

DRAFT BASE BUDGET PROJECTIONS FOR 2022/23

Summary: To provide Members of the Overview and Scrutiny Committee with the opportunity to scrutinise and discuss the proposed draft Summary General Fund Budget for 2023/24, along with the assumptions it is based on and the savings that are currently included in the draft 2023/24 Budget.

Options considered: The Council is required by law to set a balanced budget every year in advance of the forthcoming financial year starting on 1 April. The 2023/24 Budget report will be presented to Full Council on 22 February 2023 and will include options for setting the budget with respect to Council Tax and other items.

Conclusions: The Council is required to set a balanced budget in advance of each financial year. This is done in February of each year at full Council, after meetings of the Overview and Scrutiny Committee and Cabinet. This Committee can take this opportunity to put forward any recommendations to Cabinet for it to consider when proposing its recommendation to full Council.

Recommendations: **It is recommended that Overview and Scrutiny Committee**

- 1) **Put forward recommendations to Cabinet for it to consider at its meeting on 6 February 2023;**
- 2) **That Members note the proposed draft Budget for 2023/24;**

LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

(Papers relied on to write the report, which do not contain exempt information and which are not published elsewhere)

<i>Budget Monitoring Reports 2022/23 Outturn Report 2021/22 Medium Term Financial Strategy 2022-25</i>
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Cabinet Member(s) Cllr Eric Seward	Ward(s) affected All
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1. Introduction

- 1.1 Local authorities throughout the UK are finding themselves affected by many external factors that are beyond their control. There is the ongoing impact on the UK from the war in Ukraine, high inflation (9.2% in December 2022), higher interest rates, labour shortages, post-COVID recovery, a cost-of-living crisis and an uncertain economic outlook.
- 1.2 The Council is seeing rising utility and contract costs, along with increases in other costs e.g. pay inflation running at a higher level than previously forecast. The cost-of-living crisis is also leading to an increase in the demand for the Council's services. This is placing pressure on the Council's budgets.
- 1.3 In spite of these pressures a draft balanced budget is being presented for 2023/24 whereby the Council is able to continue delivering its core services with the provision of services for the vulnerable and meeting the Net Zero target continuing to be a priorities for the Council.
- 1.4 The draft budget for 2023-24 includes some unavoidable growth items, increases for inflation for both income and expenditure, savings that have been identified (details of which can be found in Appendix A), the funding announced in the provisional Local Government Finance Settlement on 19 December 2022 and it also assumes an increase in council tax of £4.95 for a band D property.
- 1.5 The draft proposed Summary General Fund Budget for 2023/24 that is shown below is being presented to Overview and Scrutiny (25 January 2023) and Cabinet (6 February 2023) for consideration. The final budget will be presented to Full Council on 22 February 2023. This will be an updated report with the budget updated for the final funding position i.e. the final Local Government Finance Settlement (if received in time) and the latest NNDR forecasts, along with the formal Council Tax setting report.
- 1.6 The following sections of the report present the detail and context within which the budget has been produced. The draft summary of the budget is presented later in the body of the report and the savings identified by services are included as Appendix A. In order to enable pre-scrutiny and have input into the budget setting process this meeting has had to be scheduled at a point in the budget setting process when the budgets are still being finalised and when not all the information from external sources is available. Therefore the report is not the full report that will be presented to Cabinet and full Council, but it does still nevertheless contain the budget position as at 20 January 2023.

2. Current Position

- 2.1 The draft budget includes budgets updated for unavoidable growth, savings (both non-recurring and recurring, inflation and increases in income attributable to both growth and price increases).
- 2.2 The unavoidable growth totals £796k with the greatest increases being for the loss of Legal Services income with a contract ending (£295k), increases across the Council in staffing, training and travel costs (£156k), increases in repairs and maintenance costs (£51k), increases in commercial waste disposal costs (£60k), NEWS additional tonnage (£40k) and loss of grant income (£50k).

- 2.3 There were savings of £396k identified by service managers during the initial review of budgets. The main areas were savings in staffing costs where fixed term contracts have come to an end (£103k), reduction in utility and insurance costs in some areas (£102k), reduction in management fees and facility charges at sports and leisure centres (£81k) and a reduction in marketing budgets (£29k). Non-recurring savings identified totalled £2.2m, with the larger of these being savings in staffing (£1.2m), grants (£285k), local plan costs (£210k), professional fee in Planning (£50k) and Environmental Sustainability (£310k) and computer costs (£55k).
- 2.4 The Council's budget has been heavily impacted by rising inflation and much of the increase in expenditure budgets can be attributed to this. This has placed a lot of pressure on balancing the budget. Below is a table showing the areas where inflationary pressures have had the greatest impact

Inflationary Pressures	
Area of Expenditure	£m
Staffing (inc. training, travel & subsistence)	1.426
Insurances	0.220
NEWS Contract -increase in price per tonne	0.375
SERCO Contract - Bin collections	0.619
SERCO Contract - Cleansing	0.261
Grounds Maintenance	0.062
Contract Cleaning (Public conveniences)	0.070
Audit Fee	0.113
Computer Costs	0.078
Other	0.238
	3.462
Income	
Fees and Charges	(0.515)
Total of Inflationary Pressures	2.947

- 2.5 The largest inflationary increase is in the staffing which is unavoidable and due to the cumulative full year impact of the flat rate pay increase awarded for 2022/23 of £1,925 for employees. This equated to a percentage increase of nearly 6% on average in 2022/23. The assumed percentage increase for the pay award included for 2023/24 is 5%.

Funding

- 2.6 The provisional Local Government Finance Settlement was announced on 19 December 2022 and included the following funding for the Council:

Funding Stream	Funding in 2023/24	2022/23 £	2023/24 £
Revenue Support Grant	2022/23 funding increased by CPI	93,540	102,462
Family Annexe Council Tax Discount Grant	These 2 grants are being added into RSG but have been shown separately so can compare RSG between years	0	50,074
LCTS Admin Grant		0	136,747
Rural Services Delivery Grant	As for 2022/23	507,661	507,661

New Homes Bonus	Based on increase in new homes, but first year of just in year payments	0	31,080
Services Grant	As for 2022/23, but reduced by the amount added for the NI rise	222,339	125,284
3% Funding Guarantee Grant	New one-year grant to guarantee an increase in funding of at least 3% to cover additional inflationary costs	0	1,039,298
Lower Tier Services Grant	This has been removed for 2023/24 and onwards	147,545	0

- 2.7 For 2023/24 the Government have introduced a new 3% Funding Guarantee Grant. It has been distributed to local authorities to cover the significant inflationary increases that local authorities are currently seeing. The amount of grant distributed to each local authority ensures that a minimum increase in funding of 3%.
- 2.8 The provisional Local Government Finance Settlement also provided some further information about the expected future funding changes e.g. the Fair Funding Review and the replacement for New Homes Bonus. It confirmed that these changes will not take place before 2025-26. This adds greater uncertainty to the levels of future funding that the Council can expect and offers no assurance on financial sustainability for Councils.

Council Tax

- 2.9 NNDC, as the billing authority for the district of North Norfolk, send out the Council Tax bills to residents and then collect the Council Tax for NNDC, the County Council, Norfolk Police Authority and parish and town councils. The breakdown for each £1 of Council Tax collected shows that the County Council receive the largest amount and that NNDC's share is 8 pence in the pound.

Authority	Share of £1 of Council Tax
Norfolk County Council	75p
Norfolk Police Authority	14p
North Norfolk District Council	8p
Town and Parish Councils (Average)	3p

- 2.10 The charge on a Band D property which is retained by NNDC is currently £158.67 based on a tax base of 41,031 in 2022/23. Any increase on this amount is restricted to no more than 3% or £5 for next year, whichever is the greater. If the Council wishes to increase the charge on a Band D property by more than this then a referendum will need to be held.
- 2.11 The previous years' assumptions around council tax funding have reflected a year on year £4.95 increase in council tax in line with the current referendum principles although it should be noted that any decision regarding increase to council tax is part of the budget setting process each year and does not have to follow previous years' decisions.

2.12 The draft proposed General Fund Summary Budget for 2023/24 below shows a balanced budget. The detailed budgets are shown in Appendix B.

General Fund Summary 2023-24	2022/23 Base Budget £	2022/23 Updated Budget £	2023/24 Base Budget £
Directorate			
Corporate Leadership/Executive Support	350,720	421,717	484,705
Communities	10,512,392	10,496,392	12,102,119
Place and Climate Change	6,368,062	5,854,297	6,634,032
Resources	4,383,405	4,349,295	4,973,854
Net Cost of Services	21,614,579	21,121,701	24,194,710
Parish Precepts	2,724,873	2,724,873	2,724,873
Capital Charges	(2,456,953)	(2,456,953)	(2,456,953)
Refcus	(1,677,167)	(1,677,167)	(1,677,167)
Interest Receivable	(1,136,652)	(1,136,652)	(1,533,436)
External Interest Paid	145,532	145,532	0
Revenue Financing for Capital:	1,173,426	2,494,426	0
Minimum Revenue Provision	562,500	562,500	330,000
IAS 19 Pension Adjustment	265,496	265,496	265,496
Net Operating Expenditure	21,215,634	22,043,756	21,847,523
Contribution to/(from) the Earmarked Reserves			
Capital Projects Reserve	0	(400,000)	0
Asset Management	5,466	(24,534)	0
Benefits	(32,303)	(32,303)	(111,305)
Building Control	0	0	(81,866)
Business Rates	(18,000)	(389,000)	(420,317)
Coast Protection	(62,422)	(62,422)	0
Communities	(275,000)	(275,000)	(275,000)
Delivery Plan	(2,117,608)	(2,263,498)	(979,412)
Economic Development & Tourism	0	34,800	(44,800)
Elections	50,000	50,000	(100,000)
Housing	(544,192)	(544,192)	(555,898)
Major Repairs Reserve	280,000	150,000	0
New Homes Bonus Reserve	(210,000)	0	(228,000)
Organisational Development	(12,446)	(59,156)	(42,742)
Amount to be met from Government Grant and Local Taxpayers	18,302,451	18,302,451	18,796,982
Collection Fund – Parishes	(2,724,873)	(2,724,873)	(2,724,873)
Collection Fund – District	(6,513,398)	(6,513,398)	(6,879,503)
Retained Business Rates	(7,206,520)	(7,206,520)	(7,200,000)
3% Funding Guarantee			(1,039,298)
Family Annexe Council Tax Discount Grant			(50,074)
LCTS Admin Grant			(136,747)
New Homes bonus	(886,575)	(886,575)	(31,080)
Rural Services Delivery Grant	(507,661)	(507,661)	(507,661)
Lower Tier Services Grant	(147,545)	(147,545)	0
Services Grant	(222,339)	(222,339)	(125,284)
Income from Government Grant and Taxpayers	(18,302,451)	(18,302,451)	(18,796,982)
(Surplus)/Deficit	0	0	0

2.13 The draft budget as it is presented is a balanced budget but to achieve this a second review of service budgets had to take place to identify additional savings to meet a budget gap of circa £2.5m. The proposed savings and

proposed additional income that has been included is shown in detail at Appendix A.

Reserves

- 2.14 The current position and forecast on the General and Earmarked Reserves is attached at Appendix D. The statement provides the latest proposals for use of reserves in the current financial year along with the budgeted movements in 2023/24, and proposed movements in the following three financial years. The current recommended minimum balance on the general reserve is £2.0 million.
- 2.15 The Council holds a number of 'useable' reserves both for revenue and capital purposes which fall within one of the following categories:
- General Reserve
 - Earmarked Reserves
 - Capital Receipts Reserve
- 2.16 The *General Reserve* is held for two main purposes:
- To provide a working balance to help cushion the impact of uneven cashflows and avoid temporary borrowing and;
 - A contingency to help cushion the impact of unexpected events or emergencies.
- 2.17 As part of setting the budget each year the adequacy of all reserves is assessed along with the optimum level of general reserve that an authority should hold. The optimum level of the general reserve takes into account a risk assessment of the budget and the context within which it has been prepared.
- 2.18 *Earmarked Reserves* provide a means of building up funds to meet known or predicted liabilities and are typically used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund restructurings. A number of contingency reserves are also held by the Council to reduce the impact on Council Tax payers of future uncertain events such as business rate appeals or clawback of benefit subsidy.
- 2.19 Use of reserves to balance a budget provides only a short term solution as the funds can only be used once. They can however be used to smooth the impact of funding gaps over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer-term financial benefit through reduced costs and/or additional income.
- 2.20 A comprehensive statement about the adequacy of the reserves and recommended balance will be included within the Chief Financial Officer's report, which forms part of the annual Council Tax and Budget report to Full Council in February.

Capital

- 2.21 A draft capital programme for 2022/23 to 2025/26 has been prepared and can be found at Appendix C. There is also a list of capital bids included as Appendix C1. This is a draft capital programme which requires finalising for presentation to Cabinet and full Council.

3. Conclusion

- 3.1 At the present time the forecast draft budget position for 2023/24 is balanced, subject to the savings identified by service managers being included within the budgets. Without these savings there is a budget gap. There is scope to reinstate some of the budgets where savings have been proposed but this will require a withdrawal from reserves.

4. Medium Term Financial Strategy

The implication for the Medium-Term Financial Strategy is set out in a separate report on this agenda.

5. Financial Implications and Risks

- 5.1 A comprehensive financial risk assessment is undertaken as part of the budget setting process for the revenue and capital budget setting process to ensure that all risks and uncertainties affecting the Council's financial position are identified. These are reviewed each year as part of the refresh of both the MTFS and the budget. The key strategic financial risks to be considered in setting the budget for 2023/24 are included within the table below.
- 5.2 Despite these risks, we will continue to plan effectively and improve our financial management so that the Council can continue to meet its Corporate Plan priorities and provide the best possible services to the district.

Risk	Likelihood	Impact	Risk Management
1. Future available resources less than assumed	Possible	High	Annual review of reserves and reserves policy to identify future resources. Assumptions on funding for 2023/24 and beyond are based on best estimates at this time. A prudent approach has been adopted based on previous years' experience. Regional network contacts expert advice used to inform modelling.
2. Volatility of business rates funding given uncertainty around impact of appeals	Likely	High	Volatility of funding stream outside of council control but impact mitigated by having a specific earmarked reserve and financial monitoring framework. Modelling of potential impacts is used to inform financial planning.
3. Pay Awards, fee increases and price	Possible	Medium	Impact of potential increases mitigated by central contingency

inflation higher than assumed			budget for pay, price increases and care fees. Where pay awards have been agreed these will be factored into the future estimates.
4. Future spending plans underestimated	Possible	Medium	Service planning process identifies future budget pressures and these will inform the indicative budget forecasts. An effective budget monitoring framework is in place to identify in year and potential future cost pressures.
5. Anticipated savings/ efficiencies not achieved	Possible	High	Regular monitoring and reporting takes place but the size of the funding cuts increase the likelihood of this risk. Non-achievement of savings would require compensating reductions in planned service spending.
6. Revenue implications of capital programmes not fully anticipated	Unlikely	Low	Capital bid approval framework identifies revenue implications and links to Council priorities. Full analysis of revenue implications assessed and considered in scenario planning.
7. Income targets not achieved	Possible	Medium	Current economic climate could impact. Regular monitoring and reporting takes place.
8. Budget monitoring not effective	Unlikely	Medium	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas. Regular reports to Cabinet and to O&S. Track record of delivering budget and savings.
9. Exit strategies for external funding ending not met	Possible	Medium	Regular monitoring and reporting. Government policy to remove ring fencing provides greater flexibility.
10. Loss of principal deposit	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which prioritises security of deposit over returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions. It is the Council's policy to hold more volatile investments over the medium-term, thus reducing the risk that they may be sold at a price which represents a loss of principle.
11. Interest rates lower than expected	Unlikely	Low	Regular review, monitoring and reporting on interest rates.

			Interest rates assumptions for 2023/24 are prudent giving a realistic investment interest budget.
12. Collection rates for retained business rates and council tax lower than anticipated	Possible	High	Impact mitigated by the review of bad debt provisions and availability of reserves. Monitoring of Collection Fund is formally incorporated into the revenue monitoring process.
13. Devolution/Unitary status –	Possible	Medium	Local Government reorganisation has been put on hold. Officers and Members will keep a watching brief in respect of this but again at present no budgetary impact is being assumed.
14. All MTFS risks not adequately identified	Unlikely	Low	Council's Risk Management Framework ensures all operational and strategic risks are identified as part of the annual service planning process.

6. Sustainability

There are no sustainability issues as a direct consequence of this report.

7. Equality and Diversity

The Council is required to consider the equality duty in its decision-making and this includes the budget process. As part of any savings or investments the Council must consider how it can:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between different groups; and
- Foster good relations between different groups by tackling prejudice and promoting understanding.

No new specific savings proposals have been factored into the 2022-23 budget, so there are no equality issues arising.

8. Section 17 Crime and Disorder considerations

There are no Section 17 Crime and Disorder considerations as a direct consequence of this report.