DRAFT - 2020/19 BUDGET REVIEW

Summary:	This report presents for consideration the draft 2020/21 budget. It is being provided to the Overview and Scrutiny Committee for initial consideration and pre-scrutiny discussion ahead of the final budget papers being presented to Cabinet and Full Council in February 2020.
Options considered:	The budget for the forthcoming financial year must be set annually. Whilst there are options around the individual budgets presented for approval i.e. what is included in the budget for 2020/21, these will be considered in more detail in February.
Conclusions:	The Council's budget is set for approval each year in February; since last year it has been presented to Overview and Scrutiny for pre-scrutiny before going to Cabinet, with recommendations then being made to Full Council for approval. The report currently presented provides a **draft** of the 2020/21 budget position for consideration and discussion by the Overview and Scrutiny Committee. The draft budget to date has been produced based on a number of assumptions as detailed within the main body of the report and now reflects the provisional finance settlement announced on 20 December 2019. The report is for information and discussion.
Recommendations:	**It is recommended that the Overview and Scrutiny Committee note the contents of the report and the ongoing work to support the preparation of the 2020/21 budget and make any recommendations to Cabinet as required.**
Reasons for Recommendations:	N/A

LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW
(Papers relied on the write the report and which do not contain exempt information)

Outturn Report 2018/19, Medium Term Financial Strategy 2020/21 – 2023/24, 2019/20 budget monitoring reports.

Cabinet Member(s):	Ward(s) affected
Cllr Eric Seward	All

Contact Officer, telephone number and email: Duncan Ellis, 01263 516330, duncan.ellis@north-norfolk.gov.uk

Executive summary

This report presents an **initial high level draft** of the 2020/21 revenue budget for consideration and discussion by the Overview and Scrutiny Committee. Members should treat the figures as **draft and provisional** at the present time ahead of the final budget papers being presented to Cabinet and Full Council in February but this report provides an **early indication** of the forecast position for next year.

The budget for the forthcoming financial year must be set annually. Whilst there are options around the individual budgets presented for approval i.e. what is included in the budget for 2020/21, these will be considered in more detail in February.

For the first time last year an early draft of the budget was presented to the Overview and Scrutiny committee in January for pre-scrutiny ahead of the papers going on to Cabinet for consideration and recommendation to Full Council for approval and this process has been continued this year.

The draft budget to date has been produced based on a number of assumptions as detailed within the main body of the paper but does now reflect the provisional finance settlement announced on 20 December 2019.

This paper has been informed by the 2019/20 Base Budget, the 2018/19 Outturn Report, the 2019/20 budget monitoring reports and the Medium Term Financial Strategy 2020/21 – 2023/24.

The budget is fundamentally linked to the Corporate Plan, a summary of which can be found on the Council's website here. The following diagram provides an overview of the financial processes undertaken by the Council to ensure value for money for the tax payers.

The updated **draft** forecasts for 2020/21 build on previous figures from the 2019/20 budget setting exercise, which were forecasting future year deficits in the region of £2m. The updated forecasts below differ significantly from this, in the main this is due to postponement of the Fair Funding Review, Business Rates Review and the Spending Review, all of which have been impacted by the ongoing Brexit negotiations and have led to a one-year Settlement which has meant the continuation of the previous funding regime for a further year.

	2019/20 Base Budget	2020/21 Projection	2021/22 Projection	2022/23 Projection
	£000	£000	£000	£000
(Surplus)/Deficit forecast Feb 2019	-	2,078	2,061	1,945
(Surplus)/Deficit forecast Feb 2020	-	(158)	1,876	1,941
Variance/Movement	**-**	**2,236**	**185**	**4**

As can be seen from the table above there has been a significant improvement in the previous position of c£2,078k in the current forecast for 2020/21 with a projected surplus now of around **(£158k)**.

A summary of the General Fund is provided at Appendix A and Appendix B contains a high level variance analysis of the budget movements between the 2019/20 base budget and the current forecasts for 2020/21. This also includes an analysis of the movements at the Net Cost of Service Level with further explanations of the more significant variances.

The report provides a high level budget position for Overview and Scrutiny Committee to consider ahead of the full detailed budget papers being present to Cabinet in February.

1 Introduction

1.1 This report presents an **initial draft** of the 2020/21 revenue budget for consideration and discussion by the Overview and Scrutiny Committee and includes a high level General Fund Summary along with an updated position in terms of reserve movements. Members should treat the figures as **draft and provisional** at the present time as there is still a further month before the budgets will be finalised but this report provides an early indication of the forecast position for next year.

1.2 An updated Capital Programme has also been included covering the periods 2019/20 to 2022/23 which takes account of anticipated slippage of schemes between financial years.

1.3 The final budget report in February 2020 will go through the following process;

- Cabinet 3 February
- Full Council 26 February

2 Corporate Plan

2.1 In May 2019 a new Council was elected and has now adopted a new Corporate Plan which sets out the intent and ambition of the authority for the period 2019 – 2023. The Corporate Plan details the Council's vision for the next four years. It will provide the framework and context for the Council's service provision, project interventions and resource allocation (financial and staffing) for the period through to 2023. The Plan will be subject to annual review to ensure that it continues to reflect the Council's priorities and objectives throughout the next four years in response to emerging trends, policy developments and legislation.

2.2 It reflects the essential needs and aspirations of our customers and communities and how we feel the Council can best use its resources to deliver services and outcomes that make a positive difference for everyone who lives in, works in or visits North Norfolk.

2.3 However, despite the District having a number of very positive attributes we also have some big challenges: – responding to environmental change, increasing housing supply, supporting economic growth, meeting the challenges of service delivery to rural communities and the needs of both our young people and a rapidly ageing population.

2.4 The Corporate Plan identifies six key themes where we would propose developing actions and allocating resources to respond to the challenges our district faces in the years to come as detailed below;

- Local Homes for Local Need
- Boosting Business Sustainability and Growth
- Climate, Coast and the Environment
- Quality of Life
- Customer Focus
- Financial Sustainability

2.5 Planning for the future is challenging, especially given the broad range of services we provide, and the competing demands for increasingly scarce resources. All our services are committed to making improvements and finding savings, so that the Council remains efficient, effective and meets the day to day needs of the communities we serve. The purpose of the Corporate Plan is to focus on those priorities where we need to give specific attention. It will help us target better our dwindling capital and revenue resources and help direct and focus any bids for external grant support. The Plan also provides a framework against which we can assess our progress to support the needs of our customers and communities.

2.6 The Delivery Plan, which will support the objectives contained within the Corporate Plan, is scheduled to be approved by Full Council in February 2020. This will detail how we will judge our performance; it will also be the means by which the Council agrees its improvement objectives. It will include the expected outcomes from each of the six key themes and be supported by a set of priority actions and measures through which the Council will undertake a self-assessment of the level of improvement made.

2.7 Underpinning the Corporate Plan is the day to day business that departments undertake and which will be reflected in departmental Service Plans. All Service Plans are linked to the Corporate Plan. These plans also include the performance measures by which the delivery of wider improvement activity can be managed. The Corporate Plan is a living document and will be regularly reviewed throughout its life to reflect changes in the local, regional and national context.

2.8 The priorities within the Corporate Plan were developed by talking with, and listening to the community, Elected Members, staff and other key stakeholders all of whom have helped to shape the content of the Plan.

Our Strategic Priorities 2019 - 2023

2.9 The Delivery Plan is still under development but is expected to include a series of priority actions and measures that we will monitor to assess if we have made a difference. Progress and tracking against the identified actions and delivery of the outcomes will form a key part of the Council's performance management framework.

Investment in Priority Areas

2.10 Whilst the overall level of the Council's resources is reducing it is important that a clear focus is maintained on matching funding to priorities. This will remain a key focus over the coming years to ensure the aspirations contained within the new Corporate Plan and the projects contained within the Delivery Plan are realised.

Our Vision

2.11 In order to develop a long term plan, every organisation needs to set an aspiration of where the organisation is aiming to be in the future. This enables everyone to be united in a shared direction and purpose. The Council's aspiration is as follows:

North Norfolk District Council – putting our customers at the heart of everything we do

Our Values

2.12 Our values represent the beliefs and expected behaviour of everyone working for North Norfolk District Council. Our values, which aim to support quality services, we;

- Respect everyone and treat everyone fairly
- Are open and honest and listen
- Strive to offer the best value for money service
- Welcome new challenges and embrace change

'One Team' Team Approach

2.13 In order to deliver high quality services, we need to have excellent teams to deliver them. We recognise that our staff are our most important resource at the heart of the services we provide. We are committed to investing in staff and their development so that we have well trained and supported employees, providing professional services and who are happy and motivated in their work. The One Team approach also includes Members to ensure we work closely together to deliver our priority outcomes and that their training needs are also met as part of their ongoing development.

3 Medium Term Financial Strategy (MTFS)

3.1 The Medium Term Financial Strategy (MTFS) is a strategic document that supports the delivery of the Corporate Plan outcomes. The MTFS establishes how the Council's priorities will be achieved by setting out the framework within which resources are available over the medium term and the financial challenges facing the Council in terms of future funding gaps. It is the method by which the Council plans translates its long-term goals into action by considering;

- Where the Council is now
- Where the Council wants to be
- What the Council's plans are to get there

3.2 The MTFS helps to ensure that the Council is 'doing the right thing' while taking account of internal strengths/weaknesses and external threats/opportunities. It should also provide a link between the Council's long-term service objectives and its financial capacity, which effectively asks the question 'can the strategic objectives be achieved within the available financial envelope?'

3.3 The MTFS covering the period 2020/21 to 2023/24 was approved by Full Council in December. At that time there was a small surplus of £430k projected for 2020/21 but with budget gaps of c£1m for 2021/22 onwards.

3.4 This was in the context of national pressures, local pressures, inflation, funding changes, income streams and savings. A full copy of the final MTFS can be found within the Full Council agenda papers here from page 85.

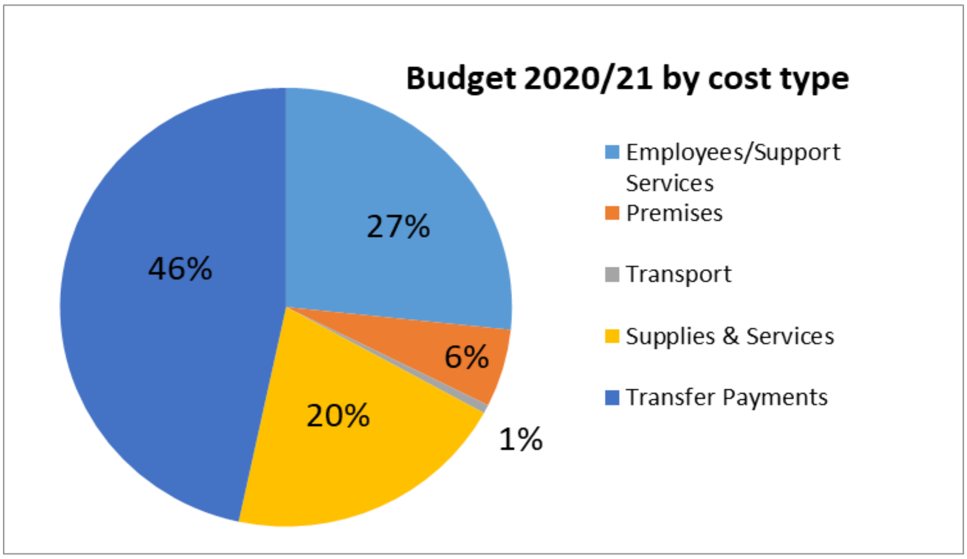
4 Revenue Account Base Budget

4.1 The current **draft** forecast budget surplus for 2020/21 as at the start of January 2020 is (£158k) as shown in Table 1 below, the detail can be found within the General Fund Summary contained within Appendix A.

4.2 Any additional revenue growth bids for things such as staffing or extended service provision will be considered in more detail in February and are not considered as part of this report.

4.3 Appendix B provides a high level variance analysis (Table 1) compared with the 2019/20 base budget. Appendix B also contains a high level variance analysis based on the movements within the Net Cost of Services excluding notional charges which can be seen in the chart below.

Table 1 – Current Forecast 2020/21	
	£000
Total District amount to be met from Government Grant & Local Taxation (excluding parish precepts)	12,897
Less:	
District call on Collection Fund (excluding Parish Precepts)	(6,397)
Business Rates Retained & S31 Grants	(5,192)
Revenue Support Grant	(90)
New Homes Bonus (NHB)	(892)
Rural Services Delivery Grant	(484)
Current projected surplus	**(158)**



Assumptions

4.4 The revenue budget for 2020/21 makes a number of assumptions, the more significant ones are as follows:

a) **Council Tax –** The draft budget currently assumes a **Council Tax increase** for the district element of Council Tax in 2020/21 and is based on the tax base of 41,602 (40,621 for 2019/20). This would mean that the district element of the council tax would increase by £4.95 from £148.77 to £153.77 (**£143.82** to **£148.77** for 2018/19). **This is however a decision for Full Council in February and will be decided at the time the budget is set.**

b) **Employee budgets –** The budget has now been updated to take account of the national pay review and annual increments. As a guide a 0.5% sensitivity to the pay award equates to approximately £54k per annum. An allowance has been made to reflect vacancy savings of 2% as in previous years and where annual increments are due these have continued to be factored into the budget.

c) **Fees and Charges –** The impact of the fees and charges approved by Full Council on 18 December have now been factored in to the budget forecasts.

d) **Contract inflation** – The largest of the Council's contracts is the waste contract. Following the successful procurement exercise which has just been completed, the new contract will commence from April 2020. The budget has therefore been updated to reflect the new contract prices for all waste, cleansing and grounds maintenance services. The revenue implications of the borrowing for the new waste vehicles are also included for future years.

e) **Investment income** – The net interest receivable is currently forecast to be £0.95m for 2020/21 and is based on gross interest of £1.3m less borrowing costs for capital schemes of £358k. This includes income derived from Treasury investments and loans to Housing Associations under the Local Investment Strategy. The Council ensures that priority is given to security and portfolio liquidity when investing treasury management funds in line with the CIPFA Treasury Management Code. The average investment rate anticipated in the forward year is 3.3% (based on forecast available balances of £40.1m) compared with the budgeted rate of 3.5% for the current estimates for 2019/20 (based on forecast available balances of £38.4m). As at period 6 (September) the average return was 3.08% although this was based on actual cash balances of £43.8m. This has had the effect of bringing the overall average level of return down as this additional cash has had to be invested overnight at low levels of return.

f) **Big Society Fund/Second Homes Funding –** The budget assumes the continuation of the Big Society Fund (now called the Communities Fund) and related costs and grant scheme funded by the second homes income which was previously returned to districts, although this arrangement stopped in 2018/19. The budget set aside for 2020/21 of £240k is funded from the Communities Fund reserve. The continuation of this funding from the reserve is however a decision for Full Council in February.

g) **Splash –** the revenue impacts and associated borrowing costs of this scheme have now been built into the future year's forecasts based on current capital spending assumptions.

5 Provisional Settlement figures

5.1 In terms of the latest information we have regarding the provisional funding Settlement for 2020/21 this has now been included within the budget forecasts. The business rates and Fair Funding reviews have been delayed due to the ongoing Brexit negotiations and a one-year settlement has been agreed. This has had an extremely positive impact on the financial position for 2020/21 and indeed future years as it has effectively delayed all of the anticipated funding reductions by a year.

5.2 The previous future years' deficit forecast identified as part of the 2019/20 budget setting process in February 2019 was around £2m. Now that we have more information regarding the provisional funding Settlement the budget projections have been updated and can be seen within the General Fund summary (appendix A) which shows the future year's deficit reducing slightly to c£1.88m in 2021/22 and c£1.94m in 2022/23. The significant caveat with this however is that these projections are still based on future year's forecasts which have not as yet been finalised although it is unlikely to now change.

5.3 On 8 January the chancellor Sajid David confirmed that his budget announcements would be made on 11 March 2020. Unfortunately, this will be after the budget has been set but if there is any additional funding forthcoming for district authorities we can take account of it as part of the 2020/21 budget monitoring process and include it within the update of the MTFS.

Key changes to budget projections

5.4 The Settlement review update has had a significant impact on the future budget projections. The key changes are highlighted below;

Council tax – This is based on a £4.95 increase in council tax although the referendum principles have not as yet been confirmed. Not increasing the council tax by this amount next year would see a reduction of just over £200k next year and in each of the following years.

Retained business rates (£625k) – projections for future years have increased due to a 1-year delay in the Business Rates Baseline Reset (now 1st April 2021) and a reduced impact predicted from the Fair Funding Review.

Revenue support grant (£90k) - this will be rolled forward into 2020/21 as part of the 1 year Spending Round, adjusted for inflation. We had assumed as part of the 2019/20 budget process that this funding would be removed in 2020/21.

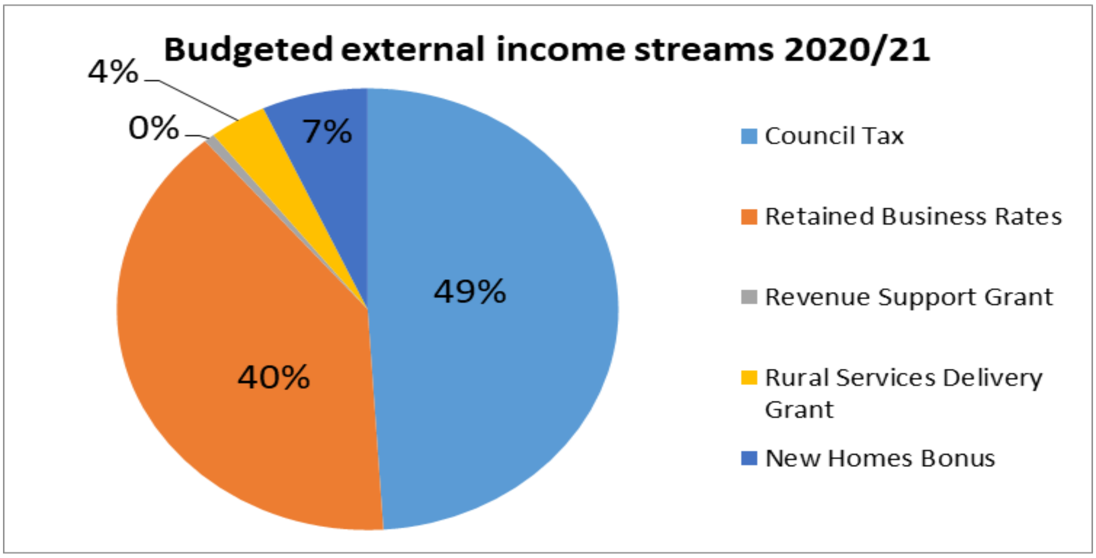
New Homes Bonus (NHB) (£892k) – the NHB forecast at the time the MTFS was set was £1,234k but unfortunately the allocation made as part of the Provisional Settlement in December was £892k. However, this is still very positive news as the 2019/20 budget projections had assumed that we would lose all of this funding. The current projections also assume that we will still receive legacy payments for NHB whereas we'd previously been working on the assumption that the payments would all cease at the end of 2019/20. The payments are now forecast to end in 2022/23 which means nearly £2m of funding which we weren't expecting.

Rural Services Delivery Grant (£484k) - this will be rolled forward into 2020/21 as part of the 1 year Spending Round, adjusted for inflation. As with a number of the other funding streams we had assumed as part of the 2019/20 budget process that this funding would be removed in 2020/21.

5.5 The overall impact of all of these changes is significant for the next financial year and will see approximately £2m of additional resources being made available to help support the budget, based on the assumptions, caveats and projections outlined above.

6 Income Streams

6.1 The assumptions in relation to Council tax, business rates and the New Homes Bonus are considered in more detail below. The chart below highlights the relative proportions of each of the various external income streams (excluding fees and charges which are contained with the services).



Business Rates

6.2 Since the 2013/14 financial year, local government has been able to retain 50% of the growth in the local business rates income to support services. As part of a manifesto commitment, the Government had pledged to allow Councils more control locally over their finances, and as part of this began to plan for an eventual system of 100% local retention of business rates growth. In exchange for this, Councils would have to forgo certain grants received from Central Government.

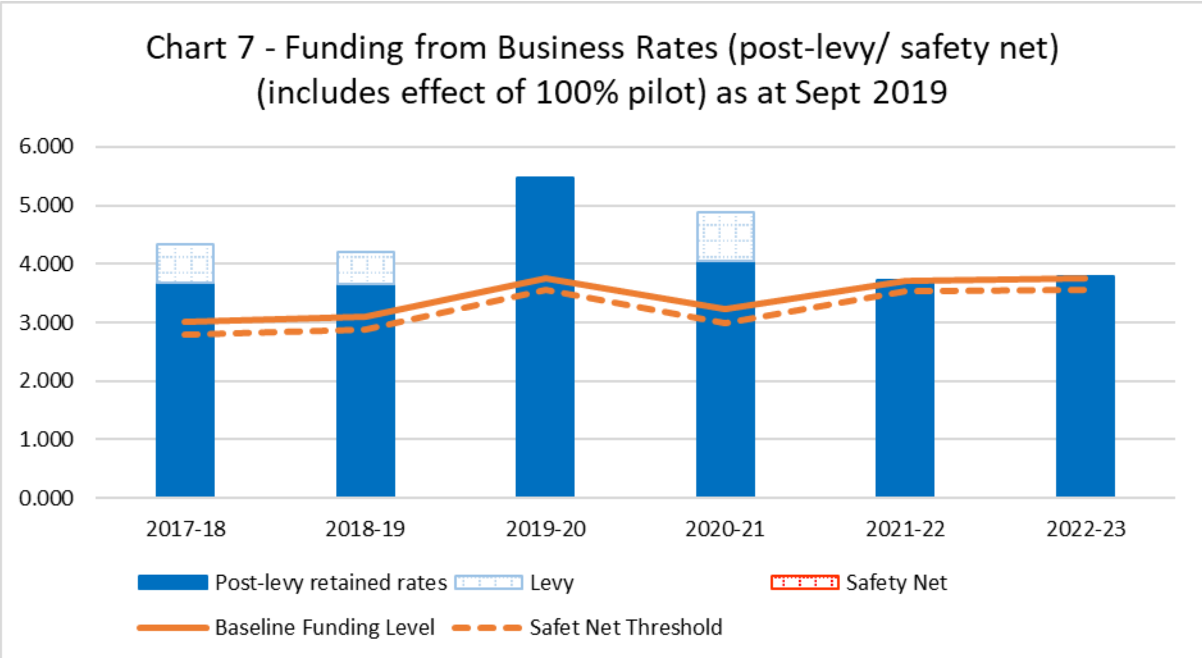
6.3 Following the snap General Election in 2017 and a period of uncertainty around the new Business Rates Retention Scheme, the Ministry of Housing, Communities and Local Government (MHCLG) have now confirmed a local 75% share. This was due to be implemented from April 2020 but due to the ongoing Brexit negotiations this has now slipped a year.

6.4 The income from the current system is shared on the basis of 50% being returned to Central Government, 40% being retained by NNDC with 10% going to the County (although these shares are likely change once the current business rates review is completed). However, while technically NNDC's share is projected to be around £12.9m (£12.7m 2019/20), after the tariff payment is made the net income to NNDC reduces to around £5.2m for

2020/21 (£4.7m 2019/20). The chart below shows the anticipated funding for the Council from the Business Rates Retention Scheme.

6.5 During December the High Court rejected a case brought by NHS hospital trusts in which they argued they should be granted business rates relief from councils worth £1.5bn. A total of 45 local authorities should be spared the cost of paying rebates of 80% to 17 hospital trusts as a result of the ruling. The claimants said that they should be given a charitable status and therefore receive a discount on the business rates. Justice Morgan rejected this argument on the grounds that the trusts were not "established for charitable purposes only" and did not meet the definition of a charity under the Local Government Finance Act 1988 or the Charities Act 2011.

6.6 This decision should mean that Local government will not have to pay £1.5b to NHS Trusts and Foundation Trusts in backdated business rates relief nor see them eligible for 80% relief going forward. This is very good news for us and the local government sector as a whole, the only caveat that is currently still outstanding is that we don't know yet if the NHS will appeal this element of the provisional judgement, while it is very likely that they will, that doesn't mean to say the courts will accept it and if they do we should know the timescales for this over the next few weeks.



* Please note: the chart above excludes income from renewable energy and designated areas (Enterprise Zones).

New Homes Bonus (NHB)

6.7 The New Homes Bonus was introduced in 2011/12 to incentivise and reward Councils and Communities that build new homes in their area. The bonus was originally paid as an un-ringfenced grant for six years and was paid based on the net additional[1] homes plus an additional supplement of £350

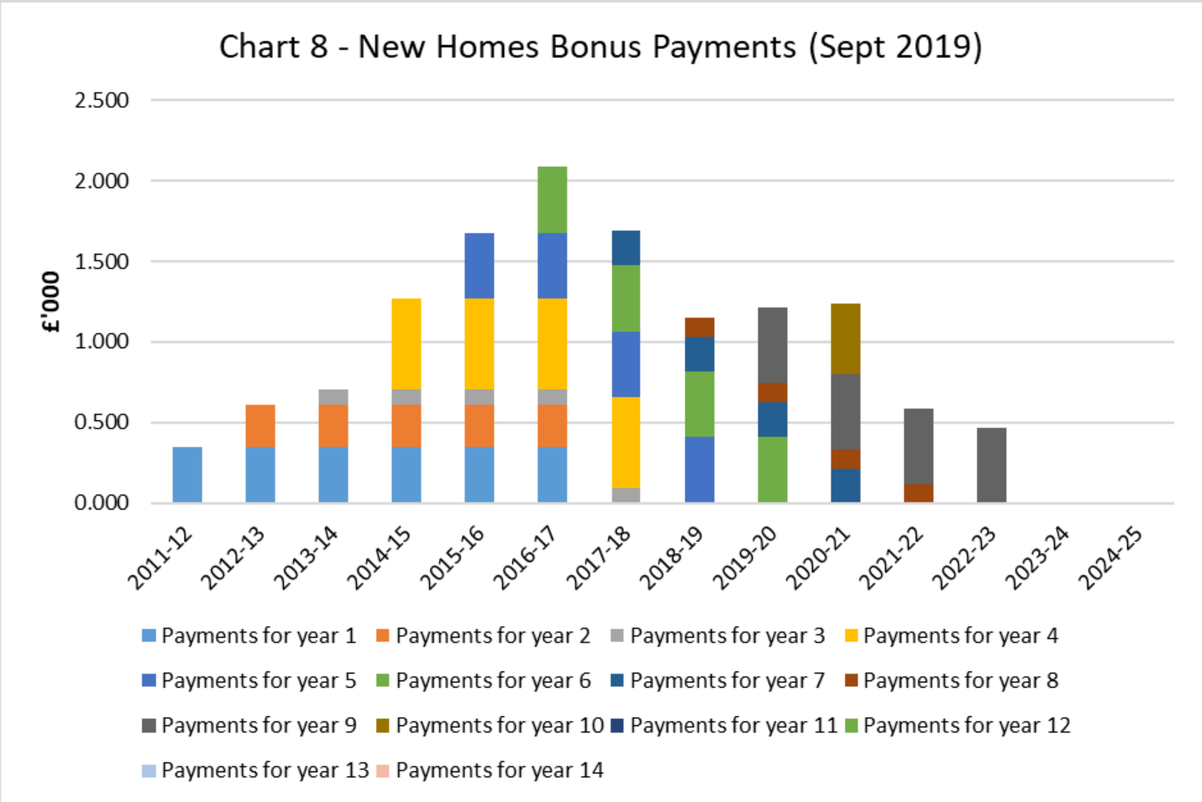
[1] Net additional homes as recorded on the council tax base return (submitted October annually) takes into growth in property numbers, demolitions and movement in empty properties.

per affordable dwelling. The payment is then split between local authority tiers: 80% to the lower tier (NNDC) and 20% to the upper tier (NCC).

6.8 Since its initial introduction the payment mechanism has undergone two fundamental changes which have significantly impacted on the income received by NNDC. The first was the transition from payments rolled up over a 6-year period up to 2016/17 (for which the Council received £2.1m) to 5 years in 2017/18 to the new 'floor' of 4 years from 2018/19 onwards. The second was in 2017/18 when a national baseline of 0.4% (based on property numbers within the district) was introduced. The combined effect of these two changes was forecast to see income decrease from the highest point in 2016/17 of £2.1m to the previous projection of £1.2m in 2019/20.

6.9 Last year's discussions around the Fair Funding Review and recent comments from the Treasury and MHCLG suggested that ministers didn't feel that the NHB has achieved its original objective of increasing housing numbers and that they might be looking to replace the scheme with something else in the future. It was also clear at the time that there was no funding allocated for the NHB from 2020/21 onwards. This has the effect of removing £801k in 2020/21, £587k in 2021/22 and £469k in 2022/23 from the previous forecasts and while it was anticipated that some new form of incentive scheme would probably be introduced it was impossible to predict at the time what this might look like and to what extent (if at all) the Council would benefit from it in financial terms so no income was forecast in this respect.

6.10 The chart below now shows the updated projections following the Provisional Settlement announcements from December which are far more favourable.



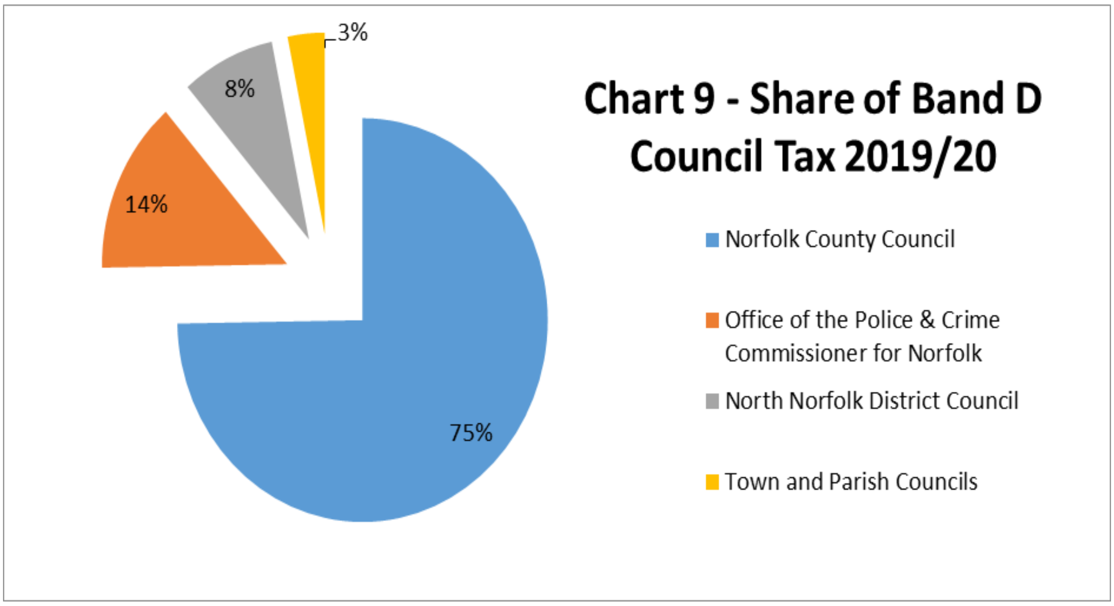
6.11 The legacy payments to be paid under the scheme from 2020/21 to 2022/23 in Table 2 below are £0.892m, £0.586m and £0.469m respectively, totalling £1.947m which significantly supports the previously projected budget deficit. Unfortunately, the forecasts made at the time the MTFS was produced for 2020/21 were c£342k higher than the Provisional Settlement and this has now been adjusted within the General Fund summary.

Table 2 – New Homes Bonus Legacy payment projections as at Jan 2020

2020/21	2021/22	2022/23
0.214		
0.118	0.118	
0.469	0.469	0.469
0.91	0.000	0.000

Council Tax

6.12 NNDC is the billing authority for the district of North Norfolk. This means that NNDC send out the Council Tax bills to residents and collect the Council Tax, but most of this is then distributed to the County Council and Norfolk Police Authority with a further element then going to town and parishes councils.



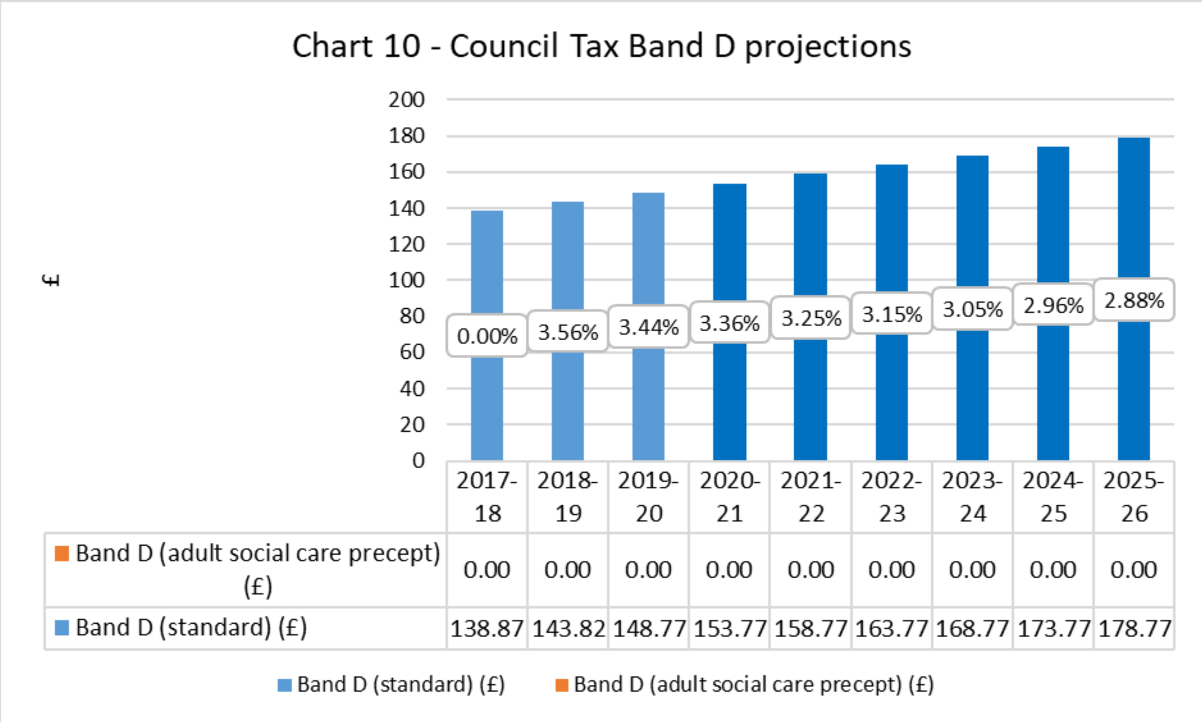
6.13 The charge on a Band D property which is retained by NNDC is currently £148.77 (£143.82 2018/19) based on a tax base of 40,621 (39,844 2018/19). Any increases on this amount are restricted by a cap put in place by the Government, which means that NNDC cannot increase its precept by more than 2% or £5 for next year, whichever is the greater.

6.14 It has been assumed that NNDC will increase its precept annually by the maximum amount to partly offset the reduction in grant funding from Central Government but as mentioned above **this a decision for Full Council in February and will be decided at the time the budget is set.** The table below highlights the impact of the assumed increases.

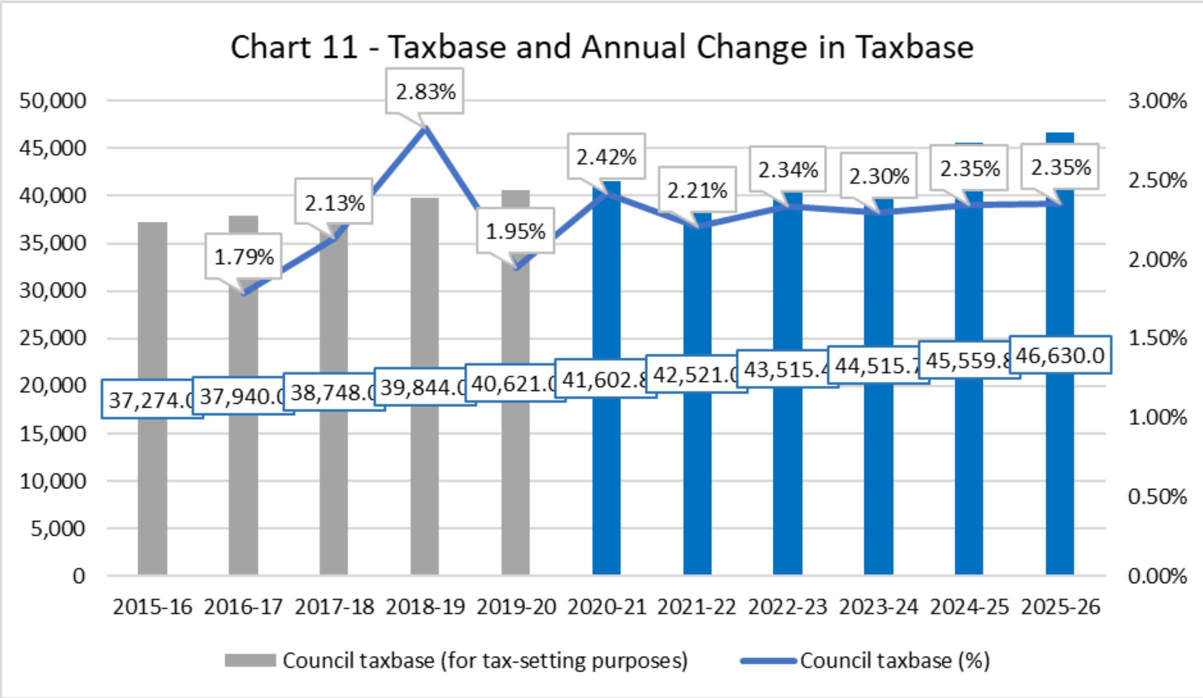
Table 3 – Projected council tax income growth

<u>**Council Tax**</u>	**2020/21**	**2021/22**	**2022/23**
Council taxbase (for council tax setting purposes)	41,602.8	42,521.0	43,515.4
Band D (standard) (£)	£153.77	£158.77	£163.77
Band D (adult social care precept) (£)	£0.00	£0.00	£0.00
TOTAL Band D (incl ASC precept, excl local precepts)	£153.77	£158.77	£163.77
Council Tax (standard)	**£6.397m**	**£6.751m**	**£7.127m**

6.15 The first chart below shows the projected Band D charges for future years assuming the maximum increases currently available are applied, while the second chart shows the forecast growth in the taxbase.



	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Band D (adult social care precept) (£)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Band D (standard) (£)	138.87	143.82	148.77	153.77	158.77	163.77	168.77	173.77	178.77



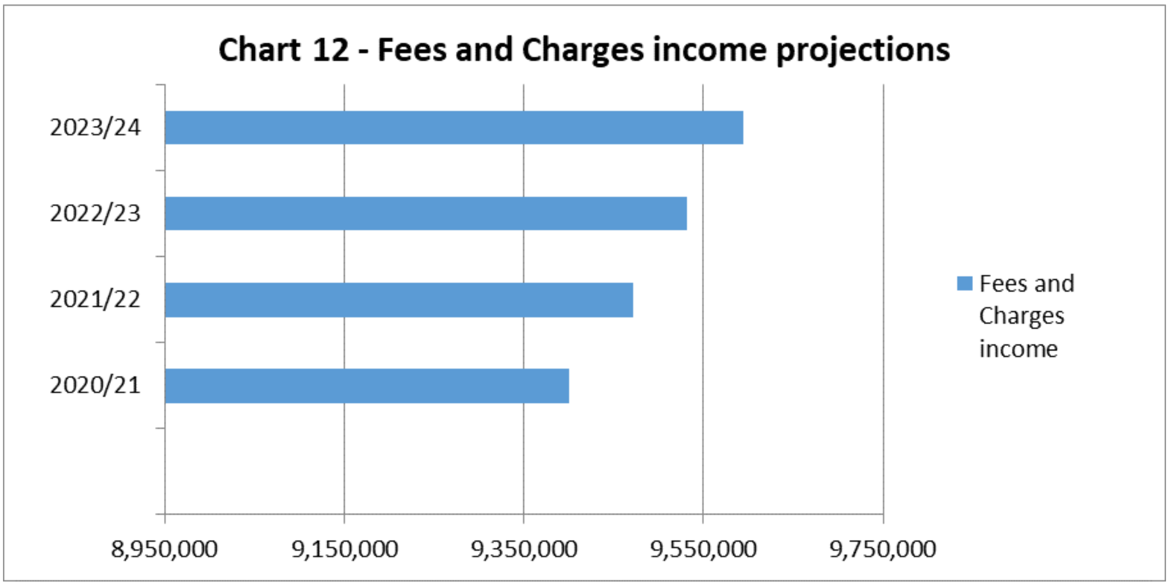
Fees and charges

6.16 The Council has limited means to charge for some of the services it provides. Some of these charges are set by central government, but the Council has discretion over the levels of others. The latest projections for fee income are shown below.

6.17 Of the c£9.4m gross income forecast for 2020/21, the most significant areas include waste and recycling (£3.4m) which includes things such as garden bins and commercial waste collection, car parking income (£2.7m) and planning income (£0.8m).

6.18 It should however be noted that there are also significant costs associated with generating some of this income, such as the car park maintenance and management contract, the waste contract etc.

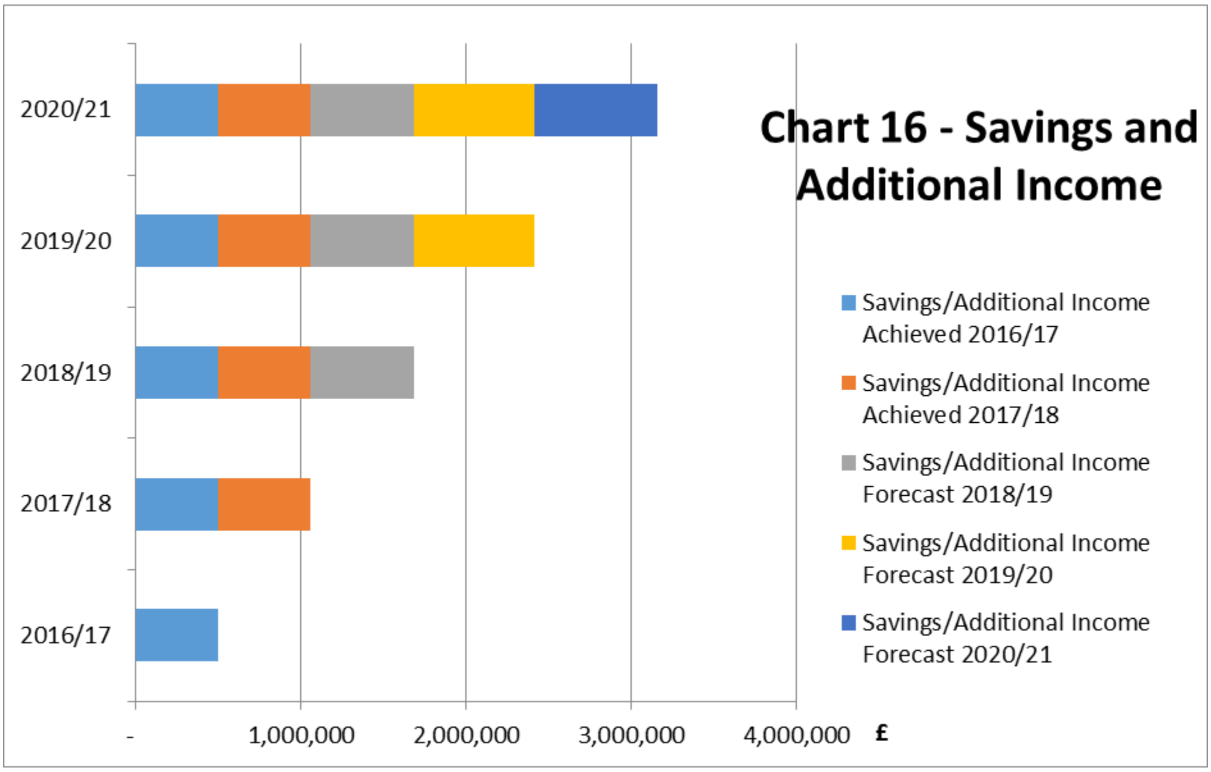
6.19 As part of the Council's Financial Sustainability theme within the new Corporate Plan we will be undertaking a fundamental review of the fees and charges structure within our control as part of the 2021/22 budget setting process. This is to ensure that we are at least covering our costs in all areas while looking to develop and increase income streams wherever possible to help make the budget position more sustainable in the medium to long term and to protect frontline services.



7 Savings and Additional Income 2020/21 onwards

7.1 The financial strategy provided an update in relation to a number of work streams and priorities to be delivered over the length of the medium term financial strategy as previously approved as part of the budget process. No separate savings exercise has been undertaken as part of the 2020/21 budget process.

7.2 The Council has had a number of work streams in place since 2016/17 which have been designed and implemented to create sustainable cashable savings and to help achieve a balanced budget. The chart below shows the savings achieved since 2016/17 and the savings projections for 2019/20 onwards. Each of the work stream areas are discussed in more detail below.



Financial sustainability

7.3 Financial sustainability is one of the six key themes within the Corporate Plan and is fundamental to this strategy and setting balanced budgets in future years. The Delivery Plan that will underpin the various projects and initiatives and support the delivery of the outcomes within the Corporate Plan, is still, under development, and is currently scheduled to be agreed by Full Council in February 2020. Some of the initiatives will include reviews of the way we currently budget and giving consideration to zero based budgeting whilst also undertaking a fundamental review of our fees and charges structure. The aspiration is to have a balanced medium term budget which does not rely on reserves to balance the position.

Our investment approach

7.4 There is therefore an ever increasing need for Councils to take a more commercial and business-like approach to all elements of their business. Our '*Investing Approach'* is currently under development, the successful delivery and implementation of this strategy will ultimately require a step change in the way that the Council thinks, acts and works in the future.

7.5 A more commercial approach will directly support the Council's objective of becoming financially sustainable for the future and will form part of the Delivery Plan for this key theme. Part of the strategy development process will involve the identification and prioritisation of a number of internal and external projects which will consider income generation, efficiency and doing things differently. The focus will be on making every pound count for our residents, improving efficiency, investment and increasing social value.

7.6 The Local Government Association (LGA) are encouraging Councils to move towards a more commercial culture as a way of developing sustainable self-funding streams that reflect Council's individual priorities and place shaping aspirations. Consequently, the Council needs to think about how it can maximise revenue and efficiencies moving forwards – our '*Investing Approach'* is a key part of this in order to deliver managed change that is right for North Norfolk. Any strategy needs to be considered in the context of our key corporate objectives, flowing from the new Corporate Plan and giving consideration to Member aspirations, our geographical location and demographics.

Property Investment

7.7 Opportunities for investment in property, whether direct or indirect, continue to be considered to achieve either a direct income stream from the asset or improved returns on investment and this is fundamentally linked to the Council's Asset Management Plan and the MTFS. A programme of asset valuations and condition surveys are currently underway. This will help us better understand the challenges faced in terms of maintaining and improving our asset base over the medium to long term to ensure that it remains fit for purpose, delivering income for the Council where appropriate.

7.8 Opportunities for the most efficient utilisation of the Council's assets and maximising returns where appropriate are vital. Indirect property investments via treasury instruments, such as the purchase of pooled property funds, can potentially provide a return in terms of a regular income and growth in the value of the investment. Under the Treasury Management Strategy, the Council has made investments in a number of pooled funds which invest in property. One of these funds, the LAMIT Pooled Property Fund, invests exclusively in various property assets with the aim of achieving a regular income and growth in the value of the investment.

7.9 In addition to these investments, the Council has agreed to provide capital expenditure loans to registered providers of social housing to facilitate the delivery of housing in the district, along with achieving an income return on its investment. The Council can choose to use its capital resources to finance a programme of asset investment which aims to deliver long-term revenue streams for the Council and work on an ongoing basis is required to identify the most appropriate projects. This strategy of direct property investment can ensure a secondary benefit to the district as it is possible to generate an economic growth benefit when the investment is located in North Norfolk. This is, however, more resource intensive to manage than externalising these investments.

Digital Transformation

7.10 Building upon the Business Transformation project that commenced in 2014 savings continue to be identified from changes to service delivery from the implementation of new technology and changes to business processes. The overall programme will be delivered over a number of years and as projects have been rolled out there have been changes to working practices which have helped to deliver efficiencies. Phase 1 of the Digital Transformation programme is currently being closed down, having achieved annual savings of £427,000 by the end of 2018/19. Phase 2 of the project is in the planning and early delivery stages, and is being funded by a £940,000 contribution from the Invest to Save reserve.

7.11 It is recommended that further consideration is given to this work stream area in the future in terms of both the title and the focus which has historically been savings driven with customer benefits attached in terms of increasing digitisation. However, the key to this work in the future should really be refocussed on 'putting our customers at the heart of everything we do'. This will undoubtedly still lead to further efficiencies and potential cashable savings but the direction of travel should be to improve our services for our customers first and foremost because that's the right thing to do. It will also mean that staff can spend longer prioritising 'added value activities' rather than getting bogged down with inefficient paper based processes.

7.12 The previous high level saving assumptions for Phase 2 of the programme can be seen within the table below. However, at the present time these have been removed until we have a clear delivery plan of projections with savings identified for each project where appropriate.

Table 4 – Previous Digital Transformation savings assumptions

	2019/20	**2020/21**	**2021/22**	**2022/23**
Savings to be removed (£)	83,750	167,500	335,000	335,000

Shared Services, collaboration and selling services

7.13 Creating efficiencies through shared services continues to be a priority for central government. Identifying such opportunities must therefore continue at a local level, ensuring that realistic and deliverable benefits can be achieved. This could include joint procurement opportunities such as the new waste contract, shared service delivery where appropriate and selling services via arrangements such as East Law.

7.14 Identifying opportunities to work alongside other public sector partners and organisations to deliver services, such as our successful partnerships with NCC Children's Services, the Early Help Hub and the DWP in terms of shared office space and the One Public Estate agenda.

Growing Business Rates and NHB

7.15 Under the previous allocation method of New Homes Bonus (NHB) there was a direct financial benefit to the Council from growth in homes through the NHB funding and through increasing the council tax base and additional income generated from council tax. Whilst new housing growth has an impact on the demand for local services, there will still be a net gain in terms of overall income for delivery while the NHB remains and subject to potential changes to the baseline. It does however seem increasingly likely that we will only receive legacy payments for the next 3 years before this scheme is ultimately replaced by something else.

7.16 For similar reasons growing the business rates base will have a direct impact on the level of business rates income retained locally. Equally, maintaining existing business rates remains a priority in that decline in business rates will reduce the amount of income retained.

Council Tax

7.17 The increased flexibilities around council tax discounts and increases following the removal of the tax freeze grant in 2016/17 provides a further potential income stream. Further review of the current level of discounts can also provide additional income, recommendations on the level of council tax discounts will be reported for approval as part of the budget reports for 2020/21.

New opportunities

7.18 Given the current uncertainties around issues such as Brexit and changes to the Local Government funding mechanisms it will be essential to identify new opportunities to either increase income, increase efficiency through the redesign of services, explore new partnership models for service delivery etc and this will be one of the main challenges over the medium term. The Council's commercialisation approach and the projects stemming from this will be key to this.

7.19 While the Council's reserves do provide some level of comfort over the short term and could be used to address budget deficits this is not a sustainable financial strategy for the medium to long term.

Lobbying and consultation

7.20 The Council will continue to lobby central government in terms of increased funding allocations and relaxation/increased flexibility in terms of the council tax referendum principles which will be one of the things required if income raising and decision making is ever to be truly local. We will also continue to respond to all relevant consultations, in particular at the present time on relation to the business rates and Fair Funding reviews.

8 Reserves

8.1 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

8.2 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.

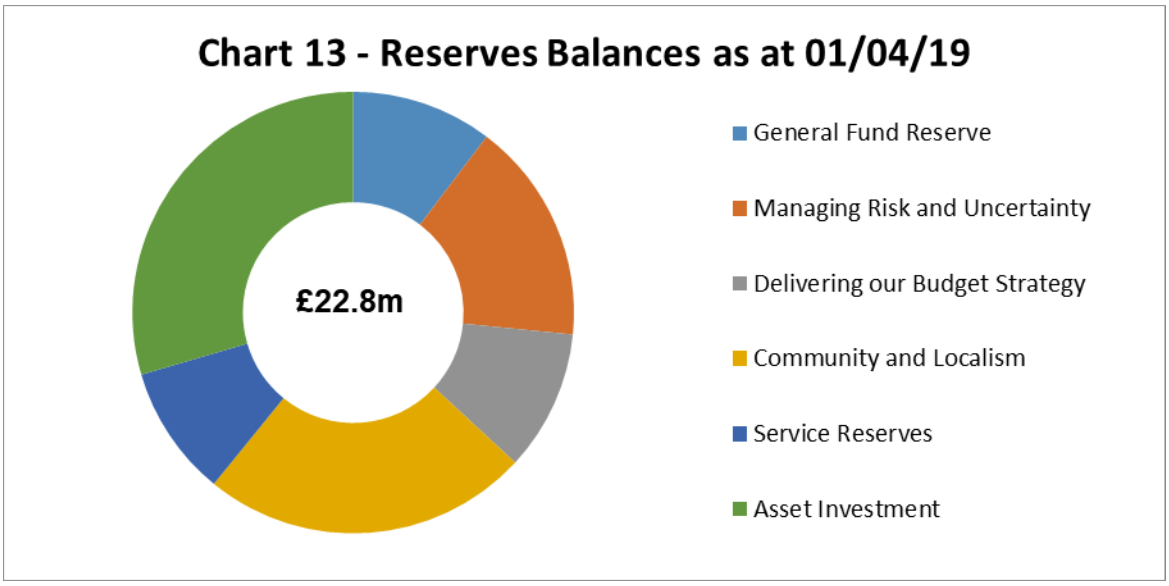
8.3 As part of setting the budget each year the adequacy of all reserves is assessed along with the optimum level of general reserve that an authority should hold. The optimum level of the general reserve takes into account a risk assessment of the budget and the context within which it has been prepared.

8.4 *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.

8.5 As part of the final budget setting process all reserves, general and earmarked, are reviewed, with a view that where commitments have not been identified and funds or reserve balances are no longer required these are re-allocated to specific reserves to address other requirements as applicable.

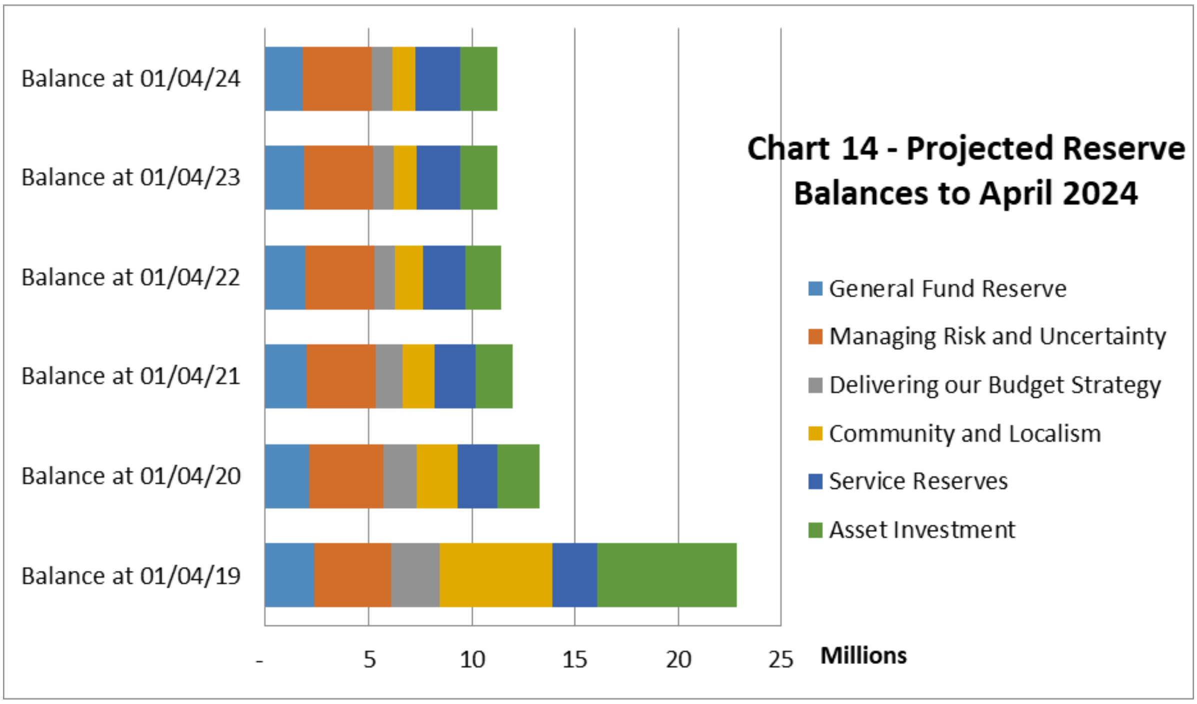
8.6 Use of reserves to balance a budget provides only a short term solution as the funds can only be used once. They can however be used to smooth the impact of funding gaps over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer term financial benefit through reduced costs and/or additional income.

8.7 The reserves balance as at 1 April 2019 stood at £22.8m, the updated budgeted use of reserves for the 2019/20 financial year is £5.7m which leaves a forecast balance as at 1 April 2020 of £17.2m. This strategy predicts a fall in the levels of Reserves held from £22.8m to £8.8m by April 2024.



8.8 Reserves can be used to fund one-off costs for projects that will deliver a longer-term benefit. For example the use of the Restructuring and Invest to Save reserve to fund one-off restructuring costs, where a restructuring will deliver a longer term saving for a service and for some of the implementation and project costs for the Business Transformation programme that will deliver future savings. The use of reserves in this way will be considered as part of the full business case for individual project proposals, taking into account the payback period of the project along with indirect financial implications, for example, reduced balances available for investment and the associated loss of investment income.

8.9 The Capital Receipts Reserve consists of capital receipts from the disposal of assets and land and is used to fund the capital programme. Capital receipts can't ordinarily be used to fund revenue expenditure.



8.10 The current position and forecast on the General and Earmarked Reserves is attached at Appendix C. The statement provides the latest proposals for use of reserves in the current financial year along with the budgeted movements in 2019/20, and proposed movements in the following three financial years. The current recommended minimum balance on the general reserve is £1.9 million.

9 Capital

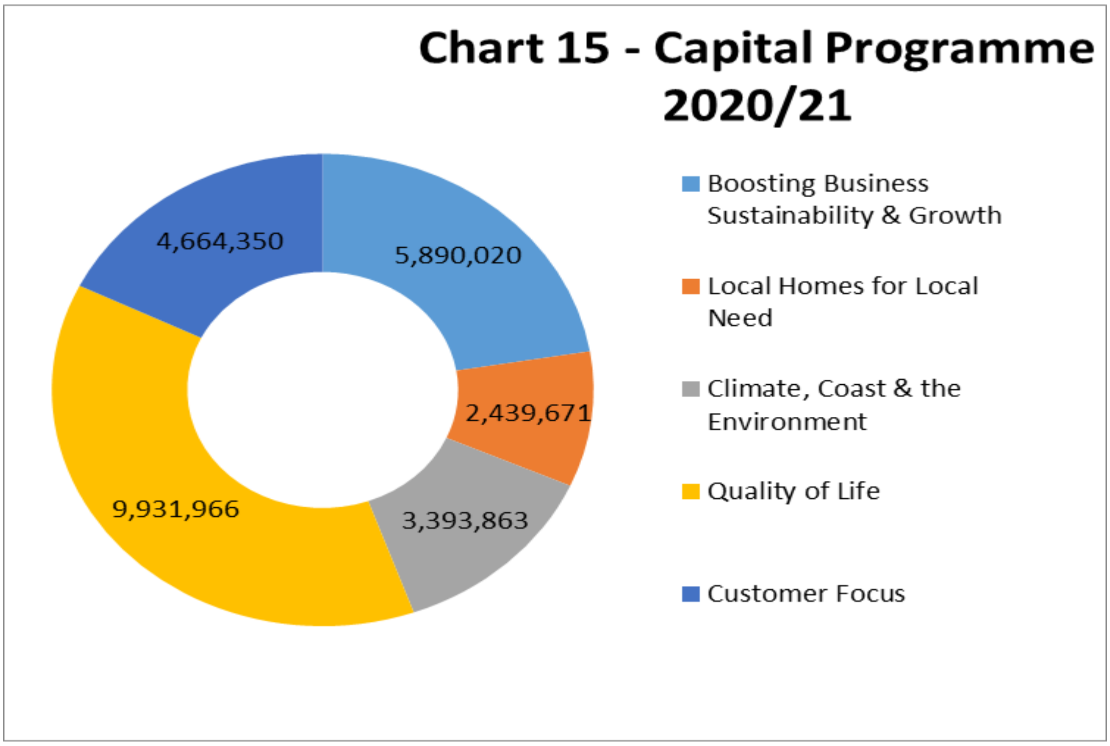
9.1 The capital programme shows what the Council intends to spend on purchasing new assets and improving its existing ones over the next three years. As capital expenditure is incurred, a source of finance must be identified. This can be done through capital receipts, grants and other revenue resources or alternatively through borrowing.

9.2 Any expenditure that is financed through borrowing increases the Council's 'Capital Financing Requirement' (CFR). Each year a revenue charge (one that impacts on the bottom line of the budget) called the Minimum Revenue Provision (MRP) is made to reflect the funding of the CFR by the taxpayer, it is required to be set aside to cover the repayment of debt caused by the need to borrow for capital purposes. As the need to borrow increases, the CFR and MRP also increase. If the Council has sufficient cash resources to meet the expenditure, it will not be necessary to borrow externally and cash balances can be used to cover the expenditure. This is referred to as 'internal borrowing' and attracts an MRP charge in the same way that external borrowing does.

9.3 Any new projects included in the programme in the future will need to be financed by MRP if no capital resources such as capital grants or capital receipts from future asset sales are available. Alternatively, existing revenue reserves could be used to finance these projects through a revenue contribution to capital (RCCO) which would avoid the need to make an MRP charge.

9.4 Future external borrowing is assumed to finance a portion of the Sheringham Leisure Centre replacement project and could also be used to finance future capital projects. Short-term borrowing rates are currently very low, meaning it may be preferable to undertaking long-term borrowing at the current time.

9.5 An updated capital programme can be found at Appendix D which shows slippage in schemes to future years.



9.6 The capital programme has been realigned at a very high level to match with the new Corporate Plan priorities but this will be fundamentally reviewed as part of setting the 2020/21 budget.

10 Financial Implications and Risks

10.1 A comprehensive financial risk assessment is undertaken 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 developing the budget for 2020/21 are included within the table below.

10.2 Medium term financial planning, set against a backdrop of severe reductions in Government funding, carries with it a significant element of risk. Many factors may impact on the figures presented here and themes have been highlighted where appropriate. Most significant are the potential revisions in Local Government finance policy, continual cuts to general grant and significant revisions to the New Homes Bonus and its ultimate replacement (if anything does eventually come forward). Should there be a change in emphasis, particularly around the assessment of need (Fair Funding Review) and Business Rates funding, there may be further reductions above those presented within the budget projections that would place further pressure on the council to deliver balanced budgets, without impacting on frontline services.

10.3 The effects that Brexit will have on the budget cannot be underestimated. Whilst there is still much uncertainty, not least around the terms of the UK's exit from the EU, we have already seen a worsening of long term interest rate projections and challenges in terms of contract procurement. A recession would present further risk, in particular significant areas of income such as lettings income, planning fees and car park income that are linked directly to economic demand.

10.4 Beyond this, further policy announcements from the Government may have effects on our finances in the coming years following the election of a new Government in December 2019.

10.5 Despite these risks, we will continue to plan effectively to strengthen our culture of strong 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 2020/21 and beyond are based on best estimates at this time. A prudent approach has been adopted based on previous years' experience as well as using regional network contacts 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 establishment of specific earmarked reserve and financial monitoring framework. Modelling of potential impacts is used to inform internal financial planning. Positive initial outcome in respect of NHS case.
3. Pay Awards, fee increases and price inflation higher than assumed	Possible	Medium	Impact of potential increases mitigated by central contingency 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 spending within services. Greater scrutiny of savings has taken place since 2016/17 through the revenue monitoring process.

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 likely to impact. Regular monitoring and reporting takes place. Full review of fees and charges scheduled for 2021/22 along with an annual review process.
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.
9. Exit strategies for external funding leasing/tapering 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 balance security of deposit over returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions.
11. Interest rates lower than expected	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2020/121 will be incorporated into the 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. Financial budget impacts of UK's vote to leave the European Union (Brexit)	Likely	Medium /High	Continue to work collaboratively with treasury advisors and central government departments to assess potential budget impacts whilst the Government attempts to ensure an effective transition to a new economic relationship between the U.K. and the EU, including clarifying the procedures and broad objectives that will guide the process.
14.Devolution/Unitary status –	Possible	Medium	As the devolution deal has been rejected locally no further work is ongoing in respect of this and no changes have been factored in to the budget or future year

			projections as a result. The Unitary issue will undoubtedly be discussed further again in the future following the recent General Election. Officers and Members will keep a watching brief in respect of this but again at present no budgetary impact is being assumed.
15. 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.

11 Conclusions

11.1 Previous budget forecasts made back in February 2019 were made at a time of significant uncertainty in terms of future Government finances due to the Fair Funding Review, Business Rates Review and the Spending Review. This uncertainty was further heightened by the ongoing Brexit negotiations which added an additional level of complexity in terms of future forecasts and potential impacts on the economy, inflation, suppliers, contracts etc.

11.2 The updated high level funding forecasts contained within the MTFS built on previous figures from the 2019/20 Budget setting exercise in February which were made within this context, at which time we were forecasting future year deficits in the region of £2m.

11.3 The updated **draft** budget forecasts now differ significantly from this, in the main this is due to postponement of the various reviews outlined above, all of which have been impacted by the ongoing Brexit negotiations which have led to a one-year Settlement which has meant the continuation of the previous funding regime for a further year.

11.4 As outlined above the key changes within the Settlement, mainly around retained business rates, New Homes bonus and the Rural Service Delivery grant, will see approximately £2m of additional resources being made available to help support nest year's budget, based on the assumptions, caveats and projections outlined above. It should be noted that the Provisional Settlement figures for 2020/21 are still subject to final agreement so there is still an element of risk around these but it is the best information currently available.

11.5 The Council is still currently projecting a deficit position from 2021/22 onwards but due to the funding changes announced as part of the Provisional Settlement in December the budget gap has reduced slightly to around £1.86m. Forecasting the deficit allows the Council time to plan mitigating actions more effectively, meaning we are more likely to be successful.

11.6 In conclusion, while the additional income has had an extremely beneficial impact on the future year's projections it is still not clear how the various reviews will impact on local government funding and what impact the election of the new Government in December will have. While the Provisional

Settlement figures announced were positive they are still provisional until finally agreed so there remains an element of risk that these may still change although it is unlikely to change for next year. We do however have the benefit of reserves should these be required to support and short term funding requirements.

12 Sustainability

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

13 Equality and Diversity

13.1 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.

13.2 Following the savings exercise undertaken in 2016/17 there have been no further submissions for 2019/20 and therefore no equality issues potentially affecting the proposals at present.

14 Section 17 Crime and Disorder considerations

14.1 There are no crime and disorder considerations as a direct consequence of the report.