

Ambitious **for Sutton** 2022 - 2027

Medium Term Financial Strategy

Stronger Together



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Foreword from the Lead Member for Resources



Councillor Sunita Gordon
Lead Member for Resources

Sutton has an excellent track record in delivering value for money from public funding and has successfully navigated the financial challenges of government austerity, economic recession and a global pandemic. We have successfully delivered over £107m budget savings since 2010/11 whilst investing to deliver great outcomes for residents and to meet growing demand for our services.

The challenge is not yet over. We are living through a period of great change and uncertainty as the world recovers from Covid-19, the war in Ukraine and other conflicts bringing human suffering and economic instability. The UK is also experiencing a cost of living crisis on a scale not seen since the second world war.

All of this impacts our residents and so shapes what the Council needs to do to support residents, and protect and maintain public services, as well as deliver our Ambitious for Sutton plans for the next five years. Inevitably, these risks and ongoing economic uncertainty impact the Council's financial position and the funding we have available to deliver what is needed.

This financial strategy sits alongside our new corporate plan - Ambitious for Sutton - as part of our overarching strategic framework for the Council. It sets out our current financial position and the risks, opportunities and cost drivers that will influence this over the next 4-5 years. It explains how we intend to respond to the major challenges ahead, and the principles we will adopt in managing and using our financial resources to get the most out of the funds we have available.

Our plans for Sutton are ambitious. Our financial strategy is key to delivering these plans and realising that ambition. This Medium Term Financial Strategy will guide our financial decision-making and support our work to make Sutton an even stronger, fairer and more sustainable borough.

Introduction - A Medium Term Financial Strategy

A Medium Term Financial Strategy (MTFS) sets out an organisational strategy for managing financial resources to enable delivery of key priorities.

It provides an overview of the existing financial position for an organisation and a forecast outlook over the medium term planning period, with details of the cost drivers, risks and opportunities that may impact this position in future. A MTFS acts as a framework or set of guiding principles within which an organisation will take financial decisions, will plan and manage budgets, and will use its financial resources to support delivery of strategic priorities. A clear MTFS will sit alongside other corporate plans as a guide to stakeholders to what the organisation is about and what it aims to achieve with the resources it has available.

We have produced this MTFS for Sutton to sit alongside the Ambitious for Sutton corporate plan for the period 2022/23 to 2026/27 as our overarching corporate strategy for achieving excellent outcomes for Sutton residents. In this strategy we set out our current financial position and our forecast outlook for the next four years, and provide details of the major cost drivers and risks we face that could impact our financial stability. We set out our plans for developing and managing budgets, our core principles that will guide financial decision making, and our governance arrangements that will help ensure we achieve value for money from every pound we spend.

A Medium Term Financial Plan (MTFP) will be produced annually and will set out detailed budgets and spending plans and an updated future outlook for a rolling four year period. The MTFP will be prepared as part of budget setting and Council Tax setting, and will be reported alongside proposed Council budgets and Council Tax levels to the Budget Council meeting in February/March each year. The MTFP and ongoing financial management will be guided by the principles outlined in this strategy, with a strong focus on those areas we have identified as being key financial risks, cost drivers or opportunities.



This MTFS gives us clarity over what financial resources we have at our disposal to deliver Ambitious for Sutton, and sets out our vision for using those resources to greatest effect.



About Sutton

Sutton's population was 209,600, as of March 2021. The population of the borough grew by 10.2% between 2011 and 2021, a higher rate of growth than seen across London (7.7%) and England (6.3%)¹.

Unlike elsewhere in the country, the population has grown evenly amongst age groups between the 2011 and 2021 Censuses. Across England, there has been a pronounced ageing of the population. The same has not happened in Sutton, but the population remains older than the London average. Whilst the proportion of adults aged over 60 has remained the same², within this age group there has been some variation. Compared to the Sutton average, there has been higher population growth amongst adults aged 70 to 80, and over 90. Sutton has also seen above average growth of adults aged 50 to 60³. This means that demand for adult social care services in the borough is likely to increase over the next decade as these people age.

There has been larger population growth in Sutton amongst children aged 0 to 14 than England and London. Growth has been particularly high amongst school aged children. There has also been an above average increase in the number of adults aged 35 to 45⁴, suggesting the borough is increasingly popular with families. There remains a pronounced gap in the proportion of adults aged 20 to 34 compared to the London average. The 20 to 30 age group is the only age group in Sutton to see a decline in population size⁵, mirroring wider trends seen across London.

Sutton has a lower proportion of people from multi-ethnic (often referred to as Black, Asian and Minority Ethnic)⁶ than London as a whole⁷, but the population is becoming more diverse. This is particularly the case amongst adults under the age of 34. The number of residents

from multi-ethnic backgrounds is forecast to increase over the next decade. There has been significant migration into the borough over the last two years. Over 2,000 people from Hong Kong have moved to the borough since January 2021. More recently, smaller numbers of refugees from Ukraine and Afghanistan have also moved to the borough.

There are lower levels of poverty in the borough than seen across the region as a whole (16%, compared to 28% in London)⁸. But, there is variation across Sutton, with some of the most deprived neighbourhoods in the country next to some of the least deprived. Residents living in more deprived parts of the borough are more likely to experience poorer outcomes. For example, children achieve lower grades in English and Maths GCSEs, adults are more likely to suffer poorer mental health and wellbeing and into older age and adults experience more long-term health problems.

1. Office for National Statistics. Population and household estimates, England and Wales: Census 2021, June 2022.

2. 20% of Sutton's population was over 60 in 2021 (no change from 2011), compared to 32% in England (up from 23% in 2011). ONS, 2022, as above.

3. Average population growth in Sutton was 10.2% between the 2011 and 2021 Censuses, however higher amongst certain age groups: 27% amongst adults aged 50-60, 24% amongst adults aged 70-80, and 21% amongst adults over 90. ONS, as above.

4. Population growth amongst children aged 0-14 was 17%. ONS, 2022, as above.

5. The population of adults aged 20-30 declined by 6%. ONS, 2022, as above.

6. This term has been formally agreed with London Borough of Sutton staff networks

7. 66% of Sutton's population is White (compared to 60% in London, and 84% in England), 16% are Asian (18% in London, 8% in England), 10% are of Mixed or Other ethnicity (10% in London, 4% in England). Office for National Statistics, Ethnic Group Statistics, February 2022.

8. Trust for London. Sutton. 2022.

Our Financial Position - “The Challenge”

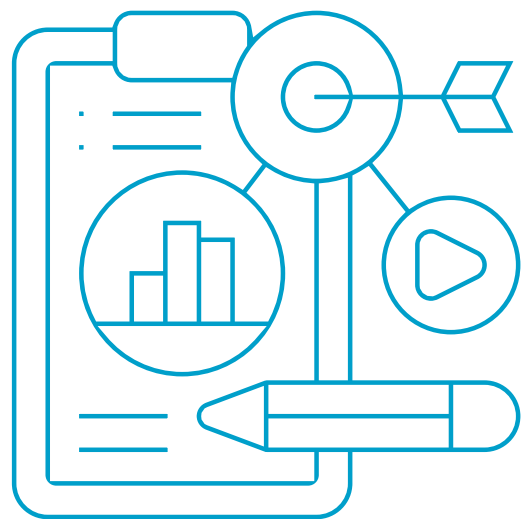
The Journey So Far

We have faced an unprecedented period of financial risk over the past decade with events such as the government austerity measures, economic instability and a world-wide pandemic creating significant financial challenges for all UK Local Authorities. In Sutton we have managed these pressures well and maintained a stable financial position as a result, but this hasn't come easily.

Since 2013/14 our core funding from government has fallen from £79.6m to just £43.9m this year. This is a 45% reduction in cash terms and a 53% reduction in real terms. Our reserves have consistently been lower than most other London Boroughs but have stayed stable as we managed the challenges of recent years, and this is an important indicator of strong financial management.

Over the same period we have seen demand for services increase across social care, housing, Special Educational Needs (SEN) and welfare services. This has been particularly acute over the past three years, as the Covid-19 pandemic and Cost of Living Crisis have left residents needing additional support in their day to day lives.

The need to spend more, whilst receiving less in funding, created budget gaps needing to be closed. The Council has done this through transforming what we do and how we do it, through improving and streamlining services to cut out waste and reduce process costs, and through investing in preventative measures that help to manage future demand on high cost services. We have delivered over £107m from our annual revenue budget since 2010/11 through these actions, and have consistently delivered services within our budget plan year on year. This has helped protect our financial reserves and ensure we have sufficient resources to meet the needs of our residents despite external pressures.



Future Outlook

A four year forecast for our Medium Term Financial Plan is shown below and highlights the significant challenge faced. We expect to need at least £20m more savings to be delivered over the MTFP to ensure a balanced budget is achieved.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Budget Requirement B/F	198.930	201.178	206.719	210.983
Inflation	8.505	3.557	3.537	3.626
Growth	3.000	4.000	8.000	4.000
Savings	(0.256)	0.000	0.000	0.000
Reserves	(1.091)	0.000	0.000	0.000
Forecast Council Budget Requirement	209.088	208.735	218.256	218.609

Funding:

Council Tax	115.795	118.702	121.681	124.735
Business Rates and RSG	42.487	43.337	44.204	45.088
Collection Fund Deficit	(1.376)	0.000	0.000	0.000
Grants	44.272	44.680	45.098	45.522
Forecast Funding	201.178	206.719	210.983	215.345
Remaining Budget Gap	7.909	2.016	7.273	3.264

Cumulative Budget Gap	7.909	9.925	17.198	20.462
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The financial outlook is based on a number of key assumptions and judgements over how key risks will impact our position. These will change over time and so will be reviewed regularly throughout the MTFS period, with an annual update being reported to the Strategy & Resources Committee at least annually as part of the MTFP.

Key Risks and Assumptions

Inflation

Put simply, higher levels of inflation lead to higher budget gaps in future years. This is due to both Council costs increasing and to the impact high levels of inflation have on our stakeholders. High inflation risks increased numbers of households facing fuel poverty or difficulties paying Council Tax and housing costs, causes businesses to struggle and Business Rates receipts to fall, can worsen health and social care pressures, and puts pressure on Councils to support their residents to live with these impacts. At the same time the Council faces increased costs of delivery and pressure on salaries budgets as inflation rises.

Inflation in 2022/23 has been particularly challenging and as at the end of Sep 2022 CPI was 10.1%. This is significantly above the Bank of England target of 2% that has been more typical in recent years. Whether the peak has now been reached or not, and how fast and how far inflation will fall, are unknown and subject to change as worldwide economic conditions and domestic fiscal policy changes. This makes forecasting difficult over the medium term, but a cautious approach to forecasting any return back towards 2% has been taken to ensure we are being realistic in estimating how far inflation may increase our budget gap.

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We have assumed inflation will be at the levels shown in the table below.

Inflation Measure	2023/24	2024/25	2025/26	2026/27
CPI	5%	2%	2%	2%
Pay	5.75%*	2%	2%	2%

*Brings total pay inflation for 2022/23 - 2023/24 to 8% over 2 years.

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Demand & Demographic Changes

It is difficult to predict how Sutton's demographics will change over the medium term and how this will impact demand for services, when there is not a simple relationship between the two. However some estimates need to be made for how the demographic makeup of the Borough might look in future, and how this will change what we need to provide. This is more clearly considered on a service by service basis where we know there is a clear link between key statistics and service demands. Where this is the case, activity data or demography can be monitored and kept under review to inform future forecasts.

This approach is adopted in Sutton for social care services such as forecasting numbers of Children Looked After, Learning Disabilities Services, or Adult Social Care homecare services, and for Housing services where demand for housing will change as the size and make up of households in the borough changes.

In the MTFP forecast we have assumed there will be some increase in demand for social care arising from the high and increasing numbers of Children with Special Educational Needs (SEN) needs in the borough, increased cost of Children Looked After placements, and the relatively high proportion of older adults living in the borough. We have estimated this increase in demand to increase costs by £1.5m per year for Adult’s Social Care and £1.0m per year for Children’s Social Care.

We have assumed no material impact on housing costs from demographic changes over the MTFP and assumed no direct impact on any other costs arising directly from demographic changes.

If these demographic and demand changes are underestimated the need for budget increases in these services will grow and the budget gap will widen further.

Budget Growth

Similar to reviewing demand and demographic changes, we know that some services will require increases in funding simply to cope with increased or changing statutory requirements or due to market conditions relevant to their sector. Similarly, there may be reasons to believe there will be cost increases that are not directly related to demand or demographic changes, but are unavoidable and will need new investment.

In the MTFP forecast we have assumed this will be the case for a number of service areas. We have therefore made an allowance for growth in each year of the forecast, with a peak in 2025/26 arising from the planned recommissioning of waste collection services.

If these growth assumptions prove to be underestimated or new growth pressures are identified, the budget gap will increase.

Growth Assumed in Forecast				
	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Provision for in year budget adjustments required	500	500	500	500
Climate Change	0	500	500	500
Waste Contract Commissioning	0	0	4,000	0
Adult Social Care Pressures	1,500	1,500	1,500	1,500
Children’s Social Care Pressures	1,000	1,000	1,000	1,000
Total Forecast Growth	3,000	3,500	7,500	3,500

Savings Delivery

The Council has developed an annual programme of budget savings every year of the past decade and has a good track record of delivering the reductions it plans. This is key to maintaining budget stability as in-year budget delivery avoids the need to draw on our limited reserves and helps ensure we are keeping pace with reductions in government funding.

The MTFP forecast assumes that all budget savings identified as part of the 2022/23 budget will be delivered in full. Any slippage or reduction in the savings achieved will increase the budget gap.

Government Funding

The government issued a spending review statement in Autumn 2021 setting out government spending plans for the next two years. This was followed by a Local Government Settlement announcement which identified funding for individual Local Authorities, but only for a one year period. Short term funding settlements have been used often in recent years and create uncertainty and therefore risk in longer term planning.

Changes this year in government policy and leadership have increased the uncertainty over future funding for Local Government. The government announced a number of changes to taxation and support for household and businesses energy bills in September 2022. A lack of clarity over how these proposals would be funded, alongside the absence of any economic forecast, caused financial markets to react badly resulting in a large fall in the value of the pound and rising costs of current government borrowing.

The Bank of England took action in early October to try and stabilise markets through the purchase of Government Bonds (Gilts) and the Chancellor has brought forward the date for a further fiscal statement to 31 October. This statement will set out further details of the Government plan for economic growth and include an economic forecast from the Office for Budget Responsibility. There are early indications that Government departmental budgets will need to be reduced to help balance the budget and fund the taxation changes. If this is the case, and a new round of Local Government spending cuts are announced, the budget gap for Sutton will widen and new ways of reducing our spending will need to be identified.

In creating this MTFP forecast we have assumed that Government Funding will increase by 2.5% each year on average, including any increases in funding that may arise from changes to the business rates system. This represents a reduction in real terms but is based on recent trends for Local Authority funding. Although government grants fell significantly throughout the austerity period, we have seen some small increases in Local Government funding over the past three years. Clearly if this trend reverses and we return to annual funding reductions, our forecast budget gap will be bigger.

Council Tax and Business Rates

We are very reliant on maintaining a strong rate of collection of Council Tax and Business Rates in Sutton. Approximately 70% of our funding comes from these areas, meaning a small change in this funding source can have a big impact on the resources we have available to spend.

Council Tax income can vary due to the numbers and types of households due to pay Council Tax ('the base'), the collection rate, and the level of increase the Council agrees to apply annually to bills. The MTFP forecast assumes the overall base will increase by 0.5% each year due to ongoing housing development schemes, assumes no change to the collection rate and assumes that the Council will decide to apply a below inflation increase of 2% to bills. This is subject to an annual decision at Budget Council meetings but any increase above 2% would reduce the budget gap, and opting to freeze or reduce Council Tax would increase the gap and require alternative savings or spending reductions to be identified.

Similarly, Business Rates income varies due to changes in the number and types of businesses in the borough, the collection rate, and Government policy on payment multipliers and discretionary reliefs. The MTFP forecast assumes the overall income from business rates will increase by 2% each year as development and regeneration continues to grow our businesses. The forecast assumes no change to the collection rate, and assumes any material change to Government policy will be funded by grants.

Other Grants and Income Streams

The Council receives smaller amounts of funding from a range of specific Government grants targeted at specified priorities or activities. These can be unpredictable and liable to change as priorities and commitments change over time. However they generally are used to meet specific policy objectives so to some degree, risk of changes in funding is mitigated by the ability to reduce spending too.

With this in mind the MTFP forecast assumes no change to specific Government grants.

The MTFP forecast assumes that income from fees and charges will remain largely constant, with inflationary increases applied to individual charges each year on the basis set out in the section on Inflation above

In summary, the Council's Medium Term forecast is challenging with a budget gap of £20m (13%) to deliver over four years, but the scale of the challenge and the actions required are not dissimilar to what we have already delivered. What makes the next four years feel harder, is that our starting point now is significantly different to what it was a decade ago - major transformation and service efficiencies have already been done meaning we are starting from a smaller, leaner Council base. To continue delivering reductions in spend at a similar scale to before therefore becomes more difficult, as the actions required to do so become more radical, or more difficult, to take.



We have a good track record of rising to the challenge up to now. This MTFP, alongside our Ambitious for Sutton plan and our transformation programme, and supported by our Organisational Development Strategy to equip the workforce to deliver, will provide the strategic framework to guide us towards meeting the challenges going forwards.



Our Financial Strategy - “The Response”

The first step in responding to the challenge is to understand our current financial position, our spend and our income sources.

The Council has Revenue budgets for day to day spending and income, Capital budgets for large scale investment and asset purchases, and specific ring-fenced funding for Education and for Housing. On our Balance Sheet we hold financial reserves that are earmarked to fund specified activities in future and general reserves that provide a contingency against future risks or unforeseen events. These reserves are crucial to maintaining financial stability and ensuring we are protected against future financial risks or economic shocks.

Our Budgets

The Revenue Budget

The Council’s annual revenue budget is funded by Government grants, Council Tax, and Business Rates.

Our core Government grant (Revenue Support Grant) is determined by the Department for Levelling Up, Communities and Housing, and has been reduced from £47.8m in 2013/14 to £7.0m in 2022/23. This is a reduction of over 83% in cash terms. In addition to Revenue Support Grant the Council receives a top up grant, which for 2022/23 was £19.5m, bringing total Government funding to £26.5m.

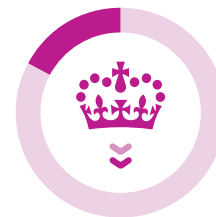
Council Tax and Business Rates receipts are determined by the size of the tax base (i.e. the number of payers), the collection rate, and the level the tax is set at. Council Tax rates are determined locally and in line with Government regulations, where Business Rates are based on standardised multiplier rates. There is local discretion to offer support schemes and concessions.

In Sutton we are more heavily reliant on Council Tax and Business rates to fund the budget than some Councils. This gives us some degree of control over future funding levels, but also leaves us more vulnerable to changes in the economy that adversely impact households, businesses, or economic growth.

Our council tax is funded by:



73.8%
Council tax
(£144,397)



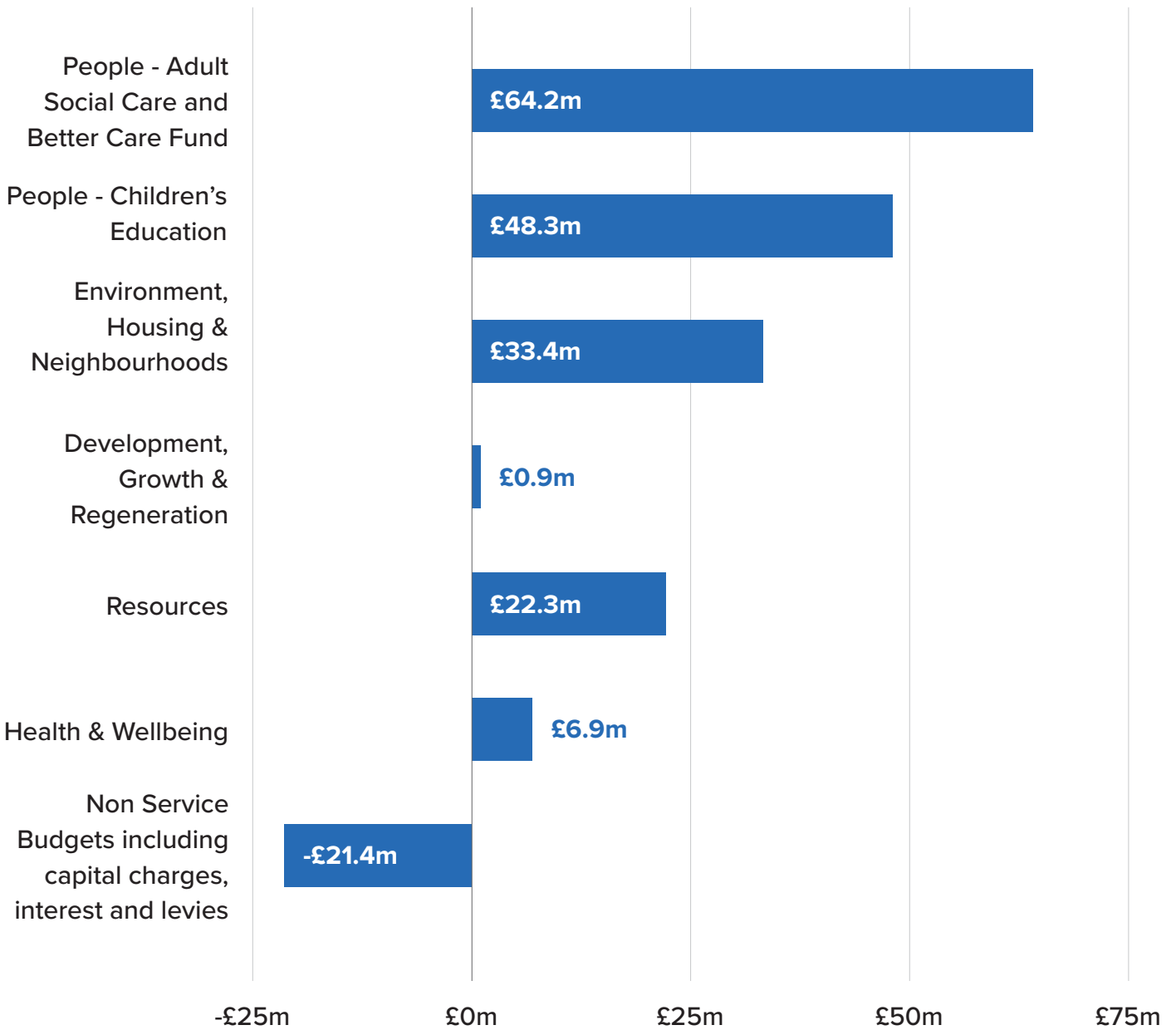
17%
**Funding from
central government**
(£26,415)



9%
Business rates
(£14,146)

Our revenue budget is used to deliver activities across a wide range of service areas, to meet statutory requirements and to fulfil local political commitments. The Council spends money on People’s Services, Environment Housing and Neighbourhood Services, Development Growth and Regeneration, Public Health and Wellbeing, as well as the resources required to operate as effectively.

We spend over 72% of our net revenue budget on People's services, supporting adults and children with social care and education. A small percentage increase in demand for support in these service areas can therefore have a disproportionately large impact on our overall budget. This has resulted in budget growth in these service areas in recent years and this trend is continuing as we look towards 2023/24



The Capital Budget

The Council has a capital programme of £266m split into the General Fund (Council Programmes) and Housing Programmes.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
General Fund	45,130	33,802	11,058	7,103	97,093
Housing	52,860	27,899	36,241	52,389	169,389
Grand Total	97,990	61,701	47,299	59,492	266,482

The main sources of capital funding are capital receipts (selling an existing asset and using the income to buy another), capital grants (e.g from the Greater London Authority), Section 106 or Community Infrastructure Levy (CIL) payments from developers, and external borrowing.

Resources available over the next four years to fund the General Fund capital programme are shown in the table below. The Housing Programme is funded by the Housing Revenue Account (HRA).

General Fund Resources	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Borrowing - General	10,925	6,932	2,980	1,300	22,137
Borrowing - Invest to Save	9,365	4,667	2,066	400	16,498
Developers Contributions - CIL & S106	1,413	1,415	1,588	2,109	6,525
Grant	22,160	20,033	3,212	2,428	47,833
Private Contributions	100	0	0	0	100
Revenue	55	0	0	0	55
Right to Buy - General	222	755	1,212	866	3,055
TFL	890	0	0	0	890
Grand Total	45,130	33,802	11,058	7,103	97,093

The total outstanding long term debt, used by the Council to finance capital expenditure, stands at £412.1m as at October 2022.

This is below our total Capital Financing Requirement of £482.5m, which is a measure of the Councils underlying need to borrow to fund capital expenditure not yet financed through Capital grants, receipts or revenue contributions. The difference between the Capital Financing Requirement and our actual borrowing represents the use of cash balances to fund capital rather than entering into borrowing.

The cost of borrowing is funded by the revenue budget and comprises two main elements: the interest charged by the lender and minimum revenue provision (MRP) payments required under Local Authority accounting regulations. MRP is a charge made annually to the revenue account to put aside monies for the repayment of loan principal to lenders. In other words, the repayment of the principal amount is funded by the revenue budget over the length of the loan rather than in one large payment in one year only. This helps smooth the impact of funding capital investment and avoids large scale year on year changes in the revenue budget.

We currently hold budgets of £12.3m for interest payable (this includes interest for HRA debt and Investment property debt) and £4.0m for MRP. Our average interest cost on long term borrowing is 3.25%. Any increase in our capital programme needs to be considered in light of the revenue budget impact of financing the additional investment, and how market conditions may change the costs associated with external borrowing. The current financial forecast assumes no change in our overall costs for interest payable and MRP over the medium term.

The Dedicated Schools Grant

The Department for Education provides us with a Dedicated Schools Grant (DSG) to fund Education Services. The DSG is paid in a number of blocks that are ring-fenced to specific areas of spend. DSG budget allocations for the current year are shown in the table below:

DSG	2022/23 £m
Schools	56.2
Central School Services	1.8
High Needs	44.8
Early Years	15.2
Total	118.0

The DSG is managed by the Council but with significant input from schools via the Schools Forum meetings, attended by representatives from primary, secondary and special schools in the borough. The DSG budget is discussed with the Schools Forum ahead of the formal budget setting Council meeting in March, and regular funding updates are provided throughout the year.

The two largest blocks, Schools and High Needs, are also where the biggest risks arise. Individual schools receive their funding out of the Schools block based on a locally approved formula, which in Sutton matches a proposed National Formula Allocation that is likely to be mandatory in future. This means the Council is effectively passing on DSG funding from the Department for Education, based on national funding levels and DfE priorities, rather than being able to have significant influence on the amount individual schools receive. There is some flexibility for the Schools Forum to make minor adjustments to the formula, but the overall total funding allocation can not be exceeded.

Individual Council maintained schools (i.e. schools that are not academies) manage their own budgets under a delegation of financial authority from the Council. This means that they are responsible for managing their budgets within their annual funding allocation, must undertake appropriate financial monitoring and management activities, must report their financial position regularly to the Council, and must maintain a finance reserve at an appropriate level to mitigate future risk. This reserve is a carry forward of accumulated balances from past years and can be drawn upon to fund in-year deficits where needed.

If a school reports an in-year deficit that cannot be fully funded by the reserve balances available, they will enter into a deficit position on their balances. Any school in this position is required to develop a Deficit Recovery Plan (DRP) that outlines how they will return to a balanced operating position and recover the deficit on balances, and how they will re-establish a suitable reserve for the future over the medium term. The DRP must be approved by the Council and implementation is monitored jointly. In 2022 there are three schools with an approved DRP.

The High Needs block is managed by the Council and funds additional support required for children who have an Education Health Care Plan (EHCP). The number of children with an EHCP has been rising nationally for several years and this has also been the case locally, with a consequential impact on the costs associated with meeting the support needs identified for these children. As a result the High Needs block has been under significant pressure and schools have needed to develop alternative support arrangements that meet the needs of the children whilst being affordable within the funding available.

The DSG balance held in reserves was £1.4m as at the end of March 2022 and is available for use in future years to manage the financial challenges and risks to education services. This does not include the reserve balances of individual schools. The total balances held in reserve by Sutton schools as at the end of March 2022 was £3.6m.

The Housing Revenue Account

The Housing Revenue Account (HRA) holds all spend and income associated with the delivery of Council Housing. All income generated through the provision of this housing must be held in the HRA and used to fund the provision of this service. This means HRA funds may not be used to support delivery of other Council activities. All spend, whether revenue or capital in nature, that is incurred in the provision of Council Housing services is funded by the HRA.

Council Housing Stock and related services are managed by Sutton Housing Partnership on our behalf. A 30 year business plan is approved by the Council's Housing Economy and Business Committee on an annual basis, setting out how HRA resources will be used to deliver the Housing priorities set out in the Ambitious for Sutton corporate plan.

For 2022/23 the business plan included a planned surplus in the budget of almost £3m for the year. The actual surplus realised will be transferred to HRA reserves for use in future years and to provide a contingency against future financial risks to the HRA.

For 2022/23 the business plan included a planned surplus in the budget of almost £3m for the year. The actual surplus realised will be transferred to HRA reserves for use in future years and to provide a contingency against future financial risks to the HRA.

	2022-23 £'000
TOTAL INCOME	(39,585)
TOTAL EXPENDITURE	28,779
Net Cost of Services	(10,806)
Revenue Contribution to Capital	1,309
Supported Capital Debt Management Costs and interest	6,498
Net Operating Expenditure	(2,999)

Our Reserves

The Council holds reserve funding either to fund future specified commitments ('Earmarked Reserves') or to provide a contingency against future financial risks and economic shocks ('General Reserves'). Reserves provide an important mitigation against risk in uncertain times and maintaining general reserves at an appropriate level is a fundamental requirement for good financial management.

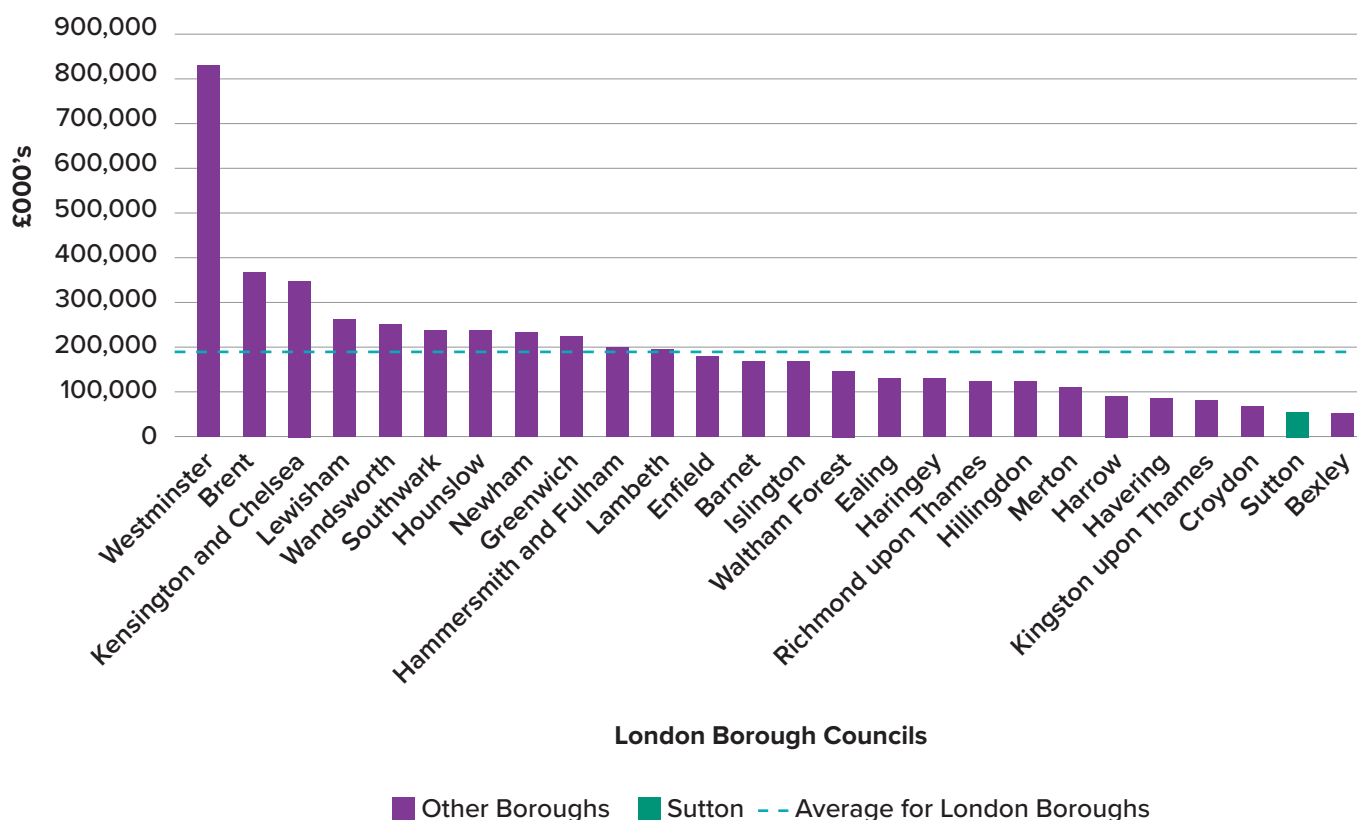
Our general reserves as at the end of March 2022 were £13.9m of which £1.4m is Dedicated Schools Grant Reserves, £3.6m is balances held by Schools, and £9m is General Fund Reserve available to mitigate risks against the Council's budgets in future.

	31/03/2022 £'000
General Reserves	
General Fund Balances	8,960
DSG Reserves	1,368
Schools Balances	3,565
Total General Reserves	13,893
Earmarked Reserves	
Revenue Reserves	39,526
HRA Reserves	10,772
Capital Grants Unapplied	31,167
Capital Receipts (including ringfenced 'Right to Buy' receipts)	14,864
Major Repairs Reserve	12,223
CIL Monies	8,324
Total Earmarked Reserves	116,878
Total Useable Reserves	130,770

The General Fund reserve is equal to 5.8% of the £155m net revenue budget for 2022/23. This is considered to be sufficient to manage unavoidable financial risks, but is very low compared to other London Boroughs⁹. This means we have less capacity to absorb unforeseen costs or to mitigate an increase in financial risk compared to those Councils with greater levels of reserves. As a result our risk appetite for financial decisions is likely to be lower, given we need a greater level of certainty that our budget plans can be delivered as expected.

Financial sustainability

Total general fund and earmarked general fund reserves as at 31 March 21 (£'000)



A key indicator of financial risk is not just the amount of reserves an organisation has available, but also how stable those reserves are. In other words, organisations that regularly have to make unplanned withdrawals from their reserves or that are reducing their reserves year on year, are more likely to suffer financial failure than those with stable reserves. Being able to maintain a steady level of general reserves indicates that an organisation is managing financial risk well, anticipating and managing financial pressures within its overall budgets. The organisation is not having to use its reserves to meet financial pressures that could have been avoided.

9. 2021 Financial Sustainability Graph highlighting comparative reserve levels taken from LBS Annual Auditors Report 2020/21, issued by Grant Thornton

We have managed our general reserves well in Sutton, actively managing contributions from and to reserves to ensure an overall balance sufficient to manage financial risks is maintained. There have been times when it was helpful to use general reserves to support the revenue budget, or to smooth out fluctuations in spending patterns between years, but these have been planned and considered in light of the impact doing so would have on our overall ability to manage risk. We used some of our General Fund balances to support the revenue budget in 2018/19 and 2019/20, but have since rebuilt those balances back to approximately the same level as was held at 1 April 2018. This is a significant achievement given £32.2m of revenue budget savings were also achieved between 2018/19 and 2022/23, and reflects a prudent approach to managing risk effectively.

Sutton Reserves Balances as at 1 April					
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
General Fund Balances	9,075	8,416	7,408	8,236	8,960
% of Net Revenue Budget	6.4%	5.8%	5.0%	5.5%	5.8%
Total Useable Earmarked and General Reserves	84,419	75,218	82,107	102,323	130,770

Cost Drivers

The next step in responding to the challenge, is to understand what factors determine spending requirements - in other words, what causes us to change our level of spending? To manage our finances we will develop detailed knowledge and understanding of what drives our spending and how changes in these factors may impact our spending in future. We will focus on those areas of the budget that are most volatile, demand led or most at risk, and identify key factors, or 'Cost Drivers', for these budgets to monitor and use as an evidence base to inform future financial planning.

In simple terms, a cost driver triggers a change in the cost of an activity or service. We have analysed activity funded by budgets that have had high or increasing levels of spend in the past four years, or those where we know spend patterns can be volatile or difficult to predict. We have identified key cost drivers for each of these areas and as part of our response, will use this to create a baseline data set that is monitored and tracked alongside financial data over the medium term. This will help us better understand how cost drivers impact our spending and better use activity data to drive more accurate financial forecasting to give early insight into growing risks or pressures.

Through better managing our key cost drivers we will be better placed to control and manage our future spending. We will seek to design interventions or preventative activities that impact on these cost drivers, helping to avoid increasing demand for support and cost increases in future. By influencing how cost drivers increase in future, we can influence the resulting costs that will need to be funded, helping to mitigate future budget pressure.

MTFS Cost Drivers

Service Area	Cost Driver	Description
Children's Social Care	Number of Children Looked After (CLA) by the Council	Increases in the number of CLA cause increased spend on care placements and caseload work. Residential placements are generally more expensive than alternatives such as foster care. The number of CLA has increased by approximately 1.7% over the past four years, with a higher proportion of cases being complex with high costs. The budget for CLA placements is £13.05m to accommodate 235 CLA clients. The budget for Residential placements (included above) is about £6.3m for 20 clients. Growth of about £600K per year could be needed to accommodate increases in residential placements.
Adults Social Care	People with Learning Disabilities (PLD)	Increases in the number of Adults with Learning Disabilities have a significant impact on the Council's budgets. Overall budget for PLD is £22.8m for about 580 clients. PLD clients in Sutton increased by 9.5% from 2015/16 to 2019/20. Latest projections suggest an annual net increase of 9 clients receiving support per year, which could add an annual cost pressure of about £450K.
Housing	Emergency and Temporary Accommodation (TA)	Emergency and TA is a demand-led service, increased numbers will drive the costs. The Cost of Living Crisis is also driving a net increase in the unit cost of nightly paid accommodation. The budget for Bed & Breakfast and Private Sector Lease scheme is £2.01m. The number of Households in TA on April 22 was 906. Potential additional demand of about 42 and 47 households in the next 2023/24 & 24/25 and increasing unit costs could create a pressure of about £334K in the next two years.
Waste	Waste disposal	The key cost driver for waste disposal is residual (non-recyclable) waste which makes up 52% of waste composition but generates >70% of total waste disposal spend. The budget for waste disposal has grown steadily over the last few years, rising from £6.1m in the 17/18 financial year to £6.7m in 21/22. This is largely driven by increased disposal costs for residual waste. Ongoing work is taking place to understand the impact on waste and recycling from the cost of living in future years.

Transformation

Our response to the financial challenge must include delivery of savings and cost reductions to help balance our budget. Transformation of services is a key part of our strategy for achieving this, targeting interventions that impact our core cost drivers and reduce not only current operating costs, but help us avoid cost in future. Transformation alone won't be enough to bridge the existing gap, we will need to find savings through other means too, but it is essential to avoiding additional costs in future and to enabling us to actively manage those drivers of cost that have the biggest impact on our spending.

The Council will develop a refreshed transformation programme for 2022-2027, which will be the overall framework for delivering the major priorities in the corporate plan. Broadly, the purpose of 'transformation' is to deliver positive change and improvement, with a focus on influencing long term outcomes, achieving 'big picture' strategic goals and addressing complex, cross-cutting challenges.



In the context of the Medium Term Financial Strategy, this means focusing on activities which will improve the lives of residents in the longer term, while also helping the Council to remain financially sustainable and avoid costs in the future. A good example of this would be investing in services and building capacity in communities to help people to remain independent for as long as possible, which is better for individual wellbeing as well as more cost effective for public services. Investing strategically in this way will help the Council to ensure resources are focused on supporting those who need it most in the longer term, rather than fixing avoidable issues in the short term.



The transformation programme will therefore focus on some of the Council's key 'cost drivers' as set out above. The framework for the programme is still in development, but broadly will aim to address the following key areas.



The transformation programme will therefore focus on some of the Council’s key ‘cost drivers’ as set out above. The framework for the programme is still in development, but broadly will aim to address the following key areas.

Programme area	Influence on future spend/savings
Health and wellbeing (Sutton Health & Care Plan)	<ul style="list-style-type: none"> • Avoiding future costs by supporting people to remain independent as long as possible • Opportunities to use the Council’s housing assets to support service delivery • Opportunities to make social care pathways more efficient and effective • Efficiencies and economies of scale through better integration between the Council and the NHS
Children’s services and early intervention	<ul style="list-style-type: none"> • Avoiding future costs by supporting children and families as early as possible before issues escalate • Opportunities to use the Council’s housing assets to support service delivery • Opportunities to make social care pathways more efficient and effective • Efficiencies and economies of scale through better integration between the Council and the NHS
Assets and locality services	<ul style="list-style-type: none"> • Using assets more strategically to help people access services at the right time before issues escalate • Economies of scale through using assets more efficiently (eg. reducing building overheads)
Housing supply	<ul style="list-style-type: none"> • Opportunities to use the Council’s housing assets to support health and social care service delivery as set out above • Avoiding future costs by supporting people as early as possible and preventing homelessness
Town centre regeneration	<ul style="list-style-type: none"> • Increasing the overall prosperity of the borough, which would positively impact income to the Council (Council Tax & Business Rates) • Avoiding future costs by supporting people to maximise their income and therefore avoid financial hardship
Economic growth	<ul style="list-style-type: none"> • As above
Climate emergency	<ul style="list-style-type: none"> • Avoiding future costs by mitigating the impact of the climate emergency on local infrastructure • Exploring opportunities to save money through being more energy efficient
Workforce (‘WorkWell’)	<ul style="list-style-type: none"> • Ensuring the Council workforce has the right skills and capabilities to deliver services efficiently and effectively
Customer Experience	<ul style="list-style-type: none"> • Using the right channels to engage with residents, ensuring that digital services are being used efficiently and effectively and that face-to-face services are directed to those who need them most

Sound Financial Management

We believe our response to the challenge needs to be grounded in sound financial management of our day to day budgets, alongside delivery of large transformation activities and savings programmes.

Sound Financial Management helps us deliver high quality services to Sutton residents that are value for money and effective at making a difference. We expect all Council officers to consider the financial impact their day to day decisions have on public funds and we integrate financial considerations to all our formal decision making processes and service management. Effective financial management will help us identify what service changes could be made to reduce costs, and enable us to deliver efficiencies that realise savings, both of which will be needed given the scale of the challenge we face.

Every budget manager is offered training and support to effectively fulfil their financial management responsibilities and understand the impact their decisions have on the financial position of the Council and on our stakeholders. We hold managers to account for financial performance against budget targets and report publicly our progress in delivering our budget.

The Corporate Management Team reviews financial performance reports throughout the year, using the information from our budget managers to identify opportunities for making service efficiencies and risks that may need management action to mitigate. This regular review helps us prioritise financial resources to corporate priorities and be responsive to changes in our financial outlook.

We consider financial implications before taking any policy decisions and provide detailed commentary on the financial aspects of decisions in all Committee reports. Similarly, decisions taken by officers under delegation from Councillors are also required to have financial aspects appropriately investigated and understood before we make a commitment.

In the 2022/23 MTFP we published a self assessment of our compliance with the CIPFA Financial Management Code and an action plan for further improving our approach to financial management. This is being implemented from 2022 and a follow up assessment will be conducted as part of our MTFP development to ensure we are continuing to achieve high levels of compliance with this statutory guide to how Local Authorities should manage their finances.

This culture of financial responsibility and proactive financial management helps ensure we are a well run Council that is constantly challenging ourselves to maximise value achieved from the resources we have. We recognise that a focus on day to day efficiency and effectiveness in how we use our resources plays an important role in responding to the challenge and keeping us on track to deliver our financial plans.

Income from Fees and Charges

Reducing cost and managing activities will help manage financial pressures, but maintaining or even increasing income to the Council can help balance the gap too. We will pay close attention to our income sources as part of our response to the challenge and will proactively seek to use income generation as part of our long term financial planning.

We generate income in a number of different service areas through fees and charges. Some of these are statutory charges and are either set externally or based on statutory guidance, whilst others are discretionary and subject to local decision making only. The income generated through fees and charges is included in our revenue budget where it is used to help offset the costs of services.

The Council increases most fees and charges in line with inflation each year, and has a range of concessionary schemes in place. Where a service is provided on a discretionary basis we usually aim to recover the cost of delivering the service through the income generated by fees and charges. This helps protect our statutory service areas by reducing the need to subsidise non-statutory activities with funding from Government, Council Tax or Business Rates.

We may offer a subsidisation or concession scheme if by doing so we are able to tackle one or more corporate plan priorities. For example, we offer discounted leisure activities for older people who are more at risk of social isolation or health issues.

Part of our strategy for meeting the financial challenge of the next few years is to manage our income and any risks to the level of income we can generate in the same way we manage cost pressures. We will continue to apply inflationary increases to fees and charges to ensure our income generation keeps pace with increases in the costs of delivering the service, and will annually review all fees and charges to identify opportunities for change or amendments to concessions policies.

Income is reported alongside costs as part of our financial performance monitoring, and any changes in activity that may impact the level of income we are able to generate will be monitored alongside the financial impact to

help inform decisions about how to manage charges for services going forwards.

The annual review of fees and charges will be undertaken as part of developing an annual MTFP, and any changes that are proposed in addition to inflationary changes will be presented to Council for decision as part of the annual budget.

Charging for discretionary services enables us to prioritise our core funding to supporting those who most need our help and means we can continue to offer a wide range of services that would simply be unaffordable if offered free at the point of delivery. These services are not only valued by Sutton residents, but can help contribute towards Ambitious for Sutton objectives through influencing behaviours and habits of those who live and work in the borough. We recognise that charges need to be proportionate and fair, but also that they are a part of the solution to protecting vital front line services whilst meeting the financial challenge.

Income from Council Tax

Just under 74% of our 2022/23 revenue budget funding is generated from Council Tax receipts. The level of income we get from Council Tax is determined by the number and type of properties for which Council Tax is due (the 'taxbase'), the level the tax is set at, our success at collecting tax due (the 'collection rate') and the take up of concessions offered under the Council Tax Reduction Scheme.

This gives the Council some degree of control over how much income is generated through this source, since there are actions we can take to impact each of the elements that determine the sum generated. Given our heavy reliance on Council Tax as our major funding source, management of this income will be an important part of our response strategy.

We will take actions to protect, and grow, the taxbase to ensure we have a sustainable long term source of income for the future. This will mean facilitating the development of a mixture of housing options across the borough, both to support residents to access high quality affordable homes, and to ensure we have a sustainable taxbase to pay for services in future. In recent years the taxbase has grown by approximately 0.5% per year and this has been assumed in our financial forecast. If we can create further growth over and above this, we will see an increase in future funding that helps close the budget gap in future.

We have local discretion to increase the level of the tax annually, though there are some Government-determined restrictions as to how much the increase can be and these are set out as part of Local Government funding settlements. Increasing Council Tax is not an easy decision to take - we will always give careful consideration to how we balance the financial impact of higher bills for taxpayers against the need to provide statutory services to all.

We are very successful at maintaining high levels of collection for Council Tax, and have regularly reported a rate amongst the top 3 of all London Boroughs. We believe this is due to our collaborative approach of working together with residents to enable people to manage their personal finances, offering support and advice to those who are struggling and using discretionary support funds to help those in need to avoid getting into longer term debt. We will continue to prioritise effective and empathetic debt collection as part of our financial strategy.

The Council Tax Reduction Scheme (CTRS) offers discounts and exemptions on Council Tax for some residents. This helps support those who may otherwise struggle to manage the financial burden and allows us to tailor our approach to local taxation to meet local needs. As part of our response we will maintain a CTRS that continues to support local priorities and if changes to the scheme are proposed in future, the Housing Economy and Business Committee will receive details of all financial implications arising from the proposals.

Income from Business Rates

Business Rates levied on businesses in the borough provide another significant income stream, funding over 9% of our revenue spend. The level of income from this source is dependent on a number of factors in a similar way to Council Tax, and this gives us a degree of local influence over the amount of income that could be generated in future.

Unlike Council Tax, Business Rates are set nationally rather than locally based on a series of multiplier rates and specified reliefs or exemptions. The number and types of businesses in the borough forms the taxbase and is a key determinant to the total potential income. As is the case with Council Tax, the higher the collection rate, the higher the total income available.

The rates collected within the borough are shared between the Council (30%), the GLA (30%) and Central Government (40%), who redistribute their share of the income nationally based on an assessment of need. This means that an increase in the taxbase will increase the total tax collected, and 30% of this increase will come directly to the Council. Equally, if local economic conditions worsen and businesses leave the borough, a share of the consequential reduction in tax paid will impact the Council.

This means that protecting the existing business rates taxbase, as well as using our influence to increase the diversity and number of businesses in Sutton, will play an important role in protecting and growing our funding from this source in future. Our economic development ambitions and support for local businesses set out in our corporate plan are important not only for creating local growth and employment opportunities, but also for providing funding for Council services in future.

Commissioning

Sutton council is a commissioning council. This means that we have committed to using the commissioning cycle to make evidence-based decisions about the services we provide. We are also committed to involving local people, providers and partners early in this process and in a manner that fosters collaboration.

A Commissioning approach enables the Council to:

- Understand the evolving needs of the community, as well as the key priorities that public sector bodies can most effectively deliver against.
- Design and deliver appropriate services to meet these needs, utilising the full capabilities of in-house services, market providers, and voluntary and community groups.
- Constantly review and validate whether the work done by partners, or on behalf of partners, through private and third sector providers is effective, thereby guaranteeing the best use of our resources.
- Manage the process effectively, facilitating the work done by partners to identify and maximise opportunities for collaboration, challenge ‘accepted thinking’, and encourage innovation about the right way to meet community needs.

This approach has led to a ‘mixed Economy’ of service delivery models including: in-house delivery, partnerships, shared services, outsourcing. This mixture of delivery models has enabled the Council to deliver significant savings over the last 10 years, whilst at the same time delivering good outcomes.

Governance (based on the risks associated with the service being delivered) not the delivery model itself is in place to ensure that there is proportionate oversight of the services being delivered.

Financial Principles - at a Glance

The final strand of our response to the financial challenge is to adopt a clear set of financial principles that will be used across the medium term. We believe these principles will help protect our core funding sources, will allow for effective prioritisation of limited resources, will help maintain financial stability, will enable prudent management of risk, and will offer flexibility to respond to changes that may happen over the next four years.



These principles, grounded in prudent financial management and professional accountancy expertise and judgement, will guide our financial decision making and underpin our approach to Medium Term Financial Planning and budget setting.



Our Financial Principles

Reserves	We will maintain a General Fund reserve that is at least equal to 5% of our net revenue budget each year
Contingencies	We will not reduce the budgeted contingency below £1m unless there is a clear and realistic plan for reinstating the budget within the Medium Term
Council Tax	<p>We will regularly monitor the Council Tax collection fund, taxbase and collection rate</p> <p>We will model potential Council Tax increases annually to inform budget and Council Tax setting decisions</p> <p>We will set out detailed financial implications to the Housing, Economy and Business Committee for any proposed changes to the Council Tax Reduction Scheme</p>
Adult Social Care Precept	We will model the Adult Social Care Precept annually to inform budget and Council Tax setting decisions
Capital Programme	<p>Capital programme funding will be prioritised towards projects that will deliver either a corporate plan objective, a statutory or health & safety requirement, or revenue budget savings</p> <p>We will only borrow if funding to service the debt costs of Minimum Revenue Provision and Interest is available in existing budgets or from new and identified savings</p> <p>Capital Grants will be accepted only when the terms and conditions have been approved by the Finance team as being affordable and appropriate</p> <p>We will not plan capital expenditure on the basis of forecast capital receipts - we will only include realised capital receipts in our financing plans</p> <p>We will not plan capital expenditure on the basis of expected Section 106 or Community Infrastructure Levies - we will only include realised income from these sources in our financing plans</p> <p>We will review our Capital Strategy annually</p>
Flexible Use of Capital Receipts	<p>We will top slice up to 20% of capital receipts to create a Transformation Fund that will be used to fund transformation programme activities and investment that realises revenue budget savings</p> <p>We will meet statutory reporting requirements for the Flexible Use of Capital Receipts</p>

Our Financial Principles

Treasury Management	<p>We will produce a Treasury Management Strategy annually</p> <p>We will undertake borrowing and lending activities in accordance with the controls set out in our Treasury Management Strategy</p> <p>We will report our treasury management activities to the Audit & Governance Committee</p>
Fees and Charges	<p>We will review annually all fees and charges levied by the Council</p> <p>We will seek to recover full costs of all discretionary activities provided unless Councillors have taken a policy decision to offer partial subsidy or concessions</p> <p>Changes to concessions, or proposals for introducing new subsidies, will be presented to Councillors for approval ahead of implementation</p> <p>We will increase our fees and charges annually by an inflationary amount unless an alternative proposal is detailed in the MTFP</p> <p>We will consider new opportunities for raising revenue as part of budget setting and will proactively consider income generation as part of our response to the financial challenge</p>
Inflation	<p>We will budget for pay inflation on the basis of known, or forecast, NJC pay settlements that apply to Local Government</p> <p>We will budget for inflation on contract budgets where there is a contractual obligation to apply an inflation uplift</p> <p>We will budget an inflationary uplift based on CPI for all fees and charges budgets</p> <p>We will monitor Bank of England inflation figures and where inflation is considered to be a significant risk, will budget an appropriate contingency as part of our MTFP</p>
Investment Appraisal	<p>Capital or significant Revenue investment will only be approved when there is a supporting business case showing the proposal to be financially viable, affordable, and value for money</p> <p>We will use the 5 Case Model of the Government Green Book to assess business cases where appropriate.</p> <p>We will carry out detailed financial appraisals and, where appropriate, commercial appraisals to inform the business case for investment</p> <p>We will appraise business cases using the higher of the Treasury Green Book discount rate or the Council's weighted average cost of borrowing, unless there is detailed justification for using an alternative</p> <p>All business cases will be approved by the Section 151 Officer or a nominated Deputy in advance of the investment decision being taken</p>

Financial Principles - in Detail

Reserves

We will maintain a General Fund reserve that is at least equal to 5% of our net revenue budget each year. If the General Fund falls below the 5% threshold, this will be reported to the Strategy & Resources Committee with a proposed action plan for reinstating reserves to the minimum 5% level.

This is considered a prudent minimum level of reserves for a Council our size and is realistic given our generally low level of balances compared to other Councils.

We will not draw upon the General Fund reserve to balance the Revenue Budget, unless there is a clear and realistic plan for how the temporary reserve funding will be replaced with permanent revenue funding changes over the Medium Term.

Earmarked reserves will be established as required for specific activities and priorities, and will be reviewed annually to identify whether they are still prudent, necessary and appropriate. Any earmarked reserves that are no longer required will be released back into the revenue budget.

The Council will compare its level of reserves against similar Councils, and analyse trends, using the annual CIPFA Resilience Index. This will help inform an ongoing assessment of our level of financial risk and ensure we are picking up early any negative trends in reserve levels which may be indicative of wider financial risk.

Contingencies

We will budget a contingency within the annual revenue budget to allow for unforeseen spending pressures arising in year. The 2022/23 contingency budget is £2m and the level required in future years will be considered as part of the Medium Term Financial Plan.

We will not reduce the budgeted contingency below £1m unless there is a clear and realistic plan for reinstating the budget within the Medium Term.

Council Tax

Council Tax which residents in the Borough pay comprises two elements, one is the tax levied by the Council to fund our services and the other is an amount collected on behalf of the Greater London Authority (GLA) and paid over to them. The final decision on the level of Council Tax levied by Sutton is taken by Members at Full Council.

The total income generated by Council Tax is accounted for in a "Collection Fund" and will be impacted not only by the level of the Tax levied, but also by the size and make up of the tax base, the application of Council Tax Support schemes and the Collection Rate achieved each year.

We will monitor our tax base and any changes at regular intervals each year, and will undertake monthly performance monitoring of our Collection Rate. We will use this information to provide regular Collection Fund forecasts that will be incorporated into budget forecasts and Medium Term Financial Planning.

We will model the impact of potential changes in the level of Council Tax to be levied and compare this to alternative ways of balancing the budget, to offer Councillors choices about the level at which they wish to set Council Tax.

Any proposed changes to the Council Tax Reduction Scheme will be presented for decision to the Housing, Economy and Business Committee and will be accompanied by a detailed analysis of the financial impact of the proposals. This will include details of how residents may be impacted by the proposals as well as a forecast impact on the Council's revenue budget.

Adult Social Care Precept

The social care precept allows relevant authorities to levy an additional precept on Council Tax to fund adult social care services. The Government has issued guidance each year as to how much this levy may be, and generally it has been expressed as being up to a maximum % increase applied to Council Tax.

Social Care funding has been an area of pressure for many years for this Council and for most local authorities, and the Social Care Precept was originally intended to be a temporary measure pending more permanent changes to how these vital services are funded. The longer term solution has been delayed a number of times and as a result, it looks likely that the Social Care precept will remain in place at least in the short term.

We will model the financial impact of the Social Care Precept each year and will incorporate this funding into our budget options for consideration alongside alternative ways of balancing the budget. Given the increasing demands being placed on Social Care it is likely we will need to take the full precept available each year, as no alternative Government funding has yet been offered to take its place. This decision will be considered each year in light of the latest available Government position on Social Care funding.

Capital Programme

Capital programme funding will be prioritised towards projects that will deliver either a corporate plan objective, a statutory or health & safety requirement, or revenue budget savings. The capital programme will be financed by a combination of external grants, capital receipts, developer contributions under section 106 or the Community Infrastructure Levy, revenue contributions or through external borrowing.

The financing plan will be agreed as part of the Medium Term Financial Plan and monitored throughout the year. The allocation of funding towards the capital programme will be based on the following principles:

- We will only borrow if funding to service the debt costs of Minimum Revenue Provision and Interest is available in existing budgets or from new and identified savings
- Capital Grants will be accepted only when the terms and conditions have been approved by the Finance team as being affordable and appropriate. Grants will be included in capital programme forecasts where there is a high degree of certainty that the grant will be received, however the planned spend will not take place until the funds are received
- We will not plan capital expenditure on the basis of forecast capital receipts - we will only include realised capital receipts in our financing plans
- We will include income from Section 106 and Community Infrastructure Levies in capital programme forecasts where there is a high degree of certainty that the income will be realised, however the planned spend will not take place until the funds are received
- We will review our Capital Strategy annually and present this to Council for approval as part of the Medium Term Financial Plan.

Flexible Use of Capital Receipts

The Government allows Local Authorities to fund transformation under the Flexible Use of Capital Receipts scheme. The scheme is outlined in statutory guidance that determines what such funds may be used for, and how authorities must report on the use of this flexibility.

We will use this power going forwards to top slice all capital receipts by up to 20% to create a Transformation Fund that will be used to fund transformation programme activities and investment that realises revenue budget savings. This will help ensure we have the investment needed to respond to the financial challenge and to make future changes to what we do and how we do it, without placing an unnecessary additional burden on local taxpayers.

We will meet the statutory reporting requirements by including this intention as part of our Medium Term Financial Strategy and reporting as part of the annual MTFP updates on prior year allocations and the outlook on future plans.

Treasury Management

We will produce a Treasury Management strategy annually and report this to the Council as part of the MTFP. We will manage all borrowings, investments and cash flows in line with the controls set out in the strategy to achieve corporate goals whilst appropriately managing risk.

We will report our Treasury Management activities regularly to the Audit & Governance Committee to allow for Councillor scrutiny of the activities and transparent reporting of Council investments and borrowing.

Fees and Charges

We will review at least annually all fees and charges levied by the Council. We will seek to recover full costs of all discretionary activities provided unless Councillors have taken a policy decision to offer partial subsidy or concessions. Any changes to concessions, or proposals for introducing new subsidies, will be presented to Councillors for approval ahead of implementation.

We will increase our fees and charges annually by an inflationary amount to avoid large and unpredictable rises being applied in future, and to help ensure income keeps pace with the cost of delivering charges for services. Proposals for not applying an inflationary increase, or for applying an above inflation level of increase, will be detailed in the MTFP with supporting justification for approval at Council.

We will consider new opportunities for raising revenue as part of the annual budget setting process and will proactively consider income generation as part of our response to the financial challenge alongside reductions in spend.

Inflation

We will budget for pay inflation on the basis of known, or forecast, NJC pay settlements that apply to Local Government.

We will budget for inflation on contract budgets where there is a contractual obligation to apply an inflation uplift. This will be based on the relevant indice specified in the contract or by an appropriate proxy.

We will budget an inflationary uplift based on CPI for all fees and charges budgets.

We will only consider other inflationary uplifts to budgets where there is supporting analysis of an unavoidable pressure that cannot be contained within existing budgets, or where there is a significant risk of market failure adversely impacting the delivery of a statutory service or Council objectives.

We will monitor inflation levels throughout the year and incorporate updated estimates into our MTFP based on the latest available Bank of England inflation figures. Where inflation is considered to be a significant risk, either due to high levels of inflation or volatility in the forecast, we will budget an appropriate contingency as part of our MTFP.

Investment Appraisal

Capital investment or significant revenue investment will only be approved when there is a supporting business case showing the proposal to be financially viable, affordable, and value for money.

We will use the 5 Case Model of the Government Green Book to assess business cases under Strategic, Economic, Commercial, Financial and Management cases. We will seek external advice where appropriate to support our in-house teams to ensure our business cases are based on robust and technically sound financial models, that utilise best practice in both modelling and financing options.

We will carry out detailed financial appraisals and, where appropriate, commercial appraisals to inform the business case for investment. We will utilise tools such as Net Present Value calculations, or Payback estimates to assess viability and affordability, and to compare options for delivery of proposed schemes. We will utilise a default discount rate in appraising business cases based on the higher of the Treasury Green Book discount rate or the Council's weighted average cost of borrowing, unless there is detailed justification for using an alternative rate.

All business cases with supporting financial appraisal will be approved by the Section 151 Officer or a nominated Deputy in advance of the investment decision being taken. We will regularly report on delivery of any agreed investment proposals and will evaluate value for money achieved when investment projects are finished.



Our Framework for the Future - “The Delivery”

The MTFS will provide the overarching framework within which annual financial plans are produced and managed, and if delivered successfully, it should enable the Council to direct financial resources towards successful realisation of the Ambitious for Sutton corporate plan. Delivery of the MTFS will be guided by our governance, roles and responsibilities, and processes for updating and reporting the strategy going forwards.

Governance

The Strategy & Resources Committee recommended the MTFS for approval to a full Council Meeting in November 2022.

Now it has been adopted, the MTFS will be live for a four-year period, during which no major revisions or re-writes will be undertaken. However, there will be regular reviews of progress on delivering the Strategy, and updated financial forecasting presented back to the Committee based on the key risks, opportunities and cost drivers determined in the Strategy.

The Strategy is compliant with the Council’s Financial Regulations set out in the Council Constitution. Any changes to Financial Regulations that require a corresponding change to be made to the MTFS will be highlighted through in year financial reporting and annual MTFPs. All financial decisions will be taken in accordance with the delegated authorities set out in the Financial Regulations, based on the principles set out in this Strategy.

Where an expenditure decision exceeds the officer delegation limit it will be reported to the relevant Committee for decision. Councillors will be advised as to how the officer recommendation aligns with both the

MTFS and Ambitious for Sutton to ensure decisions remain consistent with the principles set out in this document.

The Council will be asked to approve an Annual Medium Term Financial Plan that incorporates detailed budget proposals for a rolling four year period based on the MTFS, will set out updated financial risks and opportunities, will report on cost drivers and changes to activity forecasts, and details Council Tax information for the year ahead. This will be undertaken at the annual budget meeting in February or March each year.

In year financial reporting to the Strategy & Resources Committee will enable Councillors to hold officers accountable for financial performance against the MTFP and delivery of the MTFS. A financial update report will be presented to each Committee incorporating an in-year financial forecast and summary of MTFS progress for Revenue and Capital.

Annual financial statements and an annual report will be produced at the end of March each year, and presented to the Council’s external auditors for formal audit scrutiny and review.

The auditor will present an Auditors Annual Report to the Audit & Governance Committee, and provide an opinion on the financial statements, to support the Audit & Governance Committee to scrutinise our financial performance and financial governance arrangements.

The Annual Accounts will be open for public inspection during the external audit and once finalised, will be published on the Council’s website and fully accessible to all stakeholders.

Roles and Responsibilities

Who has a role to play in delivering our MTFS?	
Who?	What?
The Council	<p>Approves MTFS for adoption and approves every 4 years</p> <p>Approves annual MTFP & Council Tax</p> <p>Approves Council Constitution including Financial Regulations</p>
Strategy & Resources Committee	<p>Considers MTFS and annual MTFPs for recommendation to Full Council</p> <p>Receives in-year Financial Update reports</p> <p>Approves Revenue and Capital budget allocations</p> <p>Approves spending priorities for services in the remit of the committee</p> <p>Holds officers accountable for delivery of core Revenue and Capital spending priorities</p>
Service Committees	<p>Receives annual report setting out financial considerations for services in the remit of the Committee</p> <p>Approves Revenue and Capital spending priorities for services in the remit of the committee</p> <p>Holds officers accountable for delivery of core Revenue and Capital spending priorities</p>
Audit & Governance Committee	<p>Receives regular reports from the External Auditor including the Auditors Annual Report and Opinion on the Financial Statements</p> <p>Approves annual Financial Statements and Annual Governance Statement</p> <p>Scrutinises performance and risk management</p> <p>Holds officers accountable for delivery of appropriate governance and financial control arrangements</p>
Scrutiny Committee	<p>Detailed consideration of any key risks or areas of concern for Councillors</p>
The Section 151 Officer	<p>Statutory Responsibility for maintaining effective financial governance and control arrangements</p> <p>Statutory Responsibility to produce balanced budget and Council Tax proposals annually</p> <p>Provide professional expertise and guidance to Councillors to ensure Council finances are stable, secure, and that value for money is achieved</p>

Who has a role to play in delivering our MTFS?

Who?	What?
The Corporate Management Team	<p>Responsible for developing budget proposals in line with the principles of the MTFS for consideration by Councillors</p> <p>Responsible for management and delivery of both the MTFS and the MTFP</p> <p>Responsible for delivery of Ambitious for Sutton and the Organisational Development Strategy alongside the MTFS</p> <p>Responsible for implementing agreed plans and policies that support delivery of the MTFS</p>
External Audit	<p>Statutory review and opinion on the Financial Statements and value for money arrangements at the Council</p> <p>Provide professional advice, guidance and information to the Audit & Governance Committee</p> <p>Responsible for providing assurance to all stakeholders on the adequacy and effectiveness of Financial Governance and Controls at the Council</p>

Integrated Reporting

We will regularly report updates on delivery of this strategy and progress against the MTFP. We will integrate information on budgets, spend, risk, performance, activities, demand and outcomes to provide detailed comprehensive updates on how we are performing against the ambitions set out in the corporate plan. We are committed to providing accessible, transparent, useful information to all stakeholders regarding our financial position and how we are using public monies to achieve value for money for Sutton residents.

A summary of financial reporting commitments is provided below and all reports will be published on the Council's website. If you need information in a different format like accessible PDF, large print, easy read, audio recording or braille, please email us on webadmin@sutton.gov.uk or call us using **020 8770 5000**.



Financial Reporting Commitments

Who?	When?	Information Provided
Full Council	Every 4-5 years	Medium Term Financial Strategy Corporate Plan
	Annually (Feb/March)	Medium Term Financial Plan Council Tax Determination
Strategy & Resources Committee	Every 4-5 years	Medium Term Financial Strategy Corporate Plan
	Annually (Feb)	Medium Term Financial Plan Council Tax Determination Financial Management Code compliance assessment
	Quarterly	Financial Update Report Ambitious for Sutton Update Performance Information Major capital programme bids
Service Committees	All committee reports	Detailed financial implications and financial risks set out in every committee report
	Annually (June/July)	Summary of MTFP and Ambitious for Sutton considerations relevant to services in scope of the committee
	As needed	Progress reports on major capital programmes and spending priorities
Audit & Governance Committee	Annually (Sep/Nov)	Statement of Accounts External Auditors Report and Opinion on the Accounts Annual Governance Statement
	Annually (Mar)	CIPFA Financial Resilience Index - Sutton Results
	Bi-annually (June/Jan)	Treasury Management Update Risk Register
	As needed	External Auditor updates

