



North Devon Council

Report Date: 7 February 2022

Topic: Revenue Budget 2022-23, Capital Programme and Medium Term Financial Strategy 2022-23 to 2027-28

Report by: Director of Resources and Deputy Chief Executive

1. INTRODUCTION

- 1.1. This report notes the latest forecast position in the Performance and Financial Management Quarter 3 of 2021-22 reported separately on the agenda and the draft Budget for 2022-23. These figures will be the basis of the recommendation to Council on 23 February 2022 when the Council Tax levels for 2022-23 will be approved.
- 1.2. The Council has a legal duty to prepare a balanced budget and in order to achieve this position a number of pressures have been identified and assumptions made throughout the preparation process. Members are minded to consider whether to implement or amend these whilst taking into account the implications on the Council's overall financial position and the level of Council Tax for 2022-23 year.
- 1.3. The Council's Corporate Plan was approved by Full Council in September 2019. In taking decisions on the budget and Council Tax, Members will be mindful of the four key corporate objectives set out in the Plan, these being:
 - We achieve financial security
 - We become focussed on delivering the best for our customers
 - Our environment is cherished and protected
 - We plan for North Devon's future
- 1.4. A continuing theme running through the Corporate Plan is the need to achieve savings and/or generate additional income within the Council's budgets. Sitting alongside and supporting the Corporate Plan is the Council's Medium Term Financial Strategy (MTFS) which has been updated and is shown later in this report.
- 1.5. It is however pleasing to report that the Council has a good track record of delivering efficiencies and savings and is in good financial shape to meet this challenge.

2. RECOMMENDATIONS

2.1. That Members:

- 2.1.1. Note the latest forecast for Budget 2021-22 and the proposed contributions to earmarked reserves.
- 2.1.2. Note the Chief Financial Officer's assurance on the adequacy of the reserves and the robustness of the budget in paragraph 4.1.4.6
- 2.1.3. Note the Chief Financial Officer's highlighted areas of risk identified within the budget process set out in paragraph 4.1.4.7 and section 4.3
- 2.1.4. Note the latest Medium Term Financial forecast for 2022-2028 as shown in section 4.1.5
- 2.1.5. Subject to approval of 2.2.4 below, that funds are released for the capital schemes listed in section 4.2.2

2.2. Recommend to Full Council:

- 2.2.1. That there be an increase of £5.00 in the level of Council Tax charged by North Devon Council for 2022-23 (in accordance with the revised referendum limit ability of £5.00 per Band D property) with a Band D Council Tax level of £198.35.
- 2.2.2. The actions identified in sections 4.1.2 to 4.1.4, which are required to ensure a balanced budget is achieved and therefore recommend to Council the approval of 2022-23 General Revenue Account Budget.
- 2.2.3. To adopt the Medium Term Financial Strategy 2022-2028 in section 4.1.5 as part of the Policy Framework.
- 2.2.4. The Capital Programme 2021-22 to 2024-25 as highlighted in section 4.2 be approved.
- 2.2.5. That there be an increase in the charges on the coastal car parks of Croyde, Morteohoe, Cove, Pier, Larkstone and Marine Drive in the summer months (March to October) as detailed in sections 4.1.2.5 to 4.1.2.8

3. REASONS FOR RECOMMENDATIONS

- 3.1. The 2021-22 latest forecast is reported to ensure the Council maintain budgetary control for the rest of the financial year.
- 3.2. To ensure Members have assurance on the financial standing of the Council and risks associated with the budgetary framework.
- 3.3. Decisions on the level of Council Tax need to be taken by Strategy and Resources as part of recommending next year's budgetary framework for adoption by Council.
- 3.4. To ensure the Council has a savings plan in place to deliver the long-term financial strategy of the Council.

- 3.5. To ensure Members control the performance improvement activities of the Council.
- 3.6. To ensure that future capital investment is available and targeted to the Council's priorities.

4. REPORT

4.1. Revenue Budget

4.1.1. Quarter 3 Forecast 2021-22

- 4.1.1.1. The Performance and Financial Management Quarter 3 of 2021-22 is also reported on the agenda. The current position is that the Council has a forecast net budget surplus of (£0.089m) against its budget.
- 4.1.1.2. The original budget for 2021-22 included a forecast to achieve £0.225m worth of salary vacancy savings. The current position forecasts this will be exceeded this year and vacancy savings of £0.264m will be achieved.
- 4.1.1.3. There is still pressure on the 2021-22 budget due to the Covid-19 pandemic and the Council's income streams have been affected. Also additional costs have been incurred by the council in provision of temporary accommodation, additional agency staff for waste and recycling and in supporting the local community. When setting the 2021-22 budget we did anticipate additional costs and some reduced income and allowed a budget to mitigate these.
- 4.1.1.4. At the end of 2020-21 we also placed £375,000 into a Covid budget management reserve to help mitigate any further adverse variances due to the pandemic in 2021-22, this future protection is still available if required.
- 4.1.1.5. The projected net budget surplus of (£0.089m) above includes a projection for the rest of the 2021-22 year based upon the current environment and the continuing Covid-19 impact on our income sources and additional expenditure being incurred. We will continue to be monitoring these figures over the next couple of months to keep a close eye on any potential variances that need to be highlighted.
- 4.1.1.6. At the 31st December 2021 total external borrowing was £0.500m. The timing of any future borrowing is dependent on how the authority manages its treasury activity and due to current low interest rates and reduced returns on investments it is prudent for the Council to 'internally borrow' and use these monies to fund the Capital Programme.

- 4.1.1.7. The recommended level of general fund balance is 5%-10% of the council's net revenue budget (£0.682m to £1.364m). The forecast general fund reserve at 31 March 2022 is £1.211m, which is a level of 8.9%.

4.1.2. Budget 2022-23

- 4.1.2.1. Preparation of the 2022-23 budget began in the autumn of 2021 in order to consider the cost of known budgetary pressures and provide opportunity to consider the impact of proposed reductions.
- 4.1.2.2. The Government's Spending Review (SR2021) took place in October 2021, which announced future year government spending plans. The provisional local government finance settlement announced in December 2021 confirmed there were no new allocations of funding to councils planned for the impact of COVID and no extension of the sales fees and charges compensation scheme past the initial first 3 months of the 2021-22 financial year.
- 4.1.2.3. The current inflationary pressures on services and providers are the highest they have been for several years. In addition to the employers' National insurance increase of 1.25% from April 2022 there has been high utilities and fuel inflation, higher levels of CPI inflation (5.1% in November 2021) and increases in the Living Wage. This is an area of concern and adds pressure to the 2022-23 budget and beyond within the Medium Term Financial Strategy.
- 4.1.2.4. Core income from areas such as car parks continue to be detrimentally impacted during 2021-22 as a result of the Covid-19 pandemic. Whilst some government funding has been provided through the 75% income loss reimbursement scheme to mitigate this impact in 2020-21 and the first 3 months of 2021-22 it still remains difficult to predict when stability and, or any significant improvement will return to the economy and it therefore **continues to be a source of major risk** to the Council's Budget 2022-23.
- 4.1.2.5. One of the challenges we faced and continue to face within our coastal areas is the growth in number of visitors to the area and this has added significant demand in the summer months on not only NDC car parks but also surrounding roads. We saw a large rise in the number of people deciding to park on pavements, causing traffic congestion and added pollution in our coastal areas; this problem will continue unless we find a solution and can work closely with our Devon County Council colleagues.
- 4.1.2.6. Officers at NDC are in discussions with DCC around options and potential additional enforcement within the coastal areas to mitigate the above challenges; however understandably resources are

stretched within both organisations. In discussions with the Leader, one option being put forwards as part of the budget is to increase the summer month charge within these car parks (currently £1.10 per hour) and increase the hourly charge to £1.50 per hour for these months of March to October. The town centre car parks would remain unchanged in terms of charging levels for 2022-23.

- 4.1.2.7. We would then work with colleagues in DCC to see how the additional income can be used, in the coming season and/or future years, to support additional enforcement or other measures to alleviate some of the parking issues experienced.
- 4.1.2.8. For comparison purposes, our neighbouring authority Torridge District Council increased their car parking charges within the coastal areas of Appledore and Westward Ho! as part of their budget proposals last year to £1.20 per hour (2021-22) up to £1.40 per hour (2022-23) and to £1.60 per hour (2023-24) and South Hams District Council (Dartmouth) currently charge £1.50 per hour for their car park.
- 4.1.2.9. At the end of last financial year we placed £375,000 into a Covid budget management reserve to help mitigate any further adverse variances due to the pandemic and the Council does have both general fund and other earmarked reserve balances which it could call upon in 2022-23 to mitigate any shorter term economic impact being experienced but clearly this would have much longer term solvency implications for the authority.
- 4.1.2.10. However, continued pressure and uncertainty on our funding sources remains as the Government's Fair Funding Review and Business Rates Retention changes, originally planned for 2022-23 year was again delayed by a further year until April 2023.
- 4.1.2.11. The Council made the decision during 2016-17 to accept the Government's offer of a 4-year financial settlement through to the 2019-20 year. By accepting the 4-year settlement helped the Council to plan ahead with greater certainty and to provide a financial platform to delivery upon our corporate plan. However, due to the funding review changes above now being delayed, the financial settlement for 2022-23 year is again only a one-year funding announcement which leaves local authorities with much greater uncertainty in being able to plan further ahead.
- 4.1.2.12. The refreshed 4-year Medium Term Financial Strategy was approved this time last year (February 2021) and the forecast cumulative budget gap / (surplus) was shown as follows;

Years	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Budget gap / (surplus)	0	2.270	2.785	2.890

A further refresh, in light of the financial impact being experienced due to the pandemic was carried out in October 2021 and amended the forecast position to be;

Years	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Budget gap / (surplus)	0	0.554	2.215	2.352

- 4.1.2.13. The forecast for 2022-23 (in October 2021) was a projected budget gap of £0.554million.
- 4.1.2.14. Following a more detailed annual budget setting exercise there have been a number of movements to this forecast however we are pleased to be in a position to put forward a balanced budget for 2022-23 financial year.
- 4.1.2.15. Members approved in June 2021 to proceed with the acquisition of Green Lanes Shopping Centre; which the Council completed the purchase in November 2021. The purchase of Green Lanes Shopping Centre was a once in a lifetime opportunity to acquire this strategic asset and complement other significant regeneration improvements being delivered within the Barnstaple town centre through the Future High Streets project.
- 4.1.2.16. The financial modelling demonstrated that revenue income generated from the centre would cover both the repayment of the loan and asset management costs and would return a contribution to the Council which could be used towards mitigating future risks on income volatility, investment back into the centre and the overarching council budget.
- 4.1.2.17. The draft budget for 2022-23 includes the following revenue implications from the Green Lanes Shopping Centre;
- Net rental income (953,530)
 - PWLB borrowing costs 460,000
 - Asset management 150,000
 - Net Return to NDC (343,530)**
- 4.1.2.18. The net return to the Council of £343,530; of this it is proposed to place £100,000 towards building capacity and resources back into the Council to deliver upon future programmes which is set out in

further detail below. It is proposed to place £75,000 into an earmarked reserve to protect the council budget and mitigate against any future income volatility that could materialise as we move forwards with the centre and a further £100,000 into an earmarked reserve to fund future regeneration projects within the wider North Devon district.

4.1.2.19. In addition to the above, the Capital programme includes over £1million for capital enhancement planned works at the Shopping Centre whom we are working closely with the management team to bring forwards these projects in the near future.

4.1.2.20. The new Heads of Service have been working on programmes that they want to bring forwards that are seen to be delivering upon the objectives set out in the corporate plan. These programmes which all underpin one of the core objectives of achieving Financial Security are;

- Organisational Development
- Cherish & Protect Our Environment
- Housing & Community Safety
- Regeneration & Economic Growth
- Customer Focussed / Digital by Design

4.1.2.21. The detailed programmes were presented to members at a workshop in December 2021 together with the additional resources highlighted by Heads of Service that the teams would need in order to create the capacity to deliver upon the ambitious programmes set out. Without the additional resource coming into those teams would mean that delivery upon the programmes would be greatly reduced and ultimately add additional pressure on current officers and teams already at full capacity and would impact upon the delivery of current service levels.

4.1.2.22. The draft budget 2022-23 includes an amount of £462,840 for additional capacity for programme delivery. Members were shown how this would be funded within the budget which was partly funded from net savings from the recent restructure of Senior Management Team; existing vacancy savings within the authority and utilising £100,000 of additional revenue income achieved within the Council budget.

4.1.2.23. In addition; a number of these programmes if delivered would also bring forwards further revenue streams in the future that not only drives the objective of becoming financially sustainable but also

enables re-investment of funds into further projects and programmes ongoing.

- 4.1.2.24. Members at the workshop fed back a very positive message on the programmes set out and that they were endorsed and fully supported for officers to include within the budget to take forwards over the medium and long-term.
- 4.1.2.25. The Council's net budget for 2022-23 is £13.722m; a table outlining the summary Budget 2022-23 is attached as **Appendix A**.
- 4.1.2.26. Details showing the recommended level of strategic grants for 2022-23 are in **Appendix B**; which proposes no reduction to the current level of grants supporting these organisations and maintains funding at the level they have been receiving since 2017-18 year.

4.1.3. Budget 2022-23 Funding

- 4.1.3.1. There are three main sources for the Council to fund its net budget of £13.722m; direct Government Grants, Business Rates and income collected from Council Tax payers.
- 4.1.3.2. The level of funding the Council receives for its share of the Council Tax bill equates to £6.841m.
- 4.1.3.3. The main grant received from Central Government is paid via the Local Government Finance Settlement.
- 4.1.3.4. North Devon has been provisionally allocated £3.334m, which is in line with the amount awarded for 2021-22. The final settlement is due to be approved by Parliament in February 2022.
- 4.1.3.5. The balance of funding of £3.547m used to fund the Budget 2022-23 is as follows:

- New Homes Bonus of £1.451m, which is made up as follows:

	<u>Increase</u>	<u>Cumulative total</u>
Year 1 (2019-20)	£434,860	
Year 2 (2022-23)	£1,016,220	£1,451,080

- The government reviewed New Homes Bonus as part of the 2017-18 finance settlement and made changes to reduce the legacy payments of the original scheme of 6 years down to 4 years from 2018-19. In addition to this, the scheme also would now only be rewarding growth over a national baseline of 0.40%.

- The 2020-21 finance settlement announced that the 2020-21 in-year allocation of New Homes Bonus funding £723,191 would only be for one-year only and there would be no legacy payments on this allocation being received for the following three years. For 2021-22 year a similar arrangement for a one-year allocation of £539,898 was announced and for 2022-23 a further one-year allocation of £1,016,220 has been announced.
- The Government has consulted on the future of the New Homes Bonus scheme in early 2021 and this was due to be announced as part of the original planned government funding changes for 2022-23; now delayed until at least the 2023-24 financial year. We await to see the outcome from this review and what impact this has on the funding level for North Devon.
- Business Rates Retention growth of £1.756m. Includes retained growth, renewable energy business rates and distribution from the Devon Business Rates Pool.
- Lower Tier Services Grant of £0.134m. Originally an additional one-off grant provided for 2021-22 year but this has been retained in government funding for 2022-23.
- Services Grant of £0.206m. A new grant provided for 2022-23 in recognition of the vital services local government provides and includes funding for additional costs such as the increase in employer National Insurance contributions.

4.1.4. Reserves

- 4.1.4.1. The Council started 2021-22 with earmarked reserves of £16.350m and a General Fund Balance of £1.211m.
- 4.1.4.2. One of the earmarked reserves is the Collection Fund reserve, which had an opening balance of £9.810m. This earmarked reserve was created to deal with the timing impacts of the Collection Fund (Business Rates), which ensures the revenue budget is not unduly affected in the year the taxes are collected. Collection Fund deficits/surpluses are reversed out to bring the revenue account back to the budgeted figure for the year; the deficits/surpluses are recovered/distributed in the following financial years. This reserve included an £8.660m balance that will be utilised in 2021-22 year and 2022-23 to mitigate timing differences of business rate reliefs awarded in 2020-21 that from an accounting perspective impact over

these two financial years; thus leaving the fund reserve with a residue balance of £1.150m protection against future volatility.

4.1.4.3. The Performance and Financial Management Quarter 3 report of 2021-22, also on the agenda, provides an updated forecast position for reserves. It is currently forecast that the amount held in earmarked reserves will reduce to £6.499m and the General Fund Balance to remain at £1.211m as at 31 March 2022.

4.1.4.4. The Budget 2022-23 includes contributions to and (from) specific earmarked reserves. Appendix A summarises these reserve movements.

4.1.4.5. **Appendix C** details the forecast reserve balances for the period to 31 March 2023 and it is currently forecast that the amount held in earmarked reserves will be £5.851m and the General Fund Balance of £1.211m as at 31 March 2023.

4.1.4.6. In compliance with the Local Government Act 2003 the Chief Financial Officer assures Members of:

- The robustness of the estimates; and
- The adequacy of the proposed financial reserves

4.1.4.7. The Chief Financial Officer would also like to draw Members' attention to the risks associated with Revenue and Capital budgets identified in section 4.3 below.

4.1.5. Medium Term Financial Strategy 2022-2028

4.1.5.1. Whilst preparing the Budget 2022-23 each Head of Service was tasked with preparing service plans covering 2022-23 and beyond. These plans have been through Policy Development Committee in January 2022 and if applicable the revenue implications have been factored into the budget.

4.1.5.2. The Medium Term Financial Strategy (MTFS) was last considered by Strategy and Resources at its meeting on 1 February 2021. Council approved the MTFS 2021-22 to 2024-25 at its meeting on 24 February 2021.

4.1.5.3. The MTFS underpins and provides the financial cornerstone of the Corporate Plan, which will shape the Council's activities. It is good practice that the MTFS is refreshed on an annual basis to ensure that the Council's forward looking financial position is considered particularly in the current economic climate.

4.1.5.4. The MTFS model represents a view as of today based on numerous financial assumptions about the future, which are

described in detail together with the risks associated with their volatility.

4.1.5.5. The refresh of the MTFS has involved reviewing all previous assumptions in light of new and more current information. These changes reflect actual experience and additional information or remove unsafe assumptions. The main assumptions in the forecast are as follows:

- **Pay settlement.** The Government previously indicated continued strict controls needed to minimise public sector pay and pay increases were historically targeted at around 1%. The 2020 pay offer announced relaxed this target and for 2020-21 the impact equated to an additional £0.400m cost. The 2021-22 pay award for staff (current employer offer is 1.75%) has not yet been agreed which provides uncertainty for the current year and 2022-23. The MTFS has factored in a 2% increase for 2022-23 onwards and the risk however is that a higher increase is agreed which would add further cost to what has been predicted.
- **No further borrowing to fund capital expenditure in addition to already approved projects.** The Budget 2022-23 and Treasury Management strategy includes borrowing costs of up to £1.077m in 2022-23 to cover current capital programme commitments. The future model assumes borrowing increasing by 2027-28 to cover approved capital projects in the programme. It assumes no further borrowing is undertaken than currently committed to above. If borrowing beyond this is considered a business case will be made outlining all the possible funding options.
- **Additional legislative requirement will be funded by additional grant.** Under the new burdens doctrine the Department for Levelling Up, Housing and Communities (DLUHC) provides additional grant funding, either as a specific grant or included in formula grant. It is also assumed that the grant will be sufficient to fund the additional costs.
- **The move to Universal Credit has a nil effect.** The move from rent allowances to universal credit will see reductions in expenditure and grant income. It is assumed that we will make sufficient savings to match the grant reduction. It is also assumed that there will be no significant impact on homelessness and prevention.
- **No impact from future changes to pensions.** The impact from the 2020-21 triennial review of the pension scheme has already been factored into the base budget which sets out the authority's employer contributions for

the periods to 2022-23. The next triennial review of the pension scheme takes place in the autumn of 2022; the model has prudently assumed an increased cost for 2023-24 and a further one in 2026-27. However, if the actual results are in line with the assumptions recently made within the pension review then this impact should be lower.

- **Review of fees and charges.** Core fees and charges for service areas such as carparks have not been reviewed for a number of years; however the running costs for these services have increased. A review of fees and charges has been incorporated within the forecast and will require Member approval in advance of the 2023-24 year. The risk to the financial forecast is that fees are not increased and thus increases the forecast budget gap by £0.325m.
- **Includes increases in the level of council tax per annum with effect from 2022-23.** This does not mean that the Council cannot freeze or amend the level of council tax, but the decision will be made as part of the budget consideration each year. However, the model assumes a rise each year, if a decision is made to not increase then this will produce a cumulative budget gap of £0.170m in each of the years the tax is not increased.
- **Government Fair Funding Review and income from retention of Business Rates.** From 2013-14 the government allowed authorities to share in the benefit from growth in business rates. The draft budget for 2022-23 includes budgeted £1.756m business rates growth.
- Due to the funding review changes originally planned for the 2022-23 year now being delayed, the financial settlement for 2022-23 year is only a one-year funding announcement which leaves local authorities with much greater uncertainty in being able to plan further ahead.
- Baseline funding is being reviewed and a planned reset for 2023-24 year which will see the above business rates growth reset and a new Baseline funding level for each authority. The MTFS model forecasts an assumed overall reduction in Baseline funding and Business Rates income for 2023-24 onwards. Indicative funding allocations should be announced in autumn 2022, however the risk to the Council is that the overall funding is lower than the level assumed in the financial forecast.
- **Use of New Homes Bonus.** The government reviewed New Homes Bonus and made changes to reduce the legacy payments of the original scheme of 6 years down to 4 years from 2018-19. In addition to this, the scheme now only rewards growth over a national baseline of 0.40%.

- The 2020-21 finance settlement announced that the 2020-21 in-year allocation of New Homes Bonus funding £723,191 would only be for one-year only and there would be no legacy payments on this allocation being received for the following three years. For 2021-22 year a similar arrangement for a one-year allocation of £539,898 was announced and for 2022-23 a further one-year allocation of £1,016,220 has been announced. The Government has consulted on the future of the New Homes Bonus scheme in early 2021 and this was due to be announced as part of the original planned government funding changes for 2022-23; now delayed until at least the 2023-24 financial year. We await to see the outcome from this review and what impact this has on the funding level for North Devon.
- Based on the current scheme North Devon is forecast to receive £1.451m for 2022-23 year; however we have prudently assumed only an ongoing £0.506m for 2023-24 onwards. The risk to the Council is that the scheme is changed fundamentally and the financial impact results in a lower than assumed income figure for these payments.

4.1.5.6 The MTFS looks at the changing financial situation of the Council over the future six financial years for 2022-23 to 2027-28. The starting position is the Budget 2022-23, which is rolled forward based on a set of assumptions. However as touched on earlier the unknown future year government funding levels result in so much uncertainty, **I have prudently based the future year forecast for 2023-24 year on a worse-case scenario of losing £0.858m of core funding/business rates and £0.945m reduction of New Homes Bonus grant.**

4.1.5.7 The refreshed MTFS model detail is shown in **Appendix D** and the forecast cumulative budget gap / (surplus) is shown as follows:

Years	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
Budget gap / (surplus)	0	2.070	2.286	2.595	3.220	3.141

4.1.5.8 Clearly, this creates a large budget gap to bridge moving forwards however it is crucial that both Officers and Members understand the potential financial context that we 'could' end up with, subject to any transitional arrangements the government put in place. This clearly focuses minds on becoming more efficient within the services we currently

provide and becoming entrepreneurial in the way we deliver services into the future and move towards a more commercially minded Council to generate additional income for the revenue budget.

4.1.5.9 In order to agree some parameters around this approach, Members approved a Commercialisation Strategy at Full Council in November 2020. This strategy set out the context of the financial parameters we are working within and how it should move forwards to enable the Council to become a more efficient, business like operation and increase revenue generation to bridge the future predicted budget gaps.

4.1.5.10 We have set some very clear outcomes from the above strategy which is crucial if we are going to be successful in delivering upon bridging the financial projections, these being;

- Commercial operating is increasing across the Council
- The efficiency of the Council has been improved
- Generating additional and sustainable income streams for the Council
- Reducing the net budget of a service by reducing controllable costs of a service whilst still achieving service outcomes
- Having staff with a commercial 'mind-set' across the organisation through developing and upskilling our staff to be more enterprising and innovative

4.1.5.11. The Council took a major steps forwards through this strategy early in 2021 when Members approved to proceed with the acquisition of Green Lanes Shopping Centre; which the Council completed the purchase in November 2021.

4.1.5.12. The core rationale behind this acquisition was to gain control of this strategic asset and complement other significant regeneration improvements being delivered within the Barnstaple town centre through the Future High Streets project; however the business case demonstrated that revenue income generated from the centre would cover both the repayment of the loan and asset management costs and would return a contribution to the Council.

4.1.5.13. This clearly has both regeneration and financial benefits to the Council and provides the ability to re-invest back into other projects and help to contribute towards reducing the pressure on the Council budget moving forwards.

4.1.5.14. The Council has been preparing and positioning itself for on-going budget reductions and will continue to work on options to

deliver savings and efficiencies necessary towards bridging the budget gaps through to 2027-28 year.

4.1.5.15. The figures shown in the model are forecast and members should be mindful of the sensitivity of some of the figures incorporated; the following **sensitivity analysis** highlights how figures can change both upwards and downwards:

- A 1% movement on pay awards has an impact of £0.140m; the MTFS has factored in 2% each year therefore any variance to this will change the forecast
- No Council Tax rise is a cost impact of £0.170m each year in lost income on the base budget
- For every £1m extra borrowed (over a 10 year period) would be an additional annual cost to revenue budget of £0.120m

4.1.5.16. There are some potential areas not yet factored into the Medium Term Financial Strategy (MTFS) as these require further work and analysis to be carried out before inclusion in any plans; these are:

- Any financial net benefit of potential further review to service areas; such as Waste and Recycling service and a decision moving forwards following the trial of 3-weekly residual collections, reviewing the commercial trade waste service and also looking at current provision and cost of public conveniences as outlined in the Environmental Enhancement Services Plan 2022
- Further income generation and net revenue gains through the Commercialisation Strategy approved at Full Council in November 2020
- Any new Business Rates growth following the 2023-24 baseline re-set of core funding and any financial benefit in later financial years

4.1.5.17. Performance against the budget and savings targets is carried out through the year and incorporated into the quarterly financial and performance management report received by Strategy and Resources. Due to the uncertainty around our future funding, Members will need to make some difficult decisions to identify income generating and savings options to bridge the above budget gap in advance of autumn 2022 when further detail on the future year funding settlement will become clearer.

4.2. Capital Programme

4.2.1. The Performance and Financial Management Quarter 3 of 2021-22 is also reported on the agenda. This report highlights the latest plans for capital investment for the period 2021-22 to 2024-25, which amounts to £47.013m and is broken down as follows:

- 2021-22 £23.806m
- 2022-23 £15.778m
- 2023-24 £6.717m
- 2024-25 £0.712m

4.2.2. Further investment of £0.055m has been identified following business cases submitted to the Project Appraisal Group, which is broken down across the following schemes:

- South Quay, Ilfracombe – Rock fall catch fence £55,000

4.2.3. The Council therefore has identified investment needs of £47.068m, which it expects to be funded from capital receipts/borrowing (£28.275m), external grants and contributions (£17.049m) and reserves (£1.744m).

4.2.4. **Appendix E** provides an individual project detail of the Capital Programme for 2021-22 to 2024-25.

4.2.5. The timing and realisation of capital receipts can be impacted by events beyond the control of the Council and we have been able to manage cash flows for projects through internal borrowing.

4.2.6. We also have authority to borrow from the Public Works Loan Board (PWLB) as outlined in the Treasury Management Annual Investment Strategy and the Council currently has external borrowing of £0.500m.

4.3. Risk Assessment

4.3.1. Whilst formulating the budget proposals, risks to specific income and expenditure budgets were identified. During the course of the process assessments were made in respect of these risks. In light of the information that officers had available appropriate amendments were made to the budget forecasts where possible. Highlighted below are risks identified that could yet have a major impact on the Council's ability to achieve the Budget 2022-23;

4.3.2. **Government grants** – Parliament is expected to approve the funding allocated to Local Government in February 2022. The risk to 2022-23 is that it could be approved at different levels to that assumed in the Budget

2022-23, although the likelihood is unlikely based upon previous years' experience however until this is formally confirmed this is flagged as a risk. In addition, is the high level of uncertainty surrounding the future years funding settlements following the forthcoming Fair Funding Review and future of Business Rate Retention.

- 4.3.3. **Core income** from areas such as car parks continue to be detrimentally impacted during 2021-22 as a result of the Covid-19 pandemic. Whilst some government funding has been provided through the 75% income loss reimbursement scheme to mitigate this impact in 2020-21 and the first 3 months of 2021-22 it still remains difficult to predict when stability and, or any significant improvement will return to the economy and it therefore continues to be a source of major risk to the Council's Budget 2022-23. At the end of last financial year we placed £375,000 into a Covid budget management reserve to help mitigate any further adverse variances due to the pandemic and the Council does have both general fund and other earmarked reserve balances which it could call upon in 2022-23 to mitigate any shorter term economic impact being experienced but clearly this would have much longer term solvency implications for the authority.
- 4.3.4. **Capital receipts** – The Council faces two main risks in this area. The first is the fact that the Capital Programme is forecast to be funded from as yet unrealised receipts. The second is the ongoing value of receipts generated could be lower due to the economic situation. Both these factors could lead the Council to seek other sources of funding, such as increasing external borrowing and therefore add further borrowing costs to that already included in the 2022-23 budget.
- 4.3.5. **Savings plans** – Service plans have been approved and any net savings factored into the 2022-23 budget. To achieve the full financial benefit of any savings identified will require negotiation with supplier, partners and other organisations therefore there is a risk that the full benefit may not be achieved, or achieved within 2022-23 financial year.
- 4.3.6. **Increase in demand for services** – Demand for specific services has continued to increase during 2021-22. Homelessness prevention measures in particular have increased over the past couple of years. It is considered that in light of the current economic climate and general public sector budget cuts that this will continue through 2022-23, which will add further pressure to the Council's budget.
- 4.3.7. **Localisation of council tax support** – The Council Tax Reduction scheme is approved by Full Council; however, changes due to increased take up or loss of collection above that forecast would have a direct financial impact on the Council and its major preceptors. The scheme will be reviewed as part of the quarterly performance and financial management report.

4.3.8. **Business Rates retention** – We are now exposed to the risk of lower collections, decline on the tax base and successful outstanding appeals. However this is mitigated by participating in the Devon-wide pool. The Council is also experiencing growth in Business rates income, which has been included in the financial plans.

4.3.9. **Welfare reforms** – The Government has embarked on significant changes to the welfare system in recent years, which includes changes to the amounts claimants are entitled to, consolidating different forms of benefit and payment methodology. These may generate risks both from increased demand for services and more directly on resources of the Council. The Council will continue to monitor progress and analyse the impact on our customers as well as the Council itself.

5. RESOURCE IMPLICATIONS

5.1. Included in the report.

6. EQUALITIES ASSESSMENT

6.1. There are no equalities implications anticipated as a result of this report. An Equality Impact Assessment has been completed.

7. ENVIRONMENTAL ASSESSMENT

7.1. There are not any environmental implications anticipated as a result of this report, as the purpose of this report is to present the Council's budget and spending plans. Projects within the Capital Programme will have highlighted any specific environmental impacts associated with those individual schemes when they came forwards for initial funding. The budget papers do contain an earmarked reserve for Environmental Initiatives which is a positive impact and has a balance of £48,000.

8. CORPORATE PRIORITIES

8.1. The Revenue budget and the Medium Term Financial Strategy all support the wider delivery plans of the Council in achieving the corporate priorities.

8.2. Individual schemes within the Capital Programme support the corporate priorities of improving customer focus; regeneration and the commercialisation agenda.

8.3. As set out within the report above the major projects of the acquisition of Green Lanes Shopping Centre and the Future High Streets Fund capital projects have a positive impact on both the regeneration priority and also the commercialisation agenda.



9. CONSTITUTIONAL CONTEXT

- 9.1. Article of Part 3 Annex 4.
- 9.2. Article of Part 4 Budget Procedure Rules.
- 9.3. Delegated power.

10. STATEMENT OF CONFIDENTIALITY

This report contains no confidential information or exempt information under the provisions of Schedule 12A of 1972 Act.

11. BACKGROUND PAPERS

The background papers are available for inspection and kept by the author of the report.

12. STATEMENT OF INTERNAL ADVICE

The author (below) confirms that advice has been taken from all appropriate Councillors and Officers:

Jon Triggs, Director of Resources and Deputy Chief Executive