Draft Medium Term Financial Strategy 2023/26 including Base Budget Projections 2022/23

Summary:	To provide Members with the opportunity to discuss assumptions around Medium Term Financial Planning and the impact on NNDC finances.
Options considered:	The Council is required by law to set a budget in advance of the financial year. The report to Full Council will present options for budget setting with respect to Council Tax and other items.
Conclusions:	The Council is required to agree a budget in advance of each financial year. This is done is February of each year at Full Council, after meetings of Cabinet and Overview and Scrutiny. To aid the Committee, an early draft of the Medium Term Financial Plan is presented here for scrutiny and discussion.
Recommendations:	**It is recommended that Cabinet agree and where necessary recommend to Full Council:** **1) The 2021/22 revenue budget as outlined at appendix A1;** **2) The demand on the Collection Fund for 2021/22, subject to any amendments as a result of final precepts still to be received be:** **a. £6,512,488 for District purposes** **b. £2,579,591 (subject to confirmation of the final precepts) for Parish/Town Precepts;** **3) The statement of and movement on the reserves as detailed at appendix D;** **4) That £500,000 be transferred from the Business Rates Reserve to the Delivery Plan Reserve to support the delivery of the Council's corporate objectives;** **5) The updated Capital Programme and financing for 2021/22 to 2023/24 as detailed at appendix C1;** **6) The capital bids contained within Appendix C2, with delegated authority given to the Section 151 Officer in conjunction with the Portfolio Holder for Finance to decide on the most appropriate means of funding;** **7) That Members note the current financial projections for the period to 2024/25;**
Reasons for Recommendations:	To recommend a balanced budget for 2021/22 for approval by Full Council.

LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

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

Budget Monitoring Reports 2021/22 *Outturn Report 2020/21* *Medium Term Financial Strategy 2022-25*

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

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1. Introduction

1.1 A This report presents the detail of the 2022/23 revenue budget and the indicative projections for the following three financial years, 2023/24 to 2025/26.

1.2 An updated Capital Programme has also been included covering the periods 2022 to 2025/26 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 2022/23 budget review report was provided to the Overview and Scrutiny Committee for pre-scrutiny at their meeting of 12 January.

1.4 The budget now presented reflects the Local Government Finance Settlement (LGFS) announced in December 2021, 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.

1.6 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

1.1 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?'

1.2 The Medium Term Financial Strategy will be presented for final approval as part of the February Committee cycle and is provided here in draft format to allow discussion by the Overview and Scrutiny Committee.

2. 'Where we want to be' - The Council's 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 (which can be found here). The Corporate Plan provides 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 is 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 supports the objectives contained within the Corporate Plan, was approved by Full Council during 2020. This details how we will judge our performance; it will also be the means by which the Council agrees its improvement objectives. It includes 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. The Council will look to generate income from the Electric Vehicle Charging Points which have been installed in Council owned car parks across much of the District. Solar panels are also generating an income on the Council's main office block in Cromer. In addition to reducing the Council's running costs, these panels are projected to provide £10,000 per annum of income to support the Council's budget.

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 The Council is currently supporting its Climate Change agenda and motion on Climate Emergency by earmarking £330,000 from the Delivery Plan Reserve to facilitate the planting of 110,000 trees in the District. Two climate change officers are now in post and working on the draft Environment Charter and Action Plan. A further £150,000 is available within an earmarked reserve to support initiatives under this plan. Activities are likely to be related to:

- Monitoring and managing the Council's carbon footprint
- Alternative Energy Projects
- Biodiversity improvements
- Electric Vehicle Charging
- Waste reduction
- Raising awareness and creating behaviour changes through community engagement

2.10 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.

2.11 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

2.12 The Delivery Plan includes 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

2.13 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

2.14 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

2.15 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

2.16 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. 'Where we are now' – Current financial projections and analysis

Provisional Local Government Finance Settlement

3.1 The Provisional Local Government Finance Settlement was announced on Thursday, 16th December. It was a single year settlement that was largely a rollover of the 21/22 settlement, with a few increases in resources. This is the fourth consecutive one-year settlement, and the third "roll-over" type settlement in a row. While this does its best to ensure financial sustainability in the short term for the largest number of Councils possible, it has not given us the stability needed for strong medium term financial planning.

3.2 The forecast financial projections included at Appendix A make assumptions around future spending forecasts but have now been updated following receipt of the provisional settlement figures for 2022/23 and attempt to predict future income levels.

3.3 A summary of grant income streams from Central Government, alongside recent projections made by the Finance team in November 2021 can be found in the table below. The majority of the variance relates to an additional allocation of New Homes Bonus for Year 11 of the scheme, which had not been expected. The entry for "NHB funding returned to sector" represents an assumption that any funding Councils would lose due to the quantum of New Homes Bonus funding reducing, would be somehow redistributed within the Local Government sector. The Finance team assumed this would be done on the previous assessment of Councils needs and resources. The Lower Tier Services Grant was billed as a one-off grant as part of the 2021-22 settlement which has been rolled forward. The Services Grant is a completely new allocation. These figures are all provisional until the Final Local Government Finance Settlement is announced in early February.

Table 1	Nov 2021 Projection (£)	Provisional Settlement Figure (£)	Variance (£)
Revenue Support Grant	(92,101)	(93,540)	(1,439)
New Homes Bonus	(486,536)	(886,575)	(400,039)
Rural Services Delivery Grant	(507,661)	(507,661)	0
Lower Tier Services Grant	0	(144,975)	(144,975)
NHB Funding Returned to sector	(334,899)	0	334,899
Services Grant	0	(222,339)	(222,339)
Total	(1,421,197)	(1,855,090)	(433,893)

3.4 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 parish councils.

3.5 The charge on a Band D property which is retained by NNDC is currently £153.72 based on a tax base of 40,959 in 2021/22. 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.

3.6 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.

3.7 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 2022/23 is not an approach that can be recommended.

3.8 In the 2021/22 financial year, the shares of each pound of the Council Tax collected were as follows:

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

Zero Based Budgeting

3.9 As part of the Corporate Plan, the Council committed to undertaking a trial of Zero Based Budgeting as a new method for setting its budget during the current administration. The draft budget has been prepared following an extensive Zero Based Budgeting exercise.

3.10 All service managers prepared Gold and Silver budget options for their service area, realigning their financial plans to the delivery of the Council's Corporate Plan. Cabinet made provisional allocations of Gold or Silver for each service area in November 2021, and these have been used to prepare the draft budget.

Revenue Account Base Budget 2022/23

3.11 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 budget forecast is balanced as shown in Table 1 below.

Table 1 – Current forecast 2022/23	
	£000
Total District amount to be met from Government Grant & Local Taxation	15,577
Less:	
Revenue Support Grant	(94)
Business Rates Retained & S31 Grant	(7,210)
New Homes Bonus	(887)
Rural Services Delivery Grant	(508)
Lower Tier Services Grant	(144)
Services Grant	(222)
District call on Collection Fund – excluding Parish Precepts	(6,512)
Surplus	**0**

3.12 Further detail on the individual service budgets is included at appendix B which shows the movement of the 2022/23 budget compared to the base budget for 2021/22 as set in February 2021 and amended following the Senior Management restructure, 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.

3.13 The General Fund Summary presented at appendix A1 shows a balanced budget and is summarised in the table below with the equivalent figures for 2021/22.

Table 2 – Variance of 2021/22 to 2022/23 Base Budget			
	2021/22 Base Budget	**2022/23 Base Budget**	**Variance**
	£000	**£000**	**£000**
Net cost of services (incl. Parishes)	20,337,502	24,194,169	3,856,667
Non service expenditure/ income	(2,671,136)	(6,037,000)	(3,365,864)
Net budget requirement	17,666,366	18,157,169	490,803
Funded by:			
Local Taxpayers - Parishes	(2,573,788)	(2,579,591)	(5,803)
Local Taxpayers - District Council	(6,253,465)	(6,512,488)	(259,023)
Retained Business Rates	(7,381,242)	(7,210,000)	171,242
Revenue Support Grant	(90,295)	(93,540)	(3,245)
Rural Services Delivery Grant	(507,661)	(507,661)	0
New Homes Bonus	(722,562)	(886,575)	(164,013)
Lower Tier Services Grant	(137,353)	(144,975)	(7,622)
Returned NHB & LTSG	0	(222,339)	(222,339)
Total Income	(17,666,366)	(18,157,169)	(490,803)
(Surplus)/ Deficit	0	0	0

3.14 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 2021/22 to 2022/23 Base Budgets (excl. notional charges)				
	2021/22 Base Budget	**2022/23 Base Budget**	**Variance**	**Percentage Movement**
	£000	**£000**	**£000**	**%**
Employees/Support Services	13,407,394	14,749,956	1,342,562	10.01
Premises	2,775,790	2,972,418	196,628	7.08
Transport	298,390	312,368	13,978	4.68
Supplies & Services	9,900,332	11,903,359	2,003,027	20.23
Transfer Payments	21,460,774	19,847,613	(1,613,161)	(7.52)
Income (External)	(32,758,228)	(32,039,760)	718,468	(2.19)
Total Direct Costs and Income	**15,084,452**	**17,745,954**	**2,661,502**	**17.64**
Notional Charges:				
Capital Charges	1,964,269	2,456,953	492,684	25.08
Reffcus [2]	977,167	1,677,167	700,000	71.64
IAS19 Notional Charges [2]	(262,174)	(265,496)	(3,322)	1.27
Total Notional Charges	**2,679,262**	**3,868,624**	**1,189,362**	**44.39**
Total Net Costs	**17,763,714**	**21,614,578**	**3,850,864**	**21.68**

3.15 A breakdown an analysis of the variance between years can be found at Appendix A1.

Reserves

3.16 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 2022/23, and proposed movements in the following three financial years. The current recommended minimum balance on the general reserve is £1.9 million.

3.17 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

3.18 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.

3.19 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.

3.20 *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.

3.21 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.

3.22 A comprehensive statement about the adequacy of the reserves and recommended balance will be included within the Chief Financial Officer's report, which forms part of the annual Council Tax and Budget report to Full Council in February.

Capital

3.23 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.

3.24 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.

3.25 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.

3.26 An updated capital programme can be found at appendix C1 which shows slippage in schemes to future years.

3.27 In addition to the existing capital programme amendments, approval is also being sought for a number of new capital projects as outlined within appendix C2, for which bids were submitted as part of the Zero Based Budgeting exercise.

Scenario Analysis

3.28 As part of drawing up the draft budget for 2022/23 and future year's projections, a number of assumptions have had to be made about the scale and timing of the impacts of a number of factors. These assumptions are based on information currently available from the Government, plus the latest indications following various consultations. The assumptions have been sense checked with other local authorities and follow guidance from our funding advisors.

3.29 Readers should note that these projections and assumptions are made at a point in time, and will invariably change in response to Government announcements. The sensitivity analysis of the forecasting scenarios, as well as confirmation of the central case, can be found at Appendix F.

Financial Resilience Assessment

3.30 In December 2021, the Council's Corporate Leadership Team undertook a Financial Resilience Assessment supported by the Finance Team. A key action point on the Council's implementation plan for the CIPFA Financial Management Code was to undertake such an assessment for the 2022/23 year and annually thereafter. The Finance team worked with CIPFA and a team of academics specialising in Local Government financial resilience to trial a new Financial Resilience Toolkit which has been developed following extensive academic research across multiple countries [1,2]

3.31 This toolkit is in draft, but will be made publically available to Local Authorities in a beta version in the next few months following feedback from Councils who are trialling its use in a number of areas. With that in mind, we have not published the detail of the toolkit here, but have presented the findings under the relevant headings in Appendix E.

3.32 The Council's Management Team and Operational Management Team will now be tasked with preparing and delivering an action plan following the assessment undertaken by the Leadership Team.

4. 'How we get there' – Bridging the Budget gap

Financial Sustainability Strategy

4.1 The Local Government Association (LGA) are encouraging Councils to move towards a more efficient culture as a way of developing sustainable self-funding streams that reflect Council's individual priorities and place shaping aspirations and delivery of value for money (VFM) services for local residents. Consequently, the Council needs to think about how it can maximise revenue, efficiencies and VFM moving forwards – a Financial Sustainability Strategy 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 Corporate Plan and our post Covid world in terms of 'building back better'.

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[1] Barbera et al (2016), "Governmental financial resilience under austerity in Austria, England and Italy: How do local governments cope with financial shocks?", Public Administration, DOI: 10.1111/padm.12350

[2] Barbera et al (2018), Local government financial resilience: Germany, Italy and UK compared, CIMA executive report www.cimaglobal.com/FinancialResilienceToolkit

4.2 In terms of an approach there is no one size fits all, but developing a Financial Sustainability Strategy will help direct already stretched resources in a targeted way, focussing resources on our key priorities and generating income and efficiencies whilst at the same time investing in our local communities to generate social value, minimise environmental impact and ensure delivery of VFM services.

4.3 The Council should aim to stimulate innovation, grow existing services, develop new business and develop an efficient, sustainable approach which generates a greater financial and social return that assists the Council's financial resilience and sustainability. This will enable the Council to safeguard and deliver the services that people need, and more effectively deliver its corporate aims and objectives whilst demonstrating delivery of VFM.

4.4 A Financial Sustainability Strategy means that the Council can adapt to the changing financial climate by looking for efficiencies and generating income, putting customers at the centre of our service delivery and making every pound count.

4.5 The success of the Financial Sustainability Strategy will be highly dependent upon the way in which it is implemented, and will require NNDC to put initiatives in place which are focussed and realisable. A strategic focus will encourage the organisation to develop disciplined processes for feeding strategic initiatives across the organisation in a meaningful, realistic and achievable way and this process would feed in well to the newly established Corporate Delivery Unit (CDU).

4.6 There are now significant challenges around delivery based purely on taking a more commercial approach and this is mentioned in more detail below and as such requires a change to the focus and objectives of any Sustainability Strategy moving forward.

4.7 The Financial Sustainability Strategy is currently in draft and will come through the Committee cycle later this year.

4.8 A programme of asset valuations and condition surveys are currently underway which will help us better understand the costs of maintaining and improving our asset base over the medium to long term to ensure that it remains fit for purpose. Assets will be used to deliver a service benefit and deliver income for the Council where appropriate.

4.9 Further direct investment in property will be considered where there are additional benefits over and above income generation, such as regeneration and supporting the local economy or housing initiatives in line with guidance from MHCLG.

4.10 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 CCLA Local Authorities 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.

4.11 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.

Growing the Rates and Tax bases

4.12 Under the current 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 scheme. The Government seems committed to an incentive based scheme to promote house building, so it is possible that this will continue to be an important income stream for the Council, however, the benefit of the continuation of the scheme to North Norfolk will depend ultimately on how the scheme is developed. Any growth in the Council Tax base will also increase the amount of income that the Council can collect through the District call on the Collection Fund.

4.13 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.

4.14 Under the current Business Rates Retention Scheme, Shire District Councils keep a generous share of the above baseline growth. Retaining this under a new scheme will be an important request to make of Central Government.

4.15 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, most recent recommendations on the level of council tax discounts were reported in December 2021.

Implementing CIPFA's Financial Management Code

4.16 The CIPFA Financial Management Code presented Councils will new principles and standards with respect to Financial Management, based on their view of what good Financial Management looks like in Local Government and in response to a spate of Section 114 notices across the sector.

4.17 The Council has developed an action plan to achieve compliance with the Code, which is currently being implemented. One large project which featured on this action plan was to undertake Zero Based Budgeting, which is mentioned in section 3 of this report.

4.18 Implementation of the Code's guidance will improve financial management at the Council and contribute positively to its financial sustainability in the medium to long term by helping officers to more effectively horizon scan, identify risks and plan accordingly.

Lobbying and Consultation

4.19 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.

4.20 The Council has changed the way it runs the statutory ratepayer consultation on the draft Budget for 2022/23 in order to make it more interactive and easier for members of the public to participate in. This will allow the Council to achieve better Value for Money by aligning its budgets to Corporate Priorities which are reflective of the needs of the District.

Barriers to a commercial approach

4.21 The Department for Levelling Up, Housing and Communities (along with its predecessor) has raised concerns about Councils becoming directly invested in property for income generation purposes with taxpayers' money. It is his view that Councils do not have the expertise and resources to do this effectively, and are as such taking too great a risk with public funds. Government guidance states that Councils should not borrow in advance of need to spend on service provision, and that taking on debt to fund property purchases, unless it is primarily for a service related objective, is not allowed. The Public Works Loan Board's lending terms now specifically excludes Councils that have 'debt for yield' projects in their Capital Programme from borrowing for any purpose. This significantly restricts the commercial activity of Councils and removes a key potential income stream.

5. Conclusions

5.1 At the present time the forecast draft budget position for 2022-23 is balanced, subject to the assumptions listed within the report. There are challenges ahead as a budget gap remains in the future years. The Council will attempt to address this by taking the measures outlined within this report.

6. Medium Term Financial Strategy and Corporate Plan Objectives

The implications for the Medium Term Financial Strategy are set out in the report. With funding levels continuing as projected, we are expected to be dealing with deficits in the years going forward. These projections are regularly reviewed in light of Government announcements and consultations. The resources identified as available within the MTFS will directly affect the

Council's ability to deliver the Corporate Plan. This year the budget setting process has realigned service budgets to the Corporate Plan priorities in order to support this.

This report supports the Financial Sustainability work stream of the Corporate Plan. For a Council to be financially stable, it must be able to produce a balanced budget for each financial year and provide Medium term forecasts to aid future planning.

7. Financial Implications and Risks

7.1 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 2021/22 are included within the table below.

7.2 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. 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.

7.3 Beyond this, Government policy announcements can have large impacts on our finances. We will continue to monitor announcements from Government departments and work with service managers to assess any potential impact on the Council's services and budget.

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. The Council is currently working to deliver CIPFA's new Financial Management Code (as referenced elsewhere within this report) and build on its already positive culture of good financial management.

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 2022/23 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. Unknown impacts of proposed additional reliefs for 2022/23 if COVID 19 restrictions are in place during the year.
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 delivering 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 could impact. Regular monitoring and reporting takes place.
8. Budget monitoring not effective	Unlikely	Medium	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas. Regular

			reports to Cabinet and to O&S. Track record of delivering budget and savings.
9. Exit strategies for external funding 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. It is the Council's policy to hold more volatile investments over a medium term time frame rather than using them for liquidity purposes, further reducing the risk that they will need to be sold at a price which represents a loss of principle.
11. Interest rates lower than expected	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2022/23 are incorporated into the budget. Interest rates are currently at historic lows; the likelihood of further reductions (or reductions into negative territory) remains low.
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 the COVID 19 pandemic	Likely	Medium /High	Continue to work collaboratively with central government departments to monitor and forecast additional expenditure and reduced income caused by restrictions introduced to curb the transmission of COVID 19. It is not possible to predict exactly what restrictions (if any) will be in place during the 2022/23 financial year.
14.Devolution/Unitary status –	Possible	Medium	Local Government reorganisation has been put on hold. Officers and Members will keep a watching brief in respect of this but again at present no

			budgetary impact is being assumed.
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.

8. Sustainability

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

9. Equality and Diversity

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

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

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

10. Section 17 Crime and Disorder considerations

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