2020/21 BUDGET REPORT

Summary:	This report presents for approval the 2020/21 budget along with the latest financial projections for the following three years to 2023/24.
Options considered:	The budget for the forthcoming financial year must be set annually. While there are options around the individual budgets presented for approval i.e. what is included in the budget for 2020/21, the overall position now presented for approval is the culmination of work carried out by officers and Members over a number of months, details of which are provided within the report.
Conclusions:	The Council's budget is set for approval each year; as with last year it has been presented to the Overview and Scrutiny Committee for pre-scrutiny before going to Cabinet and ultimately Full Council. This report now presents a balanced budget for 2020/21 and also presents the latest financial projections for the following three financial years, 2021/22 to 2023/24. The budget has been produced based on a number of assumptions as detailed within the main body of the report and also reflects the provisional finance settlement announced on 20 December 2019. The report recommends that the surplus for the year is allocated to the newly created Delivery Plan Reserve. The report also outlines the risks facing the Council in setting the budget and forecasting future spending plans and resources.

Recommendations:

It is recommended that Cabinet agree and where necessary recommend to Full Council:

1) **The 2020/21 revenue budget as outlined at appendix A1;**
2) **The surplus of £158,015 is allocated to the Delivery Plan reserve as outlined in the report;**
3) **The demand on the Collection Fund for 2020/21, subject to any amendments as a result of final precepts still to be received be:**
   a. **£6,305,671 for District purposes**
   b. **£2,466,446 (subject to confirmation of the final precepts) for Parish/Town Precepts;**
4) **The statement of and movement on the reserves as detailed at appendix D;**
5) **The release of £80,100 from the Planning Reserve to fund the North Walsham transport study;**
6) **The updated Capital Programme and financing for 2020/21 to 2022/23 as detailed at appendix E1;**
7) **The capital bids contained within Appendix E2;**
8) **That the Council continues with the current**

		Local Council Tax Support LCTS) scheme for 2020/21;
Reasons for Recommendations:	**9)**	**That Members note the current financial projections for the period 2020/21 to 2023/24;**

To recommend a balanced budget for 2020/21 for approval by Full Council.

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

Outturn Report 2019/19, Medium Term Financial Strategy 2020/21 – 2023/24, 2019/20 budget monitoring reports, O&S Draft Budget Review 2020/21.

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

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

Executive summary

This report presents the detail of the 2020/21 revenue budget and the indicative projections for the following three financial years 2023/24. The Council's budget is set for approval each year in February; as with last year it has been presented to the Overview and Scrutiny Committee for pre-scrutiny before going to Cabinet and ultimately Full Council.

The budget has been produced based on a number of assumptions as detailed within the main body of the paper and now reflects the provisional Local Government Finance Settlement (LGFS) 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, the Medium Term Financial Strategy 2020/21 – 2023/24 and the 2020/21 draft budget review presented to Overview and Scrutiny. The table below shows the movements as reported as part of the updated Medium Term Financial Strategy (MTFS) and the updated budget forecasts.

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 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)**.

However, while the 2020/21 position is now balanced there are still significant challenges in future years which deficits forecast of £1.8m, £1.9m and £2.2m over the following three years. Further consultations are expected this year on the Fair Funding Review, the Business Rates Review and the Comprehensive Spending Review.

A summary of the General Fund is provided at appendix A1, appendix A2 contains a high level analysis of the key movements at the subjective budget level while appendix B contains shows the movements between the 2019/20 base budget and the current forecasts for 2020/21.

1 Introduction

1.1 This report presents the detail of the 2020/21 revenue budget and the indicative projections for the following three financial years, 2021/22 to 2023/24.

1.2 An updated Capital Programme has also been included covering the periods 2019/20 to 2022/23 which takes account of slippage of schemes between financial years. Details of new proposed capital schemes are also included within the report.

1.3 A draft 2020/21 budget review report was provided to the Overview and Scrutiny Committee for pre-scrutiny at their meeting of 15 January. Any recommendations following this review will be considered by Cabinet and recommended to Full Council as appropriate.

1.4 The budget now presented reflects the Local Government Finance Settlement (LGFS) announced on 20 December 2019, the final settlement is expected at some point during February. The final budget presented for approval to Full Council will be updated to reflect the final figures as applicable if they are received in time.

1.5 The following sections of the report present the detail and context within which the budget has been produced. The summary of the budget and service budget details are included at appendices A1, A2 and B respectively.

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 The Climate, Coast and Environment theme will help to ensure that the Council delivers on its Climate Emergency agenda and this element of the Corporate Plan will permeate and influence all of the other work stream and Delivery Plan themes so that it becomes embedded within the culture of the organisation.

2.8 A number of the Delivery Plan projects will support the Climate Emergency agenda and the Council will try and ensure as far as possible that environmental considerations are built in to all areas of the Council’s day to day business operations.

2.9 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.

2.10 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

2.11 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

2.12 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

2.13 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

2.14 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

2.15 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 Provisional Settlement figures

4.1 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.

4.2 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 A1) which shows the future year's deficit reducing slightly to c£1.8m in 2021/22 and c£1.9m 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.

4.3 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

4.4 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.

Retail relief was announced as part of last year's budget on 29 October 2018 and was to be a two-year government funded relief to local authorities. The **relief provided will for one third of the bill after all other reliefs.** It was to be awarded to occupied retail properties with rateable values below £51k in 2019/20 subject to state aid rules. The relief was to be awarded to retail properties that are wholly or mainly being used as shops, restaurants, cafes and drinking establishments.

Following the recent elections Government has announced potential changes to this and the intention is to increase this relief from 1/3 of the net rates bill to 1/2 of the net rates bill, and also to cinemas and music venues.

Similarly, pub relief was previously awarded to all occupied pubs with a RV below £100k a maximum of £1k relief in 2017/18 and then it was extended to include

2018/19 subject to state aid rules. No details for 2020/21 have been announced as yet other than government looking to re-introduce it, so we are assuming it is likely to be for the same criteria with the maximum award being £1k.

Both of these changes will however require primary legislation to enact them which has not yet been passed so the detail is still somewhat unclear and the timescales are fast approaching for the business rate billing for next year. As with previous reliefs this will be fully funded by central government and covered by Section 31 grants.

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.

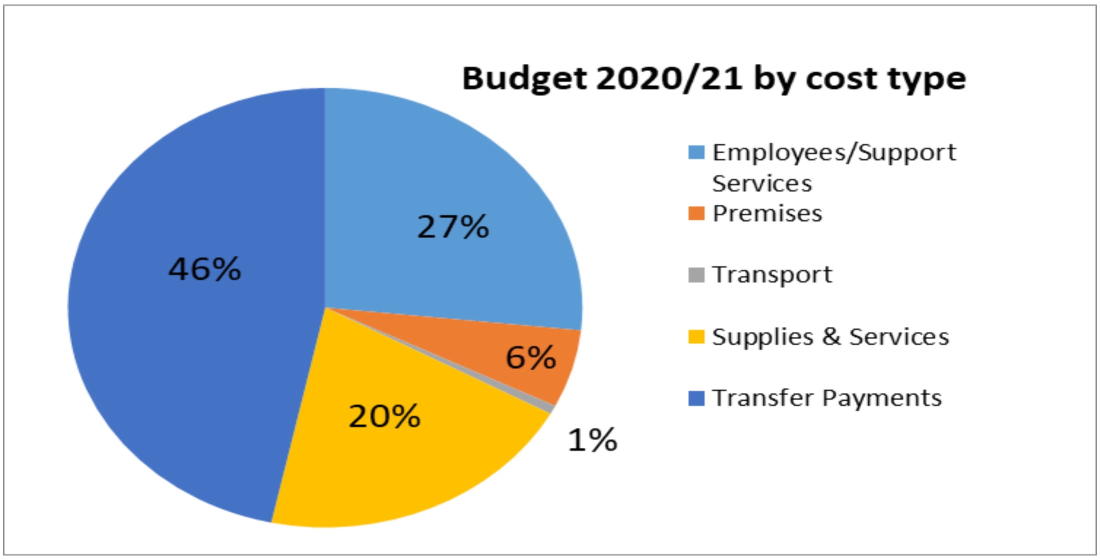
4.5 The overall impact of all of these changes is significant for the next financial year and will see approximately £2m of additional resources being made available to help support the budget, based on the assumptions, caveats and projections outlined above.

5 Revenue Account Base Budget

5.1 The detail of the revenue budget now presented for approval is included within appendices A1 and B. Appendix A1 shows the overall position in the form of the General Fund Summary, the current forecast budget surplus for 2020/21 is (£158k) as shown in Table 1 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)	(6,306)
Business Rates Retained & S31 Grants	(5,283)
Revenue Support Grant	(90)
New Homes Bonus (NHB)	(892)
Rural Services Delivery Grant	(484)
Current projected surplus	**(158)**

5.2 Further detail on the individual service budgets is included at appendix B which shows the movement of the 2020/21 budget compared to the base budget for 2019/20 as set in February 2019 along with comments covering the more significant variances. The chart below highlights how the budget costs contained within the Net Cost of Services are split over the main subjective budget headings.



Assumptions

5.3 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 40,687 (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 £153.72 (**£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 £0.36m. 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 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 £242k 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.

h) **Growth -** No growth bids were invited for revenue expenditure in 2020/21. Capital bids were invited and the capital programme is discussed in detail at section 9 which includes both an update to the current capital programme along with new capital schemes and the financing of the programme.

i) **Local Council Tax Support Schemes (LCTS)** - The LCTS scheme was implemented in April 2013 as a replacement to Council Tax Benefit. This change was part of wider welfare reforms to reduce expenditure, giving responsibility of the replacement scheme to Local Councils. LCTS schemes should encourage people into work and be based on the ability to pay. Previously the Council Tax Benefit scheme was 100% funded through subsidy paid to the Council from the Department for Work and Pensions (DWP).

From April 2013 each billing authority was given the discretion to set their own scheme, although at the outset the government did stipulate that the scheme would not change the 100% maximum support for low income pensioners i.e. they would receive the same level of support as they did under the system of Council Tax Benefit. Funding for LCTS is no longer received as a separate subsidy grant but is now within the overall Local Government Funding system as non ring-fenced funding within the Revenue Support Grant (RSG) and baseline funding level. The local scheme (for North Norfolk) has remained the same since the introduction of LCTS in 2013/14. The local scheme means that those of working age previously entitled to 100% maximum council tax benefit are required to pay a maximum of 8.5% of their council tax liability.

Welfare reform changes to the benefits and tax credits people can receive have been seen in recent years, and in December 2018, we saw the introduction of Universal Credit across all job centres in the district. This has impacted on residents of North Norfolk and may also have an adverse effect on the ability to collect Council Tax from working age residents who are receiving Universal Credit. There are concerns that the separation of Housing Benefit from Council Tax Support is having an effect on people's ability to pay Council Tax. The Council's Benefit Service is looking to encourage Council Tax Support take-up during 2020/21 and will continue its commitment to protect the most vulnerable groups in the district and provide financial support. It is therefore recommended that the scheme is not changed for 2020/21 but is reviewed for next year to bring it in line with Universal Credit.

5.4 The General Fund Summary presented at appendix A1 shows a balanced budget and is summarised in the table below with the equivalent figures for 2019/20.

Table 2 – Variance of 2019/20 to 2020/21 Base Budget			
	2019/20 Base Budget	**2020/21 Base Budget**	**Variance**
	£000	**£000**	**£000**
Net cost of services (incl. Parishes)	19,919	19,778	(141)
Non service expenditure/ income	(4,691)	(4,415)	276
Net budget requirement	15,228	15,363	135
Funded by:			
Local Taxpayers – Parishes	(2,390)	(2,466)	(76)
Local Taxpayers - District Council	(6,241)	(6,306)	(65)
Retained Business Rates	(5,386)	(5,283)	103
Revenue Support Grant	0	(90)	(90)
Rural Services Delivery Grant	0	(484)	(484)
New Homes Bonus	(1,211)	(892)	319
Total Income	(15,228)	(15,521)	(293)
(Surplus)/ Deficit	0	(158)	(158)

5.5 Non-Service Expenditure and Income includes the adjustments for notional items that are required to be charged within Net Cost of Services, for example, International Accounting Standard 19 (IAS19) pension costs and capital charges. Table 3 provides a summary of the main movements in Net Cost of Services across the standard expenditure headings, with notional charges being shown separately.

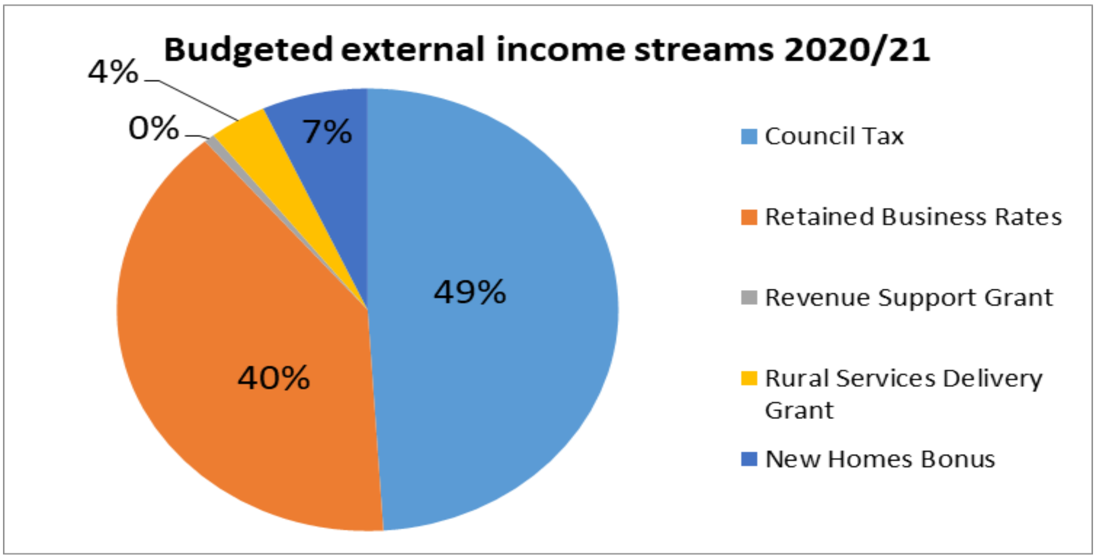
Table 3 - Variance 2019/20 to 2020/21 Base Budgets (excl. notional charges)				
	2019/20 Base Budget	**2020/21 Base Budget**	**Variance**	**Percentage Movement**
	£000	**£000**	**£000**	**%**
Employees/Support Services	12,142	12,810	668	5.50
Premises	2,482	2,731	249	10.03
Transport	305	304	(1)	(0.35)
Supplies & Services	10,475	9,691	(784)	(7.49)
Transfer Payments	23,514	22,208	(1,306)	(5.55)
Income (External)	(33,871)	(32,834)	1,037	(3.06)
Total Direct Costs and Income	**15,047**	**14,910**	**(137)**	**(0.91)**
Notional Charges:				
Capital Charges	1,308	1,819	511	39.06
IAS19 Notional Charges [2]	(252)	(260)	(8)	3.20
REFCUS [2]	1,425	843	(582)	(40.87)
Total Notional Charges	**2,481**	**2,402**	**(79)**	**(3.20)**
Total Net Costs	**17,528**	**17,312**	**(216)**	**(1.24)**

5.6 In terms of direct costs, the increase in relation to employee costs mainly reflects the assumed 2% pay award and salary increments along with the pension deficit funding (c£620k). The increase in the premises costs reflects the new contact prices for grounds maintenance procured as part of the new waste contract along with office cleaning (c£239k). These are offset by reductions in the supplies and services budget lines for waste (£526k). A more detailed breakdown is provided within appendix A2.

5.7 In terms of notional charges, the main change to the transfer payments and income reflect the benefit subsidy payments where income is claimed through the subsidy system. In the 2019/20 financial year, the Council made a £1m contribution to the Better Broadband for Norfolk programme, which resulted in a Revenue Expenditure Funded from Capital Under Statue (REFCUS) charge. There is no similar contribution to make in 2020/21, resulting in a reduction in the charge which has been budgeted for. The 2020/21 charge relates to various schemes including Fakenham Extra Care, Holway Road Roundabout and the Community Housing Fund. The capital charge variance relates to various coastal scheme charges but as with the other notional charges these have no impact on the bottom line as they are reversed out.

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.

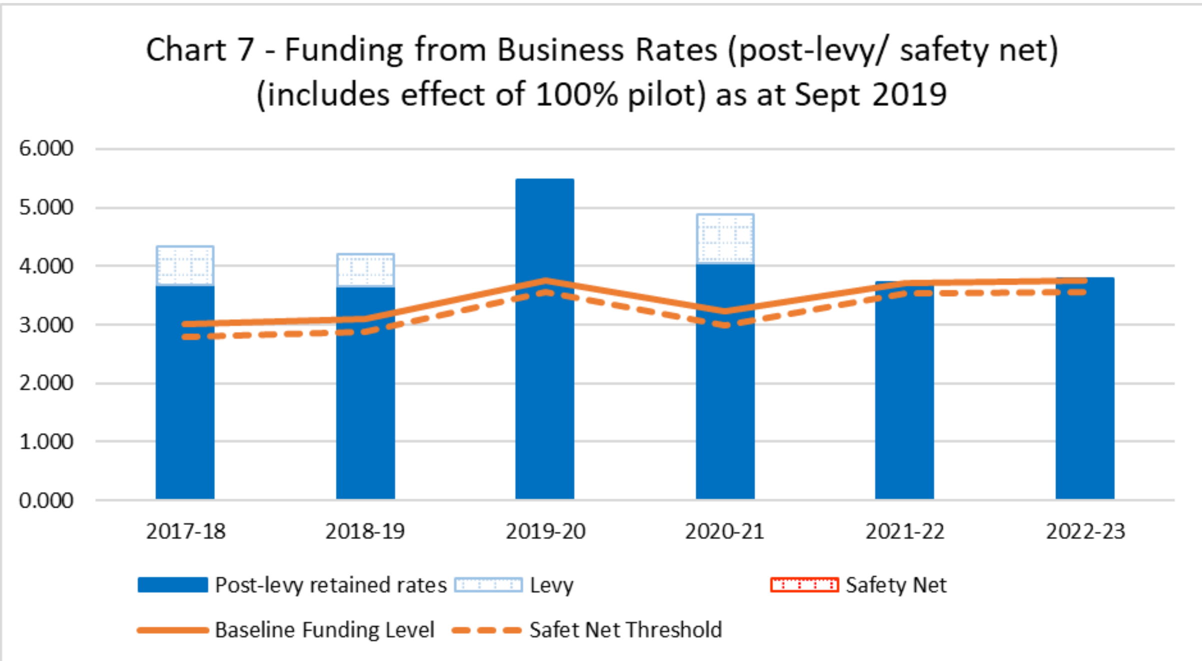
6.3 Following the snap General Election in 2017 and a period of uncertainty around the new Business Rates Retention Scheme, the Ministry of Housing, Communities and

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 £5.3m for 2020/21 (£4.8m 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. Any appeal must be lodged by 24 February 2020.



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

6.7 Members will be aware that the district council is part of the business rates pilot being undertaken during 2019/20. Any additional income generated as part of this pilot will be taken account of once the final position is clear after the year end (as previously agreed) and as such no extra income is currently accounted for within the reserves position.

New Homes Bonus (NHB)

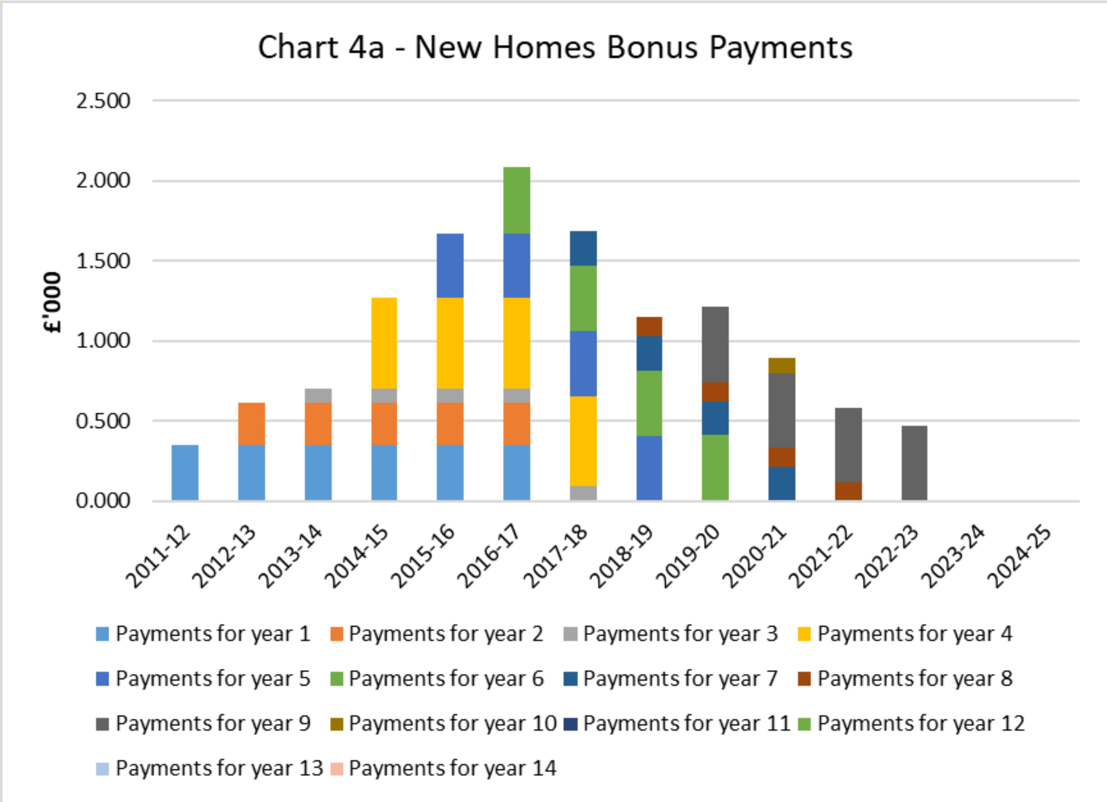
6.8 The New Homes Bonus was introduced in 2011/12 to incentivise and reward Councils and Communities that build new homes in their area. The bonus was originally paid as an un-ringfenced grant for six years and was paid based on the net additional[1] homes plus an additional supplement of £350 per affordable dwelling. The payment is then split between local authority tiers: 80% to the lower tier (NNDC) and 20% to the upper tier (NCC).

6.9 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.

6.10 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.

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

[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.



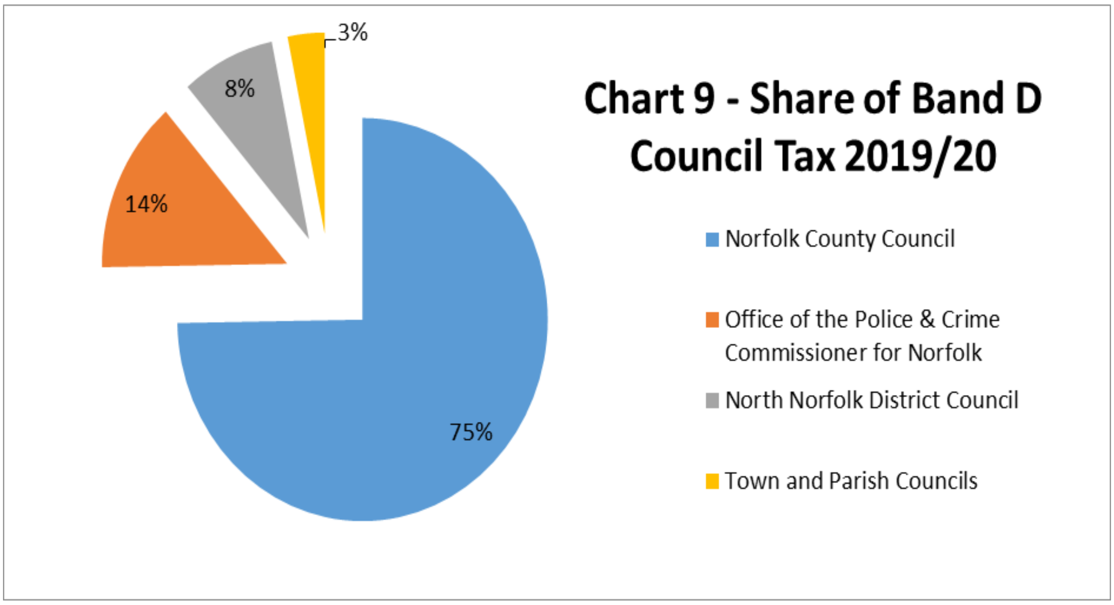
6.12 The legacy payments to be paid under the scheme from 2020/21 to 2022/23 in Table 4 below are £0.892m, £0.587m and £0.469m respectively, totalling £1.947m which significantly supports the previously projected budget deficit. Unfortunately, the forecasts made at the time the MTFS was produced for 2020/21 were c£342k higher than the Provisional Settlement and this has now been adjusted within the General Fund summary.

Table 4 – New Homes Bonus Legacy payment projections as at Jan 2020

2020/21 (£000)	2021/22 (£000)	2022/23 (£000)
214		
118	118	
469	469	469
91	0	0
892	**587**	**469**

Council Tax

6.13 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.



6.14 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.

6.15 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.

6.16 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.

6.17 As highlighted above the draft budget currently assumes a **Council Tax increase** for the district element of Council Tax in 2020/21. Table 2 above summarises how the budget will be financed and the District's net call on the Collection Fund for 2020/21 and the council tax summary is included at appendix C.

6.18 At the time of writing the figure within the General Fund summary (appendix A) for parish and town precepts is shown as £2,466,446. This will be updated for the final budget report which will go through to Full Council in February if required, but it should be noted that if there were to be any changes that these would have no impact on the overall budget position as the total amount paid from the General Fund in precepts is transferred from the Collection Fund.

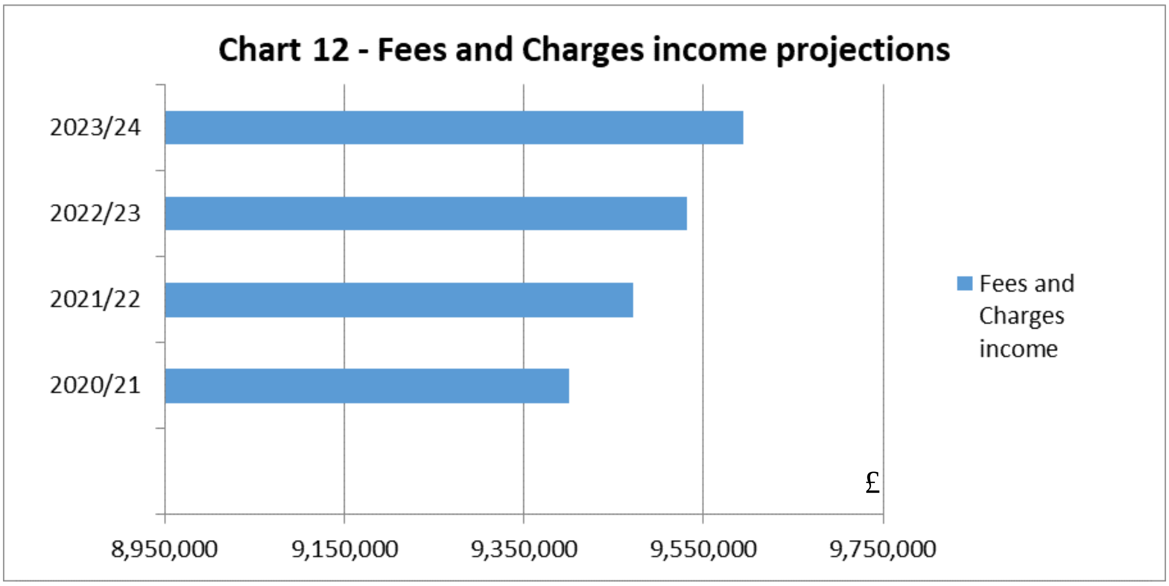
Fees and charges

6.19 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.

6.20 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).

6.21 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.

6.22 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.

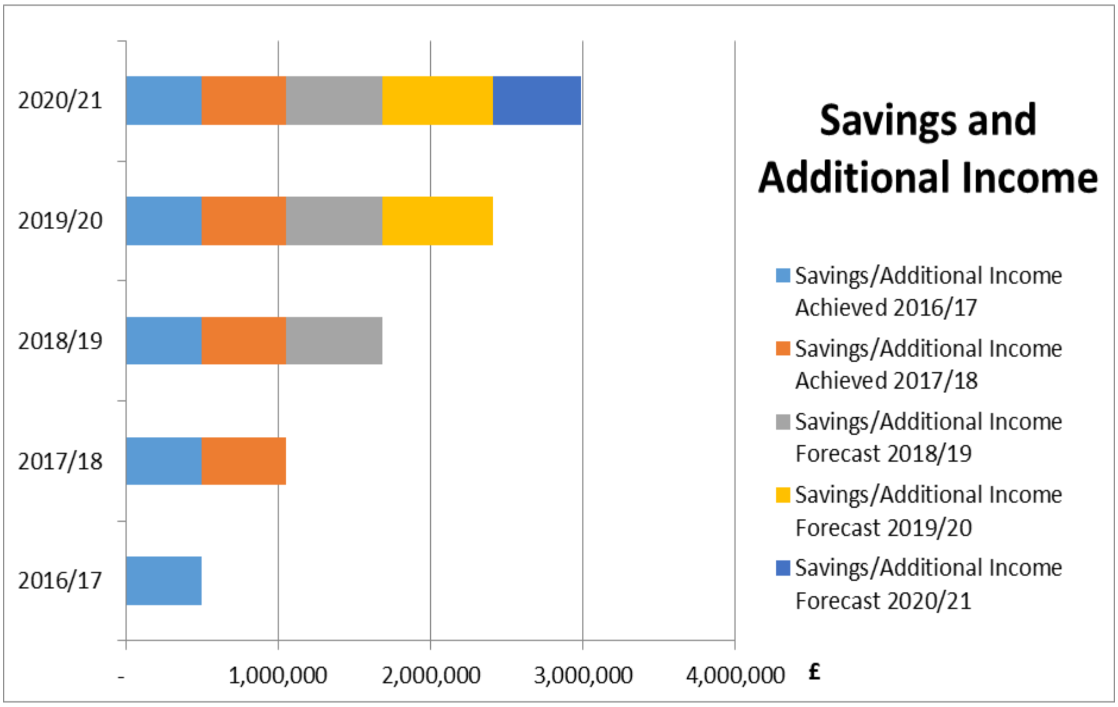


7 Savings and Additional Income 2020/21 onwards

7.1 The MTFS provided an update in relation to a number of work streams and priorities to be delivered over the medium term 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.

7.3 Total savings and additional income of £577k have been factored into the budget for 2020/21 (£728k 2019/20). Where applicable the timing of the savings has been profiled over the next four years and some will be subject to more detailed work including project appraisals. The table below summarises the savings included in the budget projections.



Financial sustainability

7.4 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 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

7.5 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.

7.6 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.

7.7 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

7.8 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 (AMP) 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.

7.9 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.

7.10 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

7.11 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 £427k 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 £940k contribution from the Invest to Save reserve.

7.12 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.

7.13 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 5 – Previous Digital Transformation savings assumptions

	2019/20	2020/21	2021/22	2022/23
Savings to be removed (£)	£84k	£168k	£335k	£335k

Shared Services, collaboration and selling services

7.14 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.

7.15 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

7.16 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.

7.17 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

7.18 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

7.19 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.

7.20 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

7.21 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 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 2020/21, and proposed movements in the following three financial years. The current recommended minimum balance on the general reserve is £1.9 million.

8.2 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

8.3 The *General Reserve* is held for two main purposes:

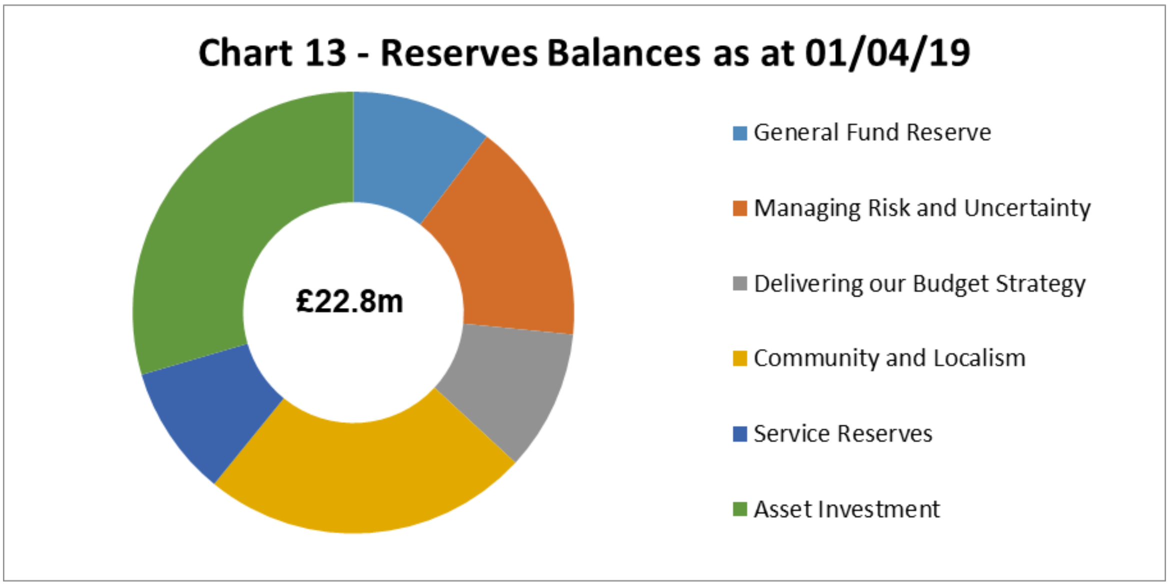
- To provide a working balance to help cushion the impact of uneven cashflows and avoid temporary borrowing and;
- A contingency to help cushion the impact of unexpected events or emergencies.

8.4 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.

8.5 *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.

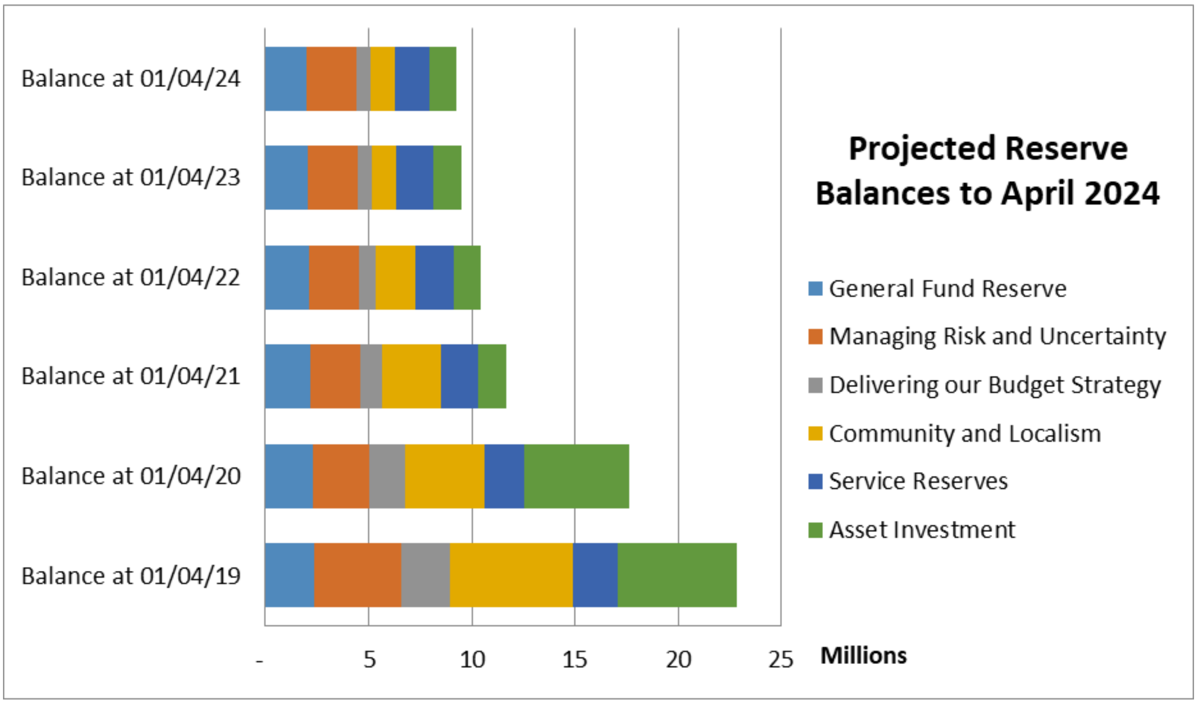
8.6 Use of reserves to balance a budget provides only a short term solution as the funds can only be used once. They can however be used to smooth the impact of funding gaps over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer term 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 £5.2m which leaves a forecast balance as at 1 April 2020 of £17.6m. This strategy predicts a fall in the levels of Reserves held from £22.8m to £9.3m 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 emerging Local Plan has proposed large scale growth of around 2,000 houses, employment land and supporting infrastructure to the south and west of North Walsham. The allocation is proposed to deliver a link road to assist with traffic movements in the town and specifically to tackle the issues of low bridges restricting access from certain routes. If the Local Plan is to move forward with the allocation a range of evidence, including transport evidence, is required now to support the process. A bid for £106.8k was submitted to the Norfolk Business Rates Pool last year to seek match funding to support the development of this study which was supported on the basis of a 50% contribution from the pool (£53.4k) and 25% each (£26.7k) from ourselves and the County. However, due to the ongoing NHS business rates case the pool funds have yet to be released. It is therefore recommended the Council fund the pool element of the works in advance of their release but noting that there is a small risk that the pool monies might be delayed pending the outcome of any NHS appeal. The initial release required from the reserve would therefore be the pool element plus the NNDC contribution which would total £80.1k, once the pool element is received this can potentially be used to replenish the reserve.



8.10 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 2020/21, and proposed movements in the following three financial years. The current recommended minimum balance on the general reserve is £1.9 million.

8.11 As part of considering the budget for 2020/21 all reserves have been reviewed along with the current balances. Where balances are no longer required or an allocation can be maintained within the General Reserve for such purposes, balances have been reallocated to the General Reserve or another earmarked reserve as appropriate.

8.12 The report is recommending that the surplus in the year is allocated to the newly established Delivery Plan reserve. The balance on the general reserve as at 1 April 2020 is forecast to be £2.3 million.

8.13 It should be recognised that the use of reserves is not a long term financial strategy but does allow time for planning further efficiencies and consideration of budget options to inform future budget setting processes and to allow for the smoothing of funding reductions.

8.14 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.

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.

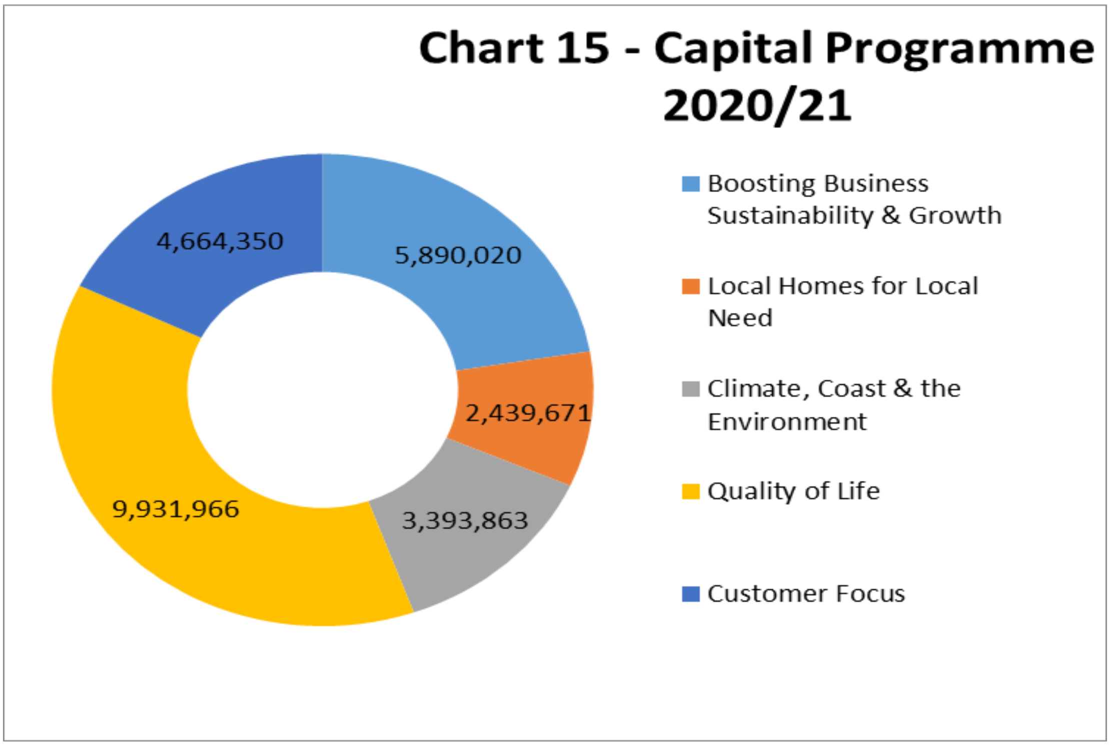
9.2 Any expenditure that is financed through borrowing increases the Council's 'Capital Financing Requirement' (CFR). Each year a revenue charge (one that impacts on the bottom line of the budget) called the Minimum Revenue Provision (MRP) is made to reflect the funding of the CFR by the taxpayer, it 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 The borrowing shown within the financing section of the capital programme is all external borrowing and relates to the Sheringham Leisure Centre replacement and also the waste vehicles for the new contract. At present however none of this borrowing is in place and these decisions will be taken at the time the funding is required based on the best treasury position at the time. The aim will always be to minimise the cost to the tax payer. 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 E1 which shows slippage in schemes to future years and the chart below shows the gross capital spend forecast for next year excluding any of the new capital bid proposals outlined below.

9.6 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.



New Capital Schemes

9.7 In addition to the existing capital programme amendments, approval is also being sought for a number of new capital projects as outlined within appendix E2 totalling £434k. As part of the budget process, bids for new projects were submitted by officers which fell into the following Corporate Plan and service area categories;

- Boosting Business Sustainability and Growth
  Property services

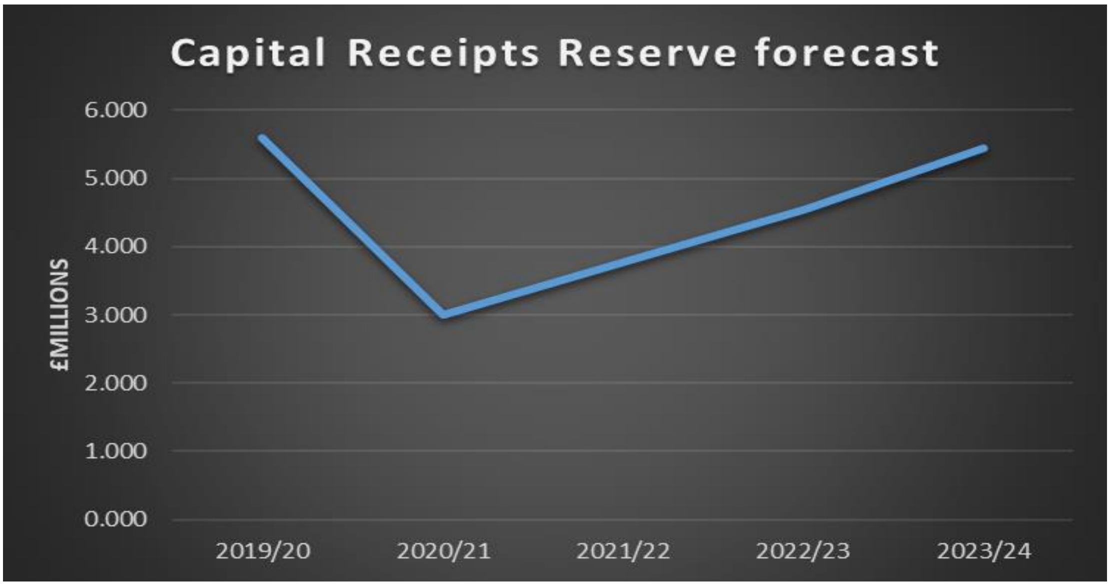
- Climate, Coast and the Environment
  Coast protection

- Customer Focus
  Customer services and IT
  Revenues and benefits

- Financial Sustainability
  Property services

9.8 The summary also includes the projected revenue impact of any potential new capital projects and this totals c£48k, however the majority of this is already taken account of within current revenue budgets so the net increase due to the proposals is minimal.

9.9 The Capital Receipts Reserve position can be seen within the chart below. The forecast closing balance as at 31 March 2020 is £5.6m with capital receipts funding nearly £5.8m of the current capital programme. This is offset by forecast capital receipts of £4.5m projected to be received from Preserved Right to Buy income. The forecast balance as at 31 March 2024 is c£5.4m but this excludes any provision for any new capital bids included within this report.



10 Future Projections 2020/21 to 2023/24

10.1 The previous Local Government Finance Settlement covered a four-year period from 2016/17 through to 2019/20. While agreeing to a four-year settlement did provide some element of certainty around future funding from Revenue Support Grant and other areas, there was always the overriding caveat that the figures were potentially subject to change. This was the case with the changes to the calculation of the New Homes Bonus over the period.

10.2 Due to the ongoing Brexit negotiations a one-year settlement was announced. This does not provide any certainty as regards the future of local government financing and, coupled with the delayed ongoing Fair Funding and business rates reviews, makes future years' projections incredibly difficult.

10.3 The forecast financial projections included at appendix A1 make assumptions around future spending forecasts but have now been updated following receipt of the provisional settlement figures for 2020/21 and attempt to predict future income levels.

10.4 The assumptions around council tax funding reflect 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 increases to council tax will be made annually in line with the budget setting process.

10.5 After allowing for these assumptions the overall position shows a small forecast surplus based on this current draft budget of (£158k) in 2020/21 with future deficits forecast in future years of around £1.8m in 2021/22 increasing to £2.2m by 2023/24.

10.6 Further consultation is expected in respect of the Fair Funding Review, Business Rates Review and the Spending Review early this year. The future year forecasts are based on the best available information at the current time.

10.7 The financial strategy report presented to Members in December 2019 highlighted a number of work streams and projects to be carried out over the period of the strategy that would help to deliver future savings and additional income. These work streams will be continuing and will be used to inform the updated financial strategy and financial projections that will be completed in 2020/21.

10.8 As detailed in section 4, the finance settlement announcement has assumed that local authorities will increase council tax annually by either 2% or the £5 where the local authority is in the lowest quartile. NNDC is currently in the lowest quartile and the funding assumptions made in the settlement assume that there is an annual increase in council tax of £5 for each year of the settlement. As discussed above, the proposals for the 2020/21 financial year are for a £4.95 increase in Council Tax and the future forecasts assume this strategy is continued. However, if council tax were not to be increased next year this would negatively impact on both the current forecast surplus for next year and the future years' deficits and the impact of which can be seen within the table below.

Table 6 – Council tax projections – impact of not increasing Council Tax				
Allocation	**2020/21** **£**	**2021/22** **£**	**2022/23** **£**	**2023/24** **£**
Budget (surplus)/deficit	**(158,015)**	**1,847,262**	**1,912,085**	**2,208,762**
2019/20 - £4.95 increase	201,074	201,074	201,074	201,074
2020/21 - £4.95 increase		202,885	202,885	202,885
2021/22 - £4.95 increase			204,371	204,371
2022/23 - £4.95 increase				205,856
Total income from Council tax foregone	**201,074**	**404,623**	**610,647**	**819,146**
Adjusted (surplus)/deficit	**43,059**	**2,251,885**	**2,522,732**	**3,027,908**

10.9 The table above shows what impact **not increasing council tax** would have on the future year's deficit forecasts as the present assumptions within the MTFS and the budget are that council tax will be increased year on year. It should be noted that while the current referendum principle caps the maximum at £5.00 and proposed increase at this level would actually result in an increase of £4.95 as any increase has to be divisible by 9 due the way the calculations are undertaken and adjusted to represent Band D equivalent properties.

10.10 If these recommended council tax increases are not made over the period, the current forecast deficit of £2.2m for 2023/24 **would increase to £3.0m** and the Council would forgo council tax income of c£0.8m over the period based on the current forecasts.

10.11 In view of the Governments change in approach towards funding for Local Authorities with a greater emphasis on Council Tax rises, and the cumulative impact of grant reductions from RSG and New Homes Bonus, freezing council tax for 2020/21 is not an approach that can be recommended.

10.12 Recent feedback from HMCLG also suggests that, as the central government funding assumption is that Council's will be using their local income raising powers wherever possible, that those choosing not to do so are in effect not taking the future funding deficits seriously. They also indicated that this might indicate a lack of financial resilience in terms of future years.

11 Financial Implications and Risks

11.1 A comprehensive financial risk assessment has been 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.

11.2 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 compared with those presented within this report that would place further pressure on the council to deliver balanced budgets, without impacting on frontline services. Having said that the future position could also improve as central government has recently indicated that 100% business rates retention might possibly be back on the table, having previously indicated this was likely to be set at 75% (having previously come done from 100% initially!!).

11.3 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.

11.4 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.

11.5 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. Unknown impacts of proposed additional reliefs for 2020/21.
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. History of delivery savings.
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 and savings.
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 2020/21 are 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.

12 Conclusions

12.1 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.

12.2 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.

12.3 The updated budget forecasts now differ 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.

12.4 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 next 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.

12.5 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 £1.8m. Forecasting the deficit allows the Council time to plan mitigating actions more effectively, meaning we are more likely to be successful without the need to rely on one-off funding from reserves.

12.6 In conclusion, while the additional income has had an extremely beneficial impact on next year's budget 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.

13 Sustainability

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

14 Equality and Diversity

14.1 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.

14.2 Following the savings exercise undertaken in 2016/17 there have been no further submissions for 2020/21 and therefore no equality issues potentially affecting the proposals at present.

15 Section 17 Crime and Disorder considerations

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