settlement for 2022/23 is a one-year settlement. DLUHC is still committed to delivering the wider reforms to local government funding and changes are expected to be implemented for 2023/24. Therefore, the medium-term position continues to be more difficult to forecast.
- 5.4 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 was published in October 2021. The government announced new support for businesses to help our high streets and town centres evolve and adapt to changing consumer demands ahead of the next revaluation; new support for investment in green technology and property improvements; changes to support more frequent revaluations; a further freeze in the business rates multiplier; and significant investment in the Valuation Office Agency (VOA). The government is currently consulting on the technical detail of these proposed changes.
- 5.5 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 to continue on the current basis, with estimated tax base growth of 1.86% in 2023/24, 1.5% in 2024/25 and 1.05% in 2025/26.
 - c) Nothing has been included for forecast Business Rates surplus or deficit beyond 2023/24 based on the assumption that the equalisation earmarked reserve will accommodate this. The 2020/21 forecast deficit of £753k, has been spread over three years as required by Government.

- d) Receipt of government grants as set out in paragraph 4.26 above.
- e) No Council Tax increase beyond 2022/23 as the base case, but an alternative option of the maximum £5 increase for each of the years from 2023/24 to 2025/26 has also been included in Table 8 in paragraph 5.27 below.
- f) Tax base growth of 4.31% in 2022/23, 1.86% in 2023/24, 1.50% in 2024/25 and 1.05% in 2025/26, which generates approximately £113k, £92k and £66k more council tax income in each year respectively beyond 2022/23.
- g) Due to the impact from Covid being less than anticipated in 2021/22, a surplus of £116k is currently projected for the Collection Fund in 2021/22. The way that the Collection Fund operates means that this surplus will be recognised in the Council's budget in 2022/23.

5.6 Table 3 below shows the forecast funding from 2022/23 to 2025/26. Funding decreases by 4% over the 4-year period. This is mainly due to the forecast decrease in New Homes Bonus.

5.7 In 2022/23 the Council will be using 100% of S31 grant and 50% of NHB to achieve a balanced budget.

Table 3: Forecast Funding 2022/23 – 2025/26

Description	2021/22 Budget £000	2022/23 Budget £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000
Funding:					
<u>Government Grants</u>					
New Homes Bonus	(835)	(802)	(579)	(359)	(171)
S31 Business Rates Grant	(1,486)	(1,486)	(1,486)	(1,486)	(1,486)
Services Grant	-	(147)	-	-	-
Rural Services Delivery Grant	(238)	(238)	(238)	(238)	(238)
Lower Tier Services Grant	(91)	(96)	-	-	-
<u>Business Rates</u>					
Baseline Business Rates less Levy	(1,555)	(1,555)	(1,555)	(1,555)	(1,555)
Levy					
Growth / Pooling Benefit	(312)	(333)	(333)	(333)	(333)
Enterprise Zone income	-	(216)	(225)	(225)	(225)
Prior Year Deficit/(Surplus)	222	218	218	-	-
<u>Council Tax</u>					
Council Tax	(5,813)	(6,185)	(6,301)	(6,395)	(6,462)
Council Tax Collection Fund (surplus) / deficit	64	(116)	46	-	-
Local Council Tax Support Grant - Babergh	(77)				
Local Council Tax Support Grant - Town & Parish Councils	(39)				
Total Funding	(10,159)	(10,957)	(10,452)	(10,591)	(10,470)

2022/23 Budget

5.8 In recent years the Council has tended to underspend the budget that has been set. The reasons for this have been reviewed and it has generally been due to additional income being received rather than expenditure proposals not being achieved.

- 5.9 Managers traditionally err on the side of caution when putting their budget proposals together, particularly in relation to income. Amalgamating these assumptions across the whole organisation has, in recent years, resulted in underspends at the year-end. The unintended consequence is that resources are committed during the budget process that could be used for other priorities or alternatively savings have to be made that are not actually needed.
- 5.10 For 2022/23, managers have looked to use stretching, but realistic assumptions when putting their budget proposals together across both expenditure and income. This should result in the overall outturn position being closer to the budget.
- 5.11 There is the risk that adopting the approach and events that happen during the year could result in an overspend position, but this will be monitored through the regular quarterly reporting to Cabinet and action taken if necessary. The Council has sufficient reserves to be able to manage that scenario should it come to fruition and would then be corrected when setting the budget for 2023/24.
- 5.12 The summary in Table 4 below shows the breakdown of the Council's net cost of service for 2022/23 (£10.430m) compared to 2021/22 (£10.016m), an increase of £414k.
- 5.13 The Council's 2022/23 gross expenditure is £33.5m and income is £23.1m giving a net cost of service of £10.4m. Bringing in the funding from business rates, council tax and government grants shows a net surplus of £527k for the 2022/23 budget, which will be transferred to the Strategic Priorities Reserve.

Table 4: General Fund Budget Summary 2022/23

Description	2021/22 Budget £000	2022/23 Budget £000	2021/22 to 2022/23 Movement £000
Expenditure			
Employees	8,230	9,983	1,753
Premises Costs	1,164	1,536	372
Supplies & Services	4,338	4,444	107
Transport Costs	307	352	45
Contracts	4,829	4,270	(559)
Transfer Payments	13,795	12,972	(823)
Income			
Grants and Contributions	(15,278)	(14,488)	789
Sales, Fees & Charges	(3,792)	(4,109)	(317)
Other income (incl. rental & PV panel income)	(1,604)	(1,771)	(167)
Net transfers to/(from) reserves	309	(545)	(854)
Net Service Expenditure	12,299	12,645	345
Recharge to HRA / Capital	(1,195)	(1,347)	(152)
Investment Income			
CIFCO - Net Interest Receivable	(2,180)	(2,169)	11
Pooled Funds - Net Income	(569)	(569)	-
Other interest receivable	(15)	(15)	-
Capital Financing Charges			
CIFCO - Interest Payable	380	380	-
Interest Payable - Other	30	60	30
MRP	1,266	1,445	179
Total Cost of Services	10,016	10,430	414
Funding:			
Government Grants			
New Homes Bonus	(835)	(802)	33
S31 Business Rates Grant	(1,486)	(1,486)	-
Services Grant	-	(147)	(147)
Rural Services Delivery Grant	(238)	(238)	(0)
Lower Tier Services Grant	(91)	(96)	(5)
Business Rates			
Baseline Business Rates less Levy	(1,555)	(1,555)	-
Levy			-
Growth / Pooling Benefit	(312)	(333)	(21)
Enterprise Zone income	-	(216)	(216)
Prior Year Deficit/(Surplus)	222	218	(4)
Council Tax			
Council Tax	(5,813)	(6,185)	(372)
Council Tax Collection Fund (surplus) / deficit	64	(116)	(181)
Local Council Tax Support Grant - Babergh	(77)		77
Local Council Tax Support Grant - Town & Parish Councils	(39)		39
Total Funding	(10,159)	(10,957)	(798)
Transfers to/from Reserves			
Climate Change & Biodiversity Reserve	143	-	
Strategic Priorities Reserve	-	527	
Shortfall / (Surplus) funding	0	0	(384)

2022/23 Budget Assumptions and Risks

- 5.14 Constructing a budget that runs to 13 months beyond when it was approved means that several assumptions have to be made about the conditions that are likely to exist over an extended period.
- 5.15 In calculating the 2022/23 budget, the following assumptions and amendments have been made, which highlight the key reasons for the changes from the current year to next year's proposed budget:

Staffing

- Increase in staff costs as a result of the Public Realm contract ceasing and moving to an in-house service during 2021/22 of £662k, offset by contract savings.
- Grant funding and reserves of £683k is being used to fund additional staffing costs in 2022/23.
- Additional staff costs of £155k for new roles are included in the base budget.
- 2% pay award for 2021/22 (still outstanding) and 2022/23, however this will depend on the agreement reached between the national employers' body and the relevant trade unions. This amounts to £189k.
- Incremental progression through grades to the value of £128k has been included.
- The vacancy management factor remains at 5%. The Council's vacancy rate as at 30th September 2021 was 17% and the average rate for 2021/22 to the end of November to date is 12%. However, this is considered to be a temporary position with many posts being recruited to, so no change is proposed. An adjustment of £86k has been made to the vacancy management factor to reflect 5% of the 2022/23 staffing budget.
- Pension fund assumptions
 - future rate contribution - 23%, no change from 2021/22.
 - increase of £84k to correct an historic position, partially offset by a 1% reduction agreed from the last triennial valuation of the fund. The overall position is a net increase of £22k.
 - The next triennial valuation is due as at 31 March 2022 and any changes to the employer contributions will take effect from 1 April 2023. It is anticipated that the funding position will have further improved at the next valuation date and therefore the Council's contributions could be reduced for the 3 years commencing 2023/24.

Premises

- Increase for property repairs of £11k.
- Increase to expenses for gas and electricity on the leisure centres of £259k to move to a green tariff. Babergh is making the payments but will be fully reimbursed by Abbeycroft.
- £55k built into the budget for business rates on a car park in Sudbury.
- Increase in the rent payable budget for the Guaranteed Rent Scheme of £53k.

Supplies & Services

- £45k saving from a reduction of the Endeavour House floorplate assumed in the second half of the year.
- £93k additional cost for professional and consultancy fees for Assets and Investments.
- £28k cost for well-being projects.
- Additional costs of £22k included for equipment, tools and materials from bringing the public realm contract back in house has been offset by reductions in equipment costs due to short-term car parking charges not being introduced.
- CCTV contract from West Suffolk is an additional £30k cost, but is offset by a contribution from Sudbury and Hadleigh Town Councils.

Transport

- Fuel costs increase of £56k due to the Public Realm contract being brought back in house.
- Increase in car mileage and essential user allowances £32k.
- Reduction in budget for HVO fuel costs £35k.
- Removal of £8k budget for fuel no longer required.

Contracts

- Contracts – general increases totalling £51k that includes Leisure, SRP and some ICT contracts.
- Reduction of £852k for the Public Realm contract being brought in-house.
- Major contracts – Waste increase of £242k due to a 4% inflationary increase on the contract with Serco and property/subscriber growth.

Transfer Payments

- Reduction of £823k is due to the migration of Housing Benefit customers to Universal Credit.

Income

- Reduction in Grants and Contributions of £820k from Housing Benefits migration to Universal Credit.
- A reduction in grants of £414k for Covid grant received in 2021/22.
- An increase in grants for Housing Solutions of £149k and an increase in other income of £51k.
- Reimbursement of electricity and gas by Abbeycroft Leisure increases income by £259k.
- Contribution from Sudbury and Hadleigh Town Councils of £18k for CCTV costs.
- Car parking income projections have been reduced by £22k from the 2021/22 budget due to short-term charges being put on hold.

- Increase of £2.00 to Garden Waste Subscription to fund the contractual inflationary increase for this service and an increase in subscriber numbers generating an additional £110k.
- Increase in income for planning and building control based on expected demand totalling £190k.
- £43k increase in recycling credit based on latest tonnage rates.
- Additional income of £50k expected for New Burden payment from migration to the national Local Land Charges Register. However, a reduction in income of £17k is expected for 2022/23 from ceasing charging for Local Land Charges.
- Additional income of £23k for civil parking enforcement.
- Anticipated increase in income totalling £73k for charges from 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 2022/23 and the end of a Minimum Revenue Provision (MRP) 'holiday' has resulted in additional MRP of £179k.
- The Council is continuing to take advantage of low short-term interest rates for both CIFCO and borrowing for the capital programme, resulting in additional costs of £30k.
- With CIFCO now fully invested the budget includes just a small reduction for the annuity nature of loans to the company of £11k. CIFCO continues to provide income in excess of the cost to the Council of taking out the loans.

Recharges to the Housing Revenue Account (HRA) and Capital

- These are assessed each year as part of the budget process and are currently expected to generate additional income of £152k to the General Fund.

5.16 The charts below show the breakdown of expenditure and income excluding transfer payments and grant income for Housing Benefits. Chart 5 below shows how the £20.6m service expenditure is allocated across the services. Chart 6 shows the total budget expenditure of £22.7m by expenditure type. Chart 7 shows the breakdown of total income of £23.2m and Chart 8 shows the breakdown of service income (£7.3m).

Chart 5: Expenditure by Service Area (excl. housing benefits) 2022/23 (£20.6m)

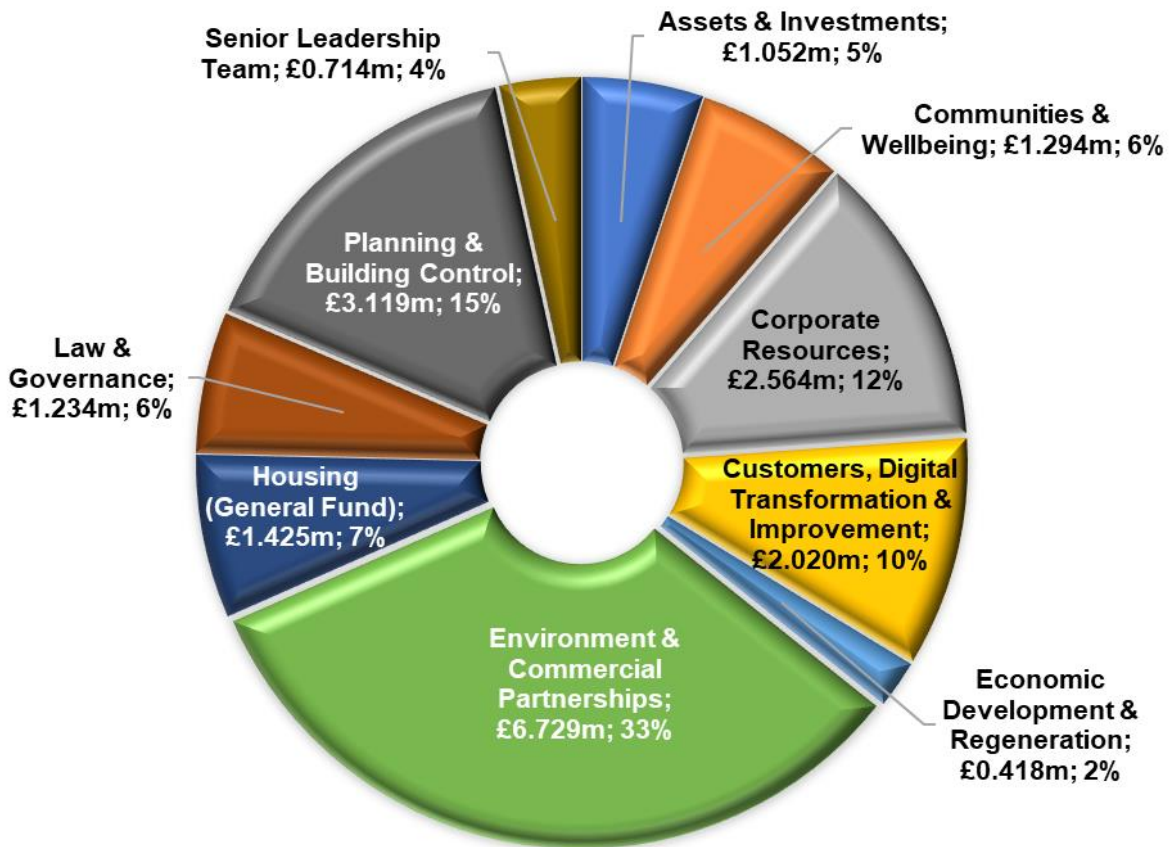


Chart 6: Expenditure by Type (excl. housing benefits) 2022/23 (£22.7m)

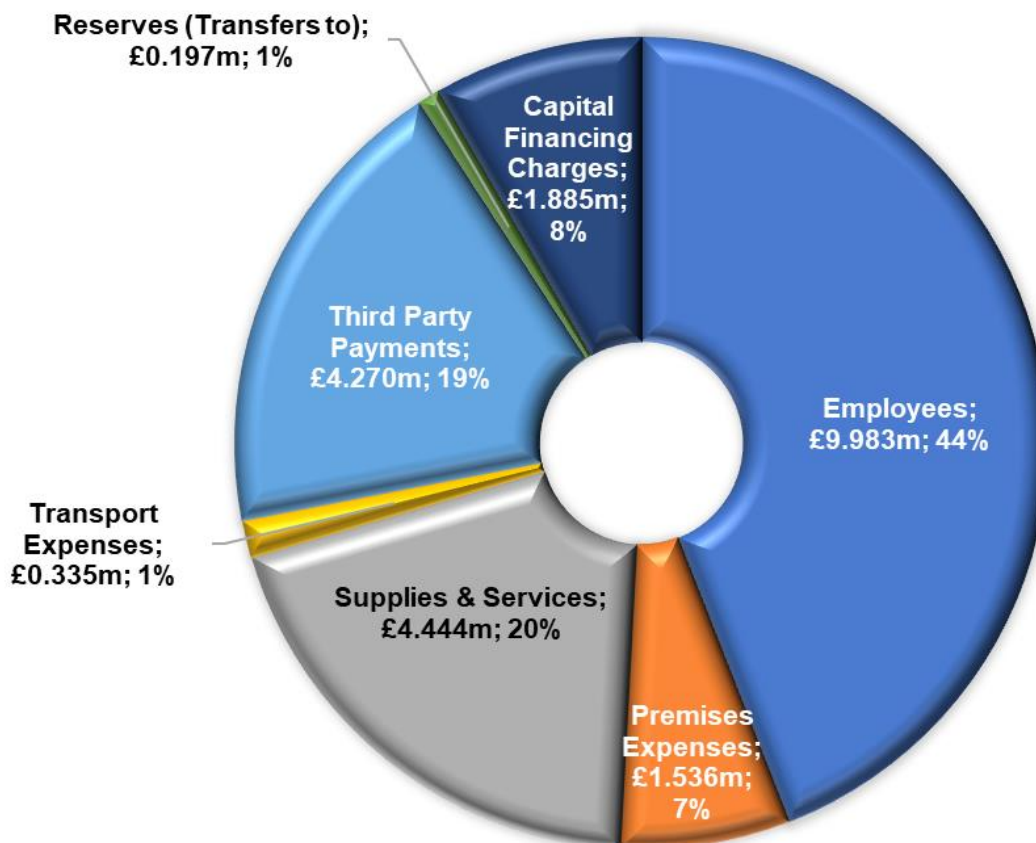


Chart 7: Total Income (excl. housing benefits) 2022/23 (£23.2m)

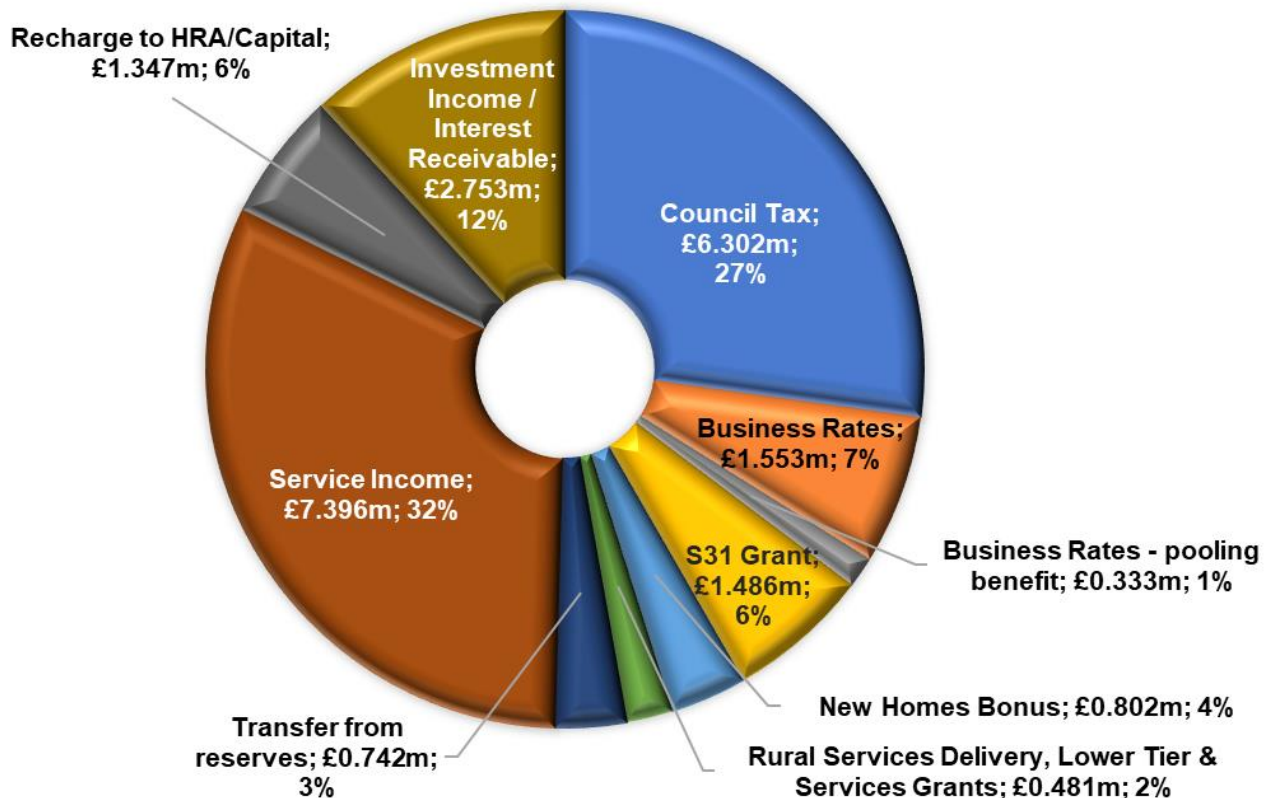
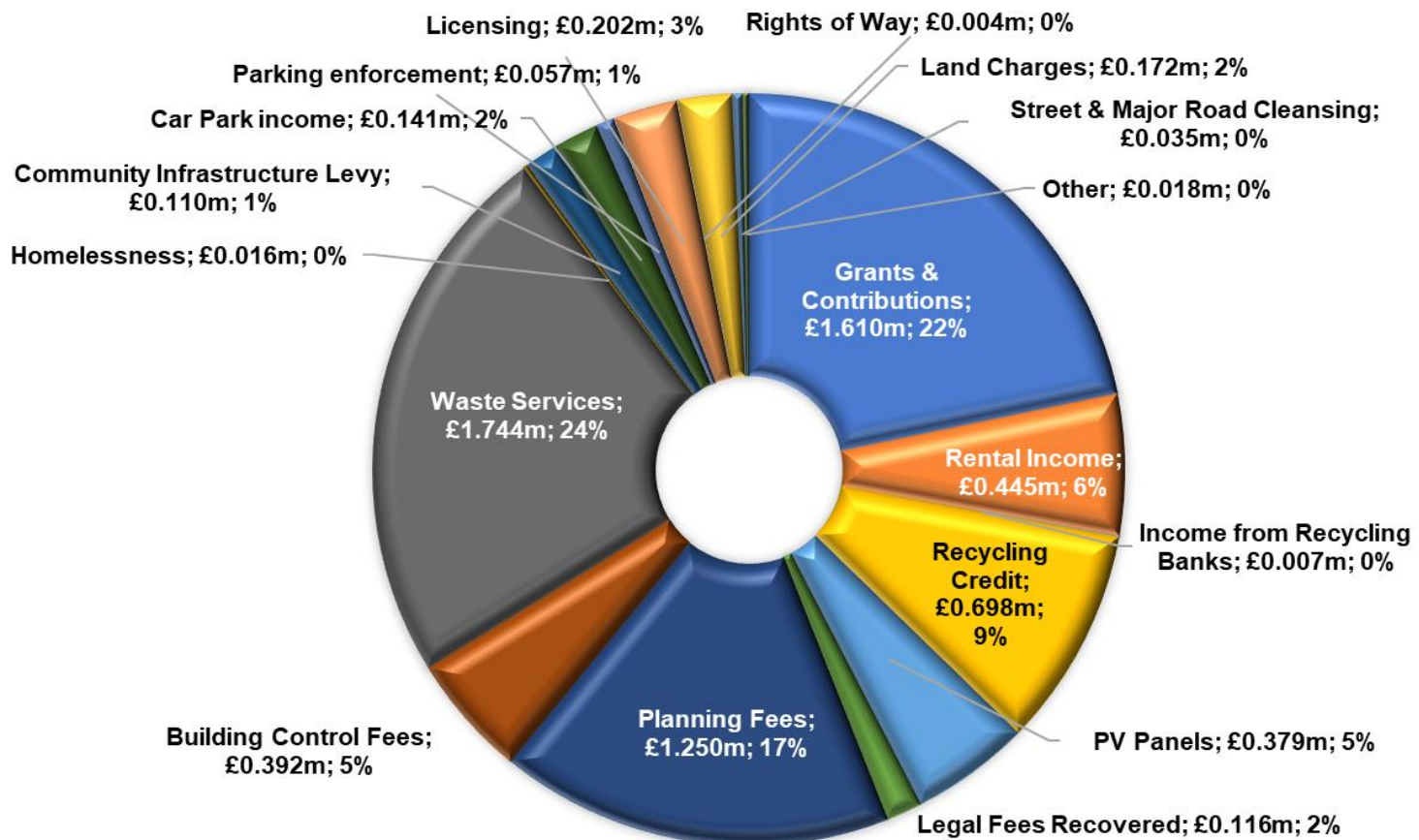


Chart 8: Service Income (excl. housing benefits) 2022/23 (£7.4m)



Reserves

- 5.17 Section 43 of the Local Government Finance Act 1992 requires that, 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.
- 5.18 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.
- 5.19 In 2022/23 the Council is using £761k from earmarked reserves against specific service expenditure. This includes £64k for Locality Budgets from the Strategic Priorities reserve, £20k for planning legal costs and £100k for the Joint Local Plan from planning reserves and £577k for staff costs.
- 5.20 The Council is also transferring £217k to earmarked reserves in 2022/23 to fund future years' specific service expenditure, made up of £20k to the elections reserve and £197k to planning reserves.
- 5.21 A transfer of £200k from the General Fund Reserve to the Wellbeing reserve to provide additional grant funding to support community projects is also included. This leaves a balance of £1m in the General Fund Reserve
- 5.22 Table 5 below shows the earmarked reserves balance from 31 March 2021, forecast through to 31 March 2023.

Table 5: Reserves

Earmarked Reserve	Balance 31/03/2021 £'000	Forecast Balance 31/03/22 £'000	Transfers £'000	Budget Transfer to £'000	Budget Transfer From £'000	Forecast Balance 31/03/23 £'000
Business Rates & Council Tax	6,106	1,642				1,642
Business Rates Retention Pilot (BRRP)	862	841			(17)	824
Carry Forwards	571	-				-
Climate Change and Biodiversity	200	343			(21)	322
Community Housing Fund	178	153			(29)	124
Commuted Maintenance Payments	820	842				842
COVID 19	1,171	705			(178)	528
Elections Equipment	35	35				35
Elections Fund	40	60		20		80
Government Grants	164	169			(23)	147
Homelessness	159	184			(89)	94
Joint Local Plan	100	100			(100)	-
Neighbourhood Planning Grants	49	94		157	(29)	222
Planning (Legal)	323	323			(20)	303
Planning Enforcement	93	93		40	-	133
Rough Sleepers	26	26				26
Strategic Planning	40	40				40
Strategic Priorities	1,147	607		527	(128)	1,005
Temporary Accommodation	145	131			(43)	87
Waste	87	87			(35)	53
Well-being	253	197	200		(49)	347
Total Earmarked Reserves	12,569	6,672	200	743	(761)	6,854
General Fund Reserve	1,200	1,200	(200)			1,000

Medium Term Projections

- 5.23 Table 6 below shows the estimated cost of services by service area and the forecast position for the period 2023/24 to 2025/26.
- 5.24 The position for 2022/23 is a £527k surplus followed by projected deficits of £982k, £647k and £669k to give a cumulative shortfall of £2.298m up to 2025/26.
- 5.25 Over the next three years the net cost of service increases by £2.3m, mainly due to pay awards, increments, capital financing charges and inflationary increases on major contracts. The estimated tax base growth over the same period (£277k) only covers 12% of this increase and the Council loses £630k in NHB funding and £243k in other grants. After the £527k surplus in 2022/23, this leaves a budget gap of £2.3m.
- 5.26 Over the three-year period from 2023/24 the Council's cumulative deficit of £2.3m must be addressed. The Council will need to deliver significant income or savings, with the key objective to become self-financing and to have more than enough funds to invest within the Council itself and across the district.

Table 6: Forecast Budget Gap 2023/24 - 2025/26

Description	2022/23 Budget £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000
Strategic Property	226	156	166	146
The Councils' Companies	93	96	99	103
Total Assets & Investments	319	252	265	249
Communities	627	651	667	684
Leisure	260	265	270	276
Total Communities & Well-Being	888	917	938	959
Finance, Commissioning & Procurement	1,589	1,616	1,669	1,724
Human Resources & Organisational Development	461	549	564	581
Total Corporate Resources	2,050	2,165	2,234	2,305
Communications	177	183	189	196
Customer Operations	538	561	584	607
ICT	913	929	946	965
Strategic Policy, Performance and Insight	282	407	423	440
Total Customers, Digital Transformation & Improvement	1,910	2,080	2,142	2,208
Open for Business	305	338	351	364
Total Economic Development & Regeneration	305	338	351	364
Health & Safety, Business Continuity & Emergency Planning	177	201	207	212
Public Protection	596	625	653	683
Public Realm	1,629	1,586	1,648	1,700
Recycling, Waste & Fleet	1,212	1,248	1,284	1,330
Service Improvement	68	71	74	77
Total Environment & Commercial Partnerships	3,681	3,730	3,866	4,003
Housing Solutions	699	738	779	819
Total Housing	699	738	779	819
Electoral Services & Land Charges	94	97	105	113
Governance & Civic Off	353	370	387	406
Internal Audit, Risk & Data	85	87	90	93
Shared Legal Service	386	396	406	417
Total Law & Governance	918	950	989	1,029
Building Control	82	101	120	140
Chief Planning Officer	545	580	632	686
Strategic Planning	555	559	672	576
Total Planning & Building Control	1,182	1,240	1,424	1,402
Senior Leadership Team	692	718	744	772
Total Senior Leadership Team	692	718	744	772
Net Service Expenditure	12,645	13,128	13,731	14,110
Recharge to HRA / Capital	(1,347)	(1,374)	(1,401)	(1,428)
Investment Income	(2,753)	(2,742)	(2,728)	(2,720)
Capital Financing Charges	1,885	2,422	2,616	2,807
Total cost of services	10,430	11,435	12,219	12,768
Total Funding	(10,957)	(10,452)	(10,591)	(10,470)
Transfers to/from Reserves				
Strategic Priorities Reserve	527	-		
Business Rates & Council Tax Reserve	-	(218)		
Shortfall / (Surplus) funding	0	764	1,629	2,298
2022/23 surplus	-	-	-	-
2023/24 annual deficit		982	982	982
2024/25 annual deficit			647	647
2025/26 annual deficit				669
Total shortfall in funding / (Surplus Funds)	(527)	982	1,629	2,298

- 5.27 The Council acknowledges that it can still benefit from further work across the organisation to create efficiencies through driving down cost and cutting out work that does not add value. Opportunities exist in terms of improving digitisation and automation of some processes. A corporate programme of work will be developed early in 2022 to enable some broad-based numbers to be put against a 2-3 year programme.
- 5.28 These forecasts are based on no council tax Band D increase in 2023/24 to 2025/26. The Council could choose to increase council tax by the current maximum amount allowed of £5 per annum. The level of council tax that would be raised and the consequent shortfall for each year for no increase and a £5 increase every year is shown in Table 7 and Table 8 below.

Table 7: No increase in Council Tax 2023/24 to 2025/26

Description	2022/23	2023/24	2024/25	2025/26
	Budget	Forecast	Forecast	Forecast
	£000	£000	£000	£000
Council Tax	(6,185)	(6,301)	(6,395)	(6,462)
Total shortfall in funding / (Surplus Funds)	(527)	982	1,629	2,298

Table 8: £5 increase in Council Tax 2023/24 to 2025/26

Description	2022/23	2023/24	2024/25	2025/26
	Budget	Forecast	Forecast	Forecast
	£000	£000	£000	£000
Council Tax	(6,185)	(6,478)	(6,756)	(7,009)
Total shortfall in funding / (Surplus Funds)	(527)	805	1,268	1,751

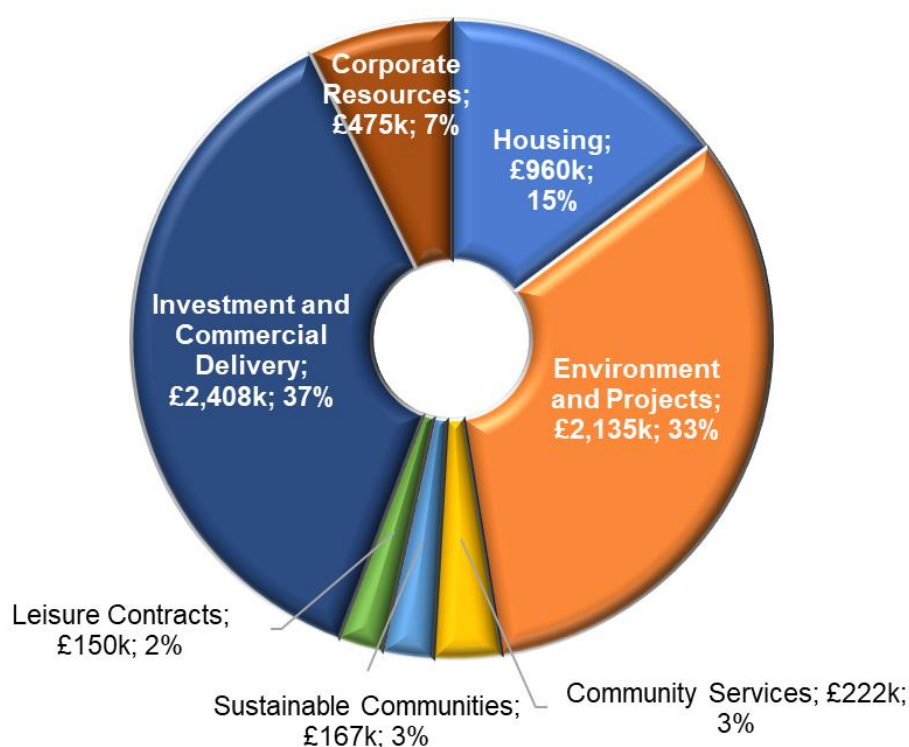
6. FEES AND CHARGES

- 6.1 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 2022. The impact of the charges agreed have been built into the budget for 2022/23.

7. CAPITAL PROGRAMME

- 7.1 The detailed Capital Programme is attached at Appendix A. The new capital allocation for the 2022/23 budget totals £6.5m and is shown in Chart 9 below. Along with an anticipated carry forward of £16m at the end of the current financial year, the total capital programme for next year could be in the region of £22.5m.

Chart 9: Capital Programme 2022/23



7.2 The most significant items for new planned spend are the replacement of the Council's refuse freighters in 2022/23, funding for the proposed Commercial Workspace Development at Hadleigh and for Babergh Growth to undertake housing developments at sites already in progress or ones currently under negotiation for purchase over the next 3 years as well as purchasing additional land for further development. Funding is also included to continue the range of annual capital initiatives such as housing and community grants.

7.3 Following review by Joint Audit and Standards Committee in January 2022, 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 Council in February along with the final budget report.

8. LINKS TO THE CORPORATE PLAN

8.1 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.

9. FINANCIAL IMPLICATIONS

9.1 These are detailed in the report.

10. LEGAL IMPLICATIONS

10.1 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) in relation to the level of reserves and the risks associated with the proposed budget.

11. RISK MANAGEMENT

- 11.1 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 Government funding does not keep pace with demand and other pressures, then the Council will have to consider how it continues to fund existing service levels	2 - Unlikely	3 - Bad	The Council will continue to lobby Government both directly and via networks such as the District Councils' Network (DCN) and the Rural Services Network (RSN)
If demand pressures and cost inflation exceed forecasts, then the Council could be in an overspend position at the year-end	2 - Unlikely	2 - Noticeable	Service areas will identify and analyse data that enable the best possible forecasts to be determined and act where possible to contain costs in year to offset the impact
If income levels are below forecast, then the Council could be in an overspend position at the year-end	2 - Unlikely	2 - Noticeable	Service areas will identify and analyse data that enable the best possible forecasts to be determined and act where possible to generate income to anticipated levels
If the financial impact of COVID19 continues over an	2 - Unlikely	2 - Noticeable	Continue to monitor the situation closely to assess whether

extended period, then the Council will need to use and then replenish available reserves			the COVID reserve is sufficient to meet any funding gap
If borrowing costs exceed projections, then the Council may need to fund the excess costs from reserves at year-end	2 - Unlikely	2 - Noticeable	Discussions with the Council's treasury management adviser on interest rates to be used when setting the budgets
If capital projects exceed budgeted figures, then the Council will achieve less with the resources available	2 - Unlikely	2 - Noticeable	Capital projects will include an appropriate level of contingency that will cover potential increases in costs

12. CONSULTATIONS

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

13. EQUALITY ANALYSIS

- 13.1 Assistant Directors and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics.

14. ENVIRONMENTAL IMPLICATIONS

- 14.1 Assistant Directors, Corporate Managers and other Budget Managers will continue to consider the environmental impact of their budgets and take the opportunity to reduce their carbon footprint as opportunities arise.
- 14.2 In support of the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken from a combination of the Council's own resources and those secured from external sources. Some of these are set out below.
- 14.3 A solar multi-function carport to generate electricity is being installed at Kingfisher Leisure Centre, Sudbury. The CO₂ savings are 4.4 times the volume of the Royal Albert Hall and it will generate enough power to supply 24 average homes in Sudbury.
- 14.4 The Council's leisure centres have been successfully transferred to certified low carbon tariffs for electricity use.

- 14.5 We have also installed a new pool water cleaning system at Kingfisher Leisure Centre which is expected to reduce annual CO₂ emissions by between 6.4 and 8.6 tonnes per annum and reduce combined gas and electricity consumption by 1.1% - 1.5%.
- 14.6 £1.4m of funding has been secured from the Government's Public Sector Decarbonisation Fund for carbon-saving measures at council leisure centres and other buildings including solar panels and air source heat pumps.

15. 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 - Budget Book 2022/23	Attached

16. BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement

General Fund Financial Monitoring 2021/22 – Quarter 2 - BCa/21/29

APPENDIX A

CAPITAL PROGRAMME 2022/23 TO 2025/26

Babergh District Council - General Fund Capital Budgets		2021/22 Anticipated C/Fwds	2022/23 Budget for Approval	2022/23 Total Spend Required	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
2022/23 to 2025/26		(A)	(B)	(A + B)			
		£'000	£'000	£'000	£'000	£'000	£'000
Housing							
Mandatory Disabled Facilities Grant	747	760	1,507	760	760	760	
Renovation/Home Repair Grants	50	100	150	100	100	100	
Empty Homes Grant	222	100	322	100	100	100	
Grants for Affordable Housing	200	0	200	0	0	0	
Total Housing	1,219	960	2,179	960	960	960	
Environment and Projects							
Replacement Refuse Freighters - Joint Scheme	0	2,060	2,060	0	231	0	
Bins	0	75	75	75	75	75	
Total Environment and Projects	0	2,135	2,135	75	306	75	
Economic Development and Regeneration							
Belle Vue Refurbishment / Replacement	2,000	0	2,000	0	0	0	
Total Economic Development and Regeneration	2,000	0	2,000	0	0	0	
Communities and Public Access							
Vehicle and Plant Renewals	0	100	100	0	0	0	
Planned Maintenance / Enhancements-Car Parks	0	7	7	45	5	5	
Pin Mill Hard and toilet refurbishment	0	115	115	0	0	0	
Total Community Services	0	222	222	45	5	5	
Sustainable Communities							
Play equipment	136	50	186	50	50	50	
Community Development Grants	55	117	172	117	117	117	
Total Sustainable Communities	191	167	358	167	167	167	
Leisure Contracts							
Kingfisher Leisure Centre Improvements	0	100	100	100	100	100	
Hadleigh Leisure Improvements	0	50	50	50	50	50	
Total Leisure Contracts	0	150	150	150	150	150	
Investment and Commercial Delivery							
Planned Maintenance / Enhancements - Corporate Buildings	0	330	330	30	30	30	
Leases on Property (under new IFRS16)	0	439	439	0	0	0	
Borehamgate	0	64	64	64	64	64	
Strategic Investment Fund	2,906	0	2,906	0	0	0	
A1071 Roadside Commercial Workspace Development	0	1,075	1,075	1,075	0	0	
Babergh Growth	0	500	500	3,750	3,750		
Regeneration Fund	6,305	0	6,305	0	0	0	
Regeneration Fund - HQ Sites	3,160	0	3,160	0	0	0	
Total Investment and Commercial Delivery	12,371	2,408	14,779	4,919	3,844	94	
ICT & Customer							
Replacement Finance Management System	0	325	325	75	0	0	
ICT - Hardware / Software costs	200	150	350	150	150	150	
Total Corporate Resources	200	475	675	225	150	150	
TOTAL General Fund Capital Spend		15,981	6,517	22,497	6,541	5,582	1,601
GF Financing							
External Grants and contributions	747	760	1,507	760	760	760	
Capital Receipts	1,100	0	1,100	0	0	0	
Borrowing	14,134	5,757	19,890	5,781	4,822	841	
Total GF Capital Financing	15,981	6,517	22,497	6,541	5,582	1,601	

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 21 February 2022.
- 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 2022/23 will be £177.34, based on a 2% increase to Council Tax for a Band D property.
 - 2) The County Council precept requirement is still to be determined but is likely to be £1,438.94 for a Band D property in 2022/23, an increase of 2.99%.
 - 3) The Police and Crime Commissioner's precept requirement is still to be determined but is likely to be £247.68 an increase of 4.2%.
 - 4) At the time of preparing this report, not all Parish / Town Councils have supplied formal notification of their 2022/23 precept. The final figures will be reported to Council.
- 4) Babergh 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 2022/23 are expected to be as follows:

19 April 2022	16 May 2022	15 June 2022	15 July 2022
15 August 2022	15 September 2022	17 October 2022	15 November 2022
15 December 2022	16 January 2023	15 February 2023	15 March 2023

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 2022/23.
- 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.
- f) The CIPFA Financial Management Code came into effect from the 1st April 2021, the code complements the Statement on the Role of the Chief Financial Officer, including a set of financial management standards that the Council is complying 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. These standards have been considered in drafting this statement.

b) Financial Controls

2.5 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. 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).

2.6 The 2020 index, which provides the relative position for the 2019/20 financial year, is the most up to date index currently available. Councils' performance is ranked relative to those in the selected 'comparator group'.

2.7 Babergh is seen as having higher risks around the level of external debt, interest payable and the proportion of fees and charges income against total revenue expenditure. The external debt includes that associated with the HRA, so the Council will always be seen as a higher risk compared to those councils without housing stock, but it is balanced against the value of the housing stock on the Council's balance sheet.

- 2.8 The other elements are all linked to the investment that the Council has made in CIFCO by increasing General Fund debt levels, higher interest payments, but also higher investment income coming back to the Council and is secured by charges on the properties acquired by CIFCO.
- 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 2022/23 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 2022/23 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 2020/21, but an unqualified opinion was achieved for 2019/20 and is expected again for 2020/21.

2.20 As part of the audit work for the 2019/20 and 2020/21 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 2022/23 are set out below:

- **Covid-19** – With the prolonged duration of the Covid-19 pandemic there could be an ongoing financial impact into 2022/23 and beyond in terms of increased costs and reduced income. The cost pressures are most likely to be seen for homelessness and leisure provision. The reduced income is likely to be seen for car parking and potentially council tax and business rates income levels, but depending upon the extent of the continuing impacts it could also be seen in terms of trade waste, planning income and commercial income although these have seen lesser impacts to date.
- **Pay and Pensions** – The budget includes provision for pay increases of 2% for each of the 4 years to 2025/26 and continues to provide for annual progression through pay scales where employees are not at the top of their grades. A 1% change in pay amounts to around £82k 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 £500k, 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 £40k.
- **Income from Fees and Charges** – A significant part of the Council's costs continue 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 remains built into the budget to reflect an anticipated reduction in visitor numbers to car parks during 2022/23. A 1% change in fees and charges income including from planning, building control, garden waste, car park and recycling performance payments income is around £41k.
- **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 (PWLb) 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 2022/23 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 Rates 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. The Council operates a Business Rates and Council Tax Collection Fund Reserve to cover for this possibility as appropriate and the Government provided some funding to cover irrecoverable tax losses.

The change to 75% retention of business rates is now unlikely to be taken forward and the reset has been deferred. The figures beyond 2022/23 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 Collection Fund 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 impact from Covid on collection rates, the number of Local Council Tax Reduction (LCTR) claimants and the build rate of new homes across the district has been less than anticipated when the budget for 2021/22 was set. This means that a 4.31% increase has been calculated for the tax base for 2022/23, which will generate additional council tax income of £251k. As a result of the improved position, a surplus of £116k is anticipated on the Collection Fund for 2021/22, which is included in the budget for 2022/23.
- **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 2022/23 as it was for 2019/20, 2020/21 and 2021/22. The Council's core Government funding is now reduced to Rural Services Delivery Grant (RSDG), New Homes Bonus (NHB), Lower Tier Services Grant and a new Services Grant for 2022/23 only. 2022/23 is a further one-year settlement from the Government. Funding levels beyond 2022/23 are therefore currently uncertain, so the medium-term figures are based on the current level of RSDG continuing and NHB reducing in 2023/24 and future years.

- **Welfare Reforms, Benefits and Council Tax Reductions** – At a forecast of £13m for 2022/23, 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

- 2.26 The Council's new capital programme funding for the next 4 years is £20.2m 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.
- 2.27 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. The Government's consultation on MRP, if implemented, could increase costs from 2023/24.
- 2.28 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.
- 2.29 The borrowing strategy and MRP policy are set out in detail in the Capital, Investment and Treasury Management Strategies document.

Conclusion

- 2.30 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.
- 2.31 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 and 2021/22, 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 can be reduced from £1.2m to £1m in 2022/23 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 10% of the annual General Fund Budget. This is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2022/23 as set out below.
- 3.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account but including the Strategic Priorities Reserve) are forecast to be £6.9m as at 31 March 2023. The Strategic Priorities Reserve is continuing to support the delivery of the Council's Joint Corporate Plan in 2022/23.

4. Background Documents

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

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