



## **North Devon Council**

Report Date: 23 November 2022

Topic: Budget 2023-24 & Medium Term Financial Strategy Refresh

Report by: Director of Resources and Deputy Chief Executive

### **1. INTRODUCTION**

- 1.1. The Revenue Budget 2022-23 of £13.722m was approved by Full Council on 23 February 2022 alongside the future year budget projections for 2022-2028 within the Medium Term Financial Strategy.
- 1.2. With the UK's inflation rate rising from 5.5% at the start of the year to over 10% in September 2022, and global costs rising, research carried out estimates that nationally Councils' costs from inflation have risen from £789m in February when they set their budgets to £1.5bn as of June, leaving them with £729m of additional unfunded costs. A number of authorities are particularly exposed to these rising costs because of the nature of delivering services in large rural areas.
- 1.3. Members received a report on 4 July 2022 outlining the inflationary pressures being faced by the Council and measures being put in place to mitigate the unprecedented financial burden on the Council.
- 1.4. We are now two thirds of the way through the financial year, with inflation running at such a high level it is important that members are aware of the additional pressures on the budget for the current financial year and more importantly the impact this has on the base budget ongoing for future years.
- 1.5. This report sets out the projected financial position for 2023-24 and following Cross Party Budget Workshops pulls together options for Members to consider and make early decisions upon to ensure the Council is in a position to be able to present a balanced budget in advance of the new 2023-24 financial year.
- 1.6. This report also produces a refreshed Medium Term Financial Strategy for 2022-2028 for Members to adopt.

## 2. RECOMMENDATIONS

- 2.1. That Members note the report outlining the budgetary pressures being faced by the Council for the 2023-24 Revenue Budget and the impact this has on the future year ongoing Revenue Budget.
- 2.2. That Members approve an increase in the level of charges across off-street car parks with effect from 15 March 2023 as detailed in sections 4.17 to 4.24 and Appendices A and B
- 2.3. That Members approve an increase in the level of charges for Garden Waste services with effect from 1 April 2023 as detailed in sections 4.25 to 4.28
- 2.4. That the delegated power be given to the Chief Executive, in consultation with the Leader, to agree the terms of the transfers of public conveniences to the relevant parish/town councils, and where agreement cannot be reached prior to April 2023, the closure of the facility will be explored but with a further report to come back to Strategy and Resources.
- 2.5. That Members approve the options put forwards following the Cross Party Budget Workshop and adopt the refreshed Medium Term Financial Strategy 2022-2028 as set out in the report and within Appendix D as part of the Budget Policy Framework.

## 3. REASONS FOR RECOMMENDATIONS

- 3.1. The additional financial pressures being faced are reported to ensure the Council maintain budgetary control for the rest of the current financial year and into the future financial periods.
- 3.2. To ensure Members have assurance on the financial standing of the Council and associated risks with the budgetary framework.
- 3.3. To ensure the Council identifies options and that Members make clear decisions for mitigating the financial pressures being highlighted for the ongoing 2023-24 budget and beyond and has a savings and/or revenue generation plan in place to deliver the long-term financial strategy of the Council.

## 4. REPORT

- 4.1. Members received a report on 4 July 2022 outlining the inflationary pressures being faced by the Council and measures being put in place to mitigate the unprecedented financial burden on the Council.
- 4.2. The Quarter 2 Performance and Financial Management Report updated Members on the latest forecast position for 2022-23 and the inflationary pressures of circa £1m additional costs impacting the budget through the pay award, additional fuel costs across our vehicle fleet and additional energy costs within our Council owned buildings.

- 4.3. The inflationary cost pressures mentioned above will be funded in-year through utilisation of the budget management reserve. This reserve, which was set aside to deal with fluctuations within the budget and built up over the last couple of financial years, has provided the Council with the protection needed in 2022/23. Moving forwards to future years 2023/24 onwards, the Council won't have the benefit of this level of protection and the inflationary pressures being experienced this year will continue onto the future year's budget gap previously highlighted to Members.
- 4.4. Similarly we are seeing Temporary Accommodation is under additional cost pressure due to the increase in homelessness cases. The in-year impact of this £200,000 forecast increase in costs has been mitigated by utilising balances from the Homelessness earmarked reserve. Whilst this has alleviated the pressure this year, it does mean this one-off amount from the homelessness reserve can't be utilised for other homelessness initiatives.
- 4.5. The inflationary cost pressures being experienced will continue into the 2023-24 budget and beyond and this report updates this forecast and allows Members to make informed decisions around options to bridge the forecast budget gaps.

#### Medium Term Financial Strategy

- 4.6. The Medium Term Financial Strategy (MTFS) was last considered by Strategy and Resources at its meeting on 7 February 2022. Council approved the MTFS 2022 to 2028 at its meeting on 23 February 2022 and the forecast cumulative budget gap / (surplus) was 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

- 4.7. The circa £2m budget gap for 2023-24 was assumed as a result of the impending Government Fair Funding Review and resulting reduced government funding.
- 4.8. The 2023-24 budget, as identified in the MTFS, assumed a reduction of around £1.1m of income from retained business rates following the above review and a reset of business rates income. In addition, a forecast reduction from New Homes Bonus government grant of around £0.950m had also been predicted.
- 4.9. The above Fair Funding Review now looks like it is not happening for 2023-24 and unlikely for 2024-25 with government continuing with single year settlements. We have therefore re-evaluated the forecast Government Funding and for 2023-24 have assumed no additional government grant but have made the assumption that we will receive the same level of cash

funding as received for the current year. We have also added in assumptions based on the increased costs being incurred as a result of energy and fuel prices, inflationary pressures on external contracts and staff salary increases. This results in a real terms funding cut due to those significant inflationary impacts.

4.10. The Chancellor will be setting out his Autumn Statement on 17 November 2022 and there is speculation about spending cuts within public services. The approach adopted of assuming no additional funding would therefore appear realistic but may even prove to be optimistic. If we actually see a cash reduction then the following financial forecasts will need to be adjusted accordingly.

4.11. Assuming the Fair Funding Review is delayed until 2025-26 and that our above assumptions on Government Funding levels for the next two years 2023-24 and 2024-25 are correct, then the Medium Term Financial gap for 2023-24 and onwards would be as shown, without the addition of the inflationary cost pressures.

Years	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
Budget gap / (surplus)	0	0.551	0.785	2.595	3.220	3.141

4.12. The following table models the potential of the identified 2022-23 cost pressures ongoing, assuming that these do not reduce;

Years	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
b/f Budget gap / (surplus)	0	0.551	0.785	2.595	3.220	3.141
Inflation forecast 2022-23	1.000	1.000	1.000	1.000	1.000	1.000
<b>One off fund – reserve</b>	<b>(1.000)</b>	0	0	0	0	0
Inflation forecast 2023-24	0	0.450	0.450	0.450	0.450	0.450
<b>Budget gap / (surplus) c/f</b>	<b>0</b>	<b>2.001</b>	<b>2.235</b>	<b>4.045</b>	<b>4.670</b>	<b>4.591</b>

4.13. The assumptions used to arrive at the above are:- that the current 2022-23 additional inflationary pressures will continue into 2023-24 and beyond with minimal inflation reversal; there will be an additional impact of further 2023-24 pay claim settlements (over and above already 2% factored into the original forecast); there will be further National Living Wage implications; and there will be further additional inflationary burdens. An indicative amount of £450,000 has been included. The revised forecast then assumes a return to original predicted inflation levels in 2024-25.

4.14. There is of course much uncertainty in making these predications. As already highlighted Government Financial settlements are only currently one-

year and the level of funding for 2023-24 will not be announced until December 2022.

#### Cross Party Budget Workshop

- 4.15. It was therefore important that Members acknowledged the scale of the potential budget gap the authority faces. Following the earlier July report, Members took part in Cross Party Budget Workshops in August 2022 and October 2022 to identify options in order to bridge the forecast financial gaps through potential revenue budget savings and/or generation of additional income streams to the Council. This report is the culmination of that work and is now presented to Full Council to agree and approve the recommended options.
- 4.16. The parameters and considerations that Members were working to within their discussions included the following and the subsequent sections of this report set out the conclusions and recommendations from the Working Group;
- Can assets or services be provided in a different manner so still retained but reduce cost impacts for North Devon Council, ie through a 3<sup>rd</sup> party
  - Town and Parish Councils can precept locally and have the ability to increase their precept levels much further than District Councils
  - Looking at surplus assets for raising capital receipts & reduce borrowing liability
  - Reviewing the Capital Programme and prioritising projects; understanding the impacts this has on borrowing costs etc.
  - Reviewing the level of services NDC provides and understanding mandatory & discretionary services, grant levels, staffing costs
  - Furthering commercial ventures to generate additional revenue streams into the Council
  - Opportunities for joint working across neighbouring Councils
  - Increasing fees and charges across services especially in light of recent inflationary impacts on service costs
  - Council tax levels for District Council element for 2023-24
  - Protecting essential frontline services

#### Car Park Charges

- 4.17. The last time an across the board Car Park charge increase happened was in May 2016 when the hourly charge in short stay car parks was raised from £1.00 to £1.10 per hour.
- 4.18. Since then the costs of running the Car Parks has risen annually and this has been absorbed by the Council within the revenue budget.

- 4.19. Since charges were last reviewed the additional costs the Council has incurred over the past six years amounts to almost £1.3million. In addition to this, Capital spend of £240,000 has been incurred on upgrading to new machines. The property team have also identified future Capital investment required to resurface car parks across the North Devon area.
- 4.20. The annual running costs of Car Parks has increased by over £400,000 compared to 2016-17 when the charges were last increased.
- 4.21. The Council were aware of these increased running costs over the past few years and there were plans to increase charges incrementally to cover the additional costs being seen and these were planned during the years of 2020-21; 2021-22 and 2022-23. However, during the Covid-19 pandemic and subsequent impacts upon local businesses (both town centre and coastal businesses) the Council decided to hold off increasing the charges to protect and enable the recovery from the pandemic. The Council managed to absorb the additional budgetary cost for these last few years but as can be seen this is not sustainable into the longer term.
- 4.22. The continued additional cost pressures and real term reduced Government Funding moving forwards has placed the Council in an unprecedented position and raising additional revenue to cover the above additional costs now being experienced within the service is required and there is recognition that use of car parks is discretionary for the end user and on balance is more palatable than service cuts across the board.
- 4.23. Members have considered a review of Car Park charges and also the level of our fees against other Council charges within the County to ensure consistency for both short stay and long stay car parks. The proposed charging structure planned to be incorporated into the Off Street Parking Order and effective from 15 March 2023 is set out in **Appendix A** (parking charges) and **Appendix B** (permits). If Members approve these proposed increases, the normal consultation process will follow together with any separate Parish changes requested to the Off Street Parking Order that are being presented to Strategy and Resources Committee in December.
- 4.24. The context of the proposals set out in the above are ;
- Introduction of a new ½ hour charge of £0.50 in short stay car parks of Bear Street; Cattle Market; Queen Street and Wilder Road
  - Short stay car parks increase from £1.10 to £1.30 per hour
  - Long stay car parks increase from £0.40 per hour and £1.70 all day to £0.60 per hour and £2.50 all day
  - Coastal car parks of Cove; Croyde; Jubilee Gardens; Marine Drive; Morteheo and Pier increase in summer tariff to £1.50 per hour

- Winter tariff charges in Ilfracombe, Croyde and Mortehoe increase from £0.70 per hour and £1.70 all day to £0.80 per hour and £2.50 all day
- Lorry/Coaches charges increase from £1.50 per hour and £8.00 all day to £1.70 per hour and £10.00 per hour
- Introduction of a new £15.00 per night Motorhome charge in car parks at North Walk; Croyde; Hillsborough and Mortehoe

#### Garden Waste Charges

- 4.25. The current charge for the Garden Waste collection service is £45 per bin. This price was set as part of the 2022-23 budget approval process to predominately recover the cost of providing the service so that those consumers who choose to use the service are paying for the provision.
- 4.26. The impacts upon the service from the earlier identified inflationary pressures have seen the actual cost per bin in 2022-23 become higher than the originally budgeted £45 cost and thus moving forwards into 2023/24 this price per bin would need to increase in order to recover the cost of the service from those customers that use it.
- 4.27. An estimated revised costing of the service, taking into account current year and estimated inflation for 2023-24 are indicating that the cost per bin is now in the region of around £56 to £58.
- 4.28. Members considered this at the above mentioned budget workshops and provided a steer to put forwards a recommended increase to £55 per bin effective from 1 April 2023. That charge would be similar to the charges made by other Devon councils.

#### Public Conveniences

- 4.29. Over the past couple of years we have been focussed on increasing the income into the council through commercial and regeneration schemes such as the purchase of Green Lanes Shopping Centre but even though these have been successful, the level of extra income received will not be sufficient to fill the likely future budget gaps. As a consequence, we will need to look at a range of options to increase income through the charges that we impose as set out earlier; but we also need to look to see if there are different ways of delivering some services without impacting upon them.
- 4.30. One area that the Working Group considered is the provision of public conveniences. If the council did not provide public conveniences, a saving of around £240,000 could be made which would make a substantial contribution to bridging the budget gaps highlighted earlier. We are however mindful that public conveniences are often seen as vital facilities in communities and so, our preferred alternative to closure would be to transfer those facilities to the relevant town or parish council which is a similar approach to that adopted by other Local Authorities in recent years.

- 4.31. We do of course realise that this would pass the financial burden for maintaining and cleaning the facilities to the local town or parish council and we also realise that in order to fund that impact that could result in a need to increase their share of the local tax precept.
- 4.32. Over the past month we have been having discussions with the local town and parish councils about the potential transfer of these facilities to them in order that an informed decision can be made locally at their own Council meetings as part of their precept setting for next year.
- 4.33. Members considered this potential option at the above mentioned budget workshops and provided a steer to recommend proposing to town and parish councils the transfer of public conveniences to be under their control. It is therefore recommended that the delegated power be given to the Chief Executive, in consultation with the Leader, to agree the terms of the transfers to the relevant parish/town councils, and where agreement cannot be reached prior to April 2023, the closure of the facility will be explored but with a further report to come back to Strategy and Resources.

#### Temporary Accommodation

- 4.34. As outlined in 4.4 above, the Council has seen increased cost pressures within the provision of temporary accommodation and this trend is worryingly continuing. This Council previously approved the capital acquisition of six properties (£1million) to hold solely for the provision of temporary accommodation.
- 4.35. The benefit behind this approach enables the team to house clients in their own house rather than within bed and breakfast accommodation. This is a much better solution for the client and their wellbeing and also a much more cost effective solution for the Council as the B&B accommodation is expensive and costing the Council between £75-£80 per night.
- 4.36. Even with current borrowing level costs to fund the capital acquisition of the properties, the estimated net saving to the temporary accommodation revenue budget would be around £8,000-£10,000 per property annually compared to current costs of housing clients in the current B&B accommodation.
- 4.37. The added benefit is also the Council owns and controls these properties which will be growing in capital value and provide a much needed asset for our future use.
- 4.38. Moving forwards, if Members were mindful to consider and approve the acquisition of more properties of this type; this investment could save the current revenue projections around £8,000-£10,000 per property.
- 4.39. Members considered this at the above mentioned budget workshops and provided a steer that we should invest further in acquiring property for housing temporary accommodation and this be built into the future Medium Term Financial projections.

- 4.40. The request for varying the Capital Programme for the above acquisitions will be subject to a report being brought to Members setting out the proposals and business case. This will be presented to a future Full Council meeting and is being prepared by the Head of Planning, Housing and Health and so at this stage no formal recommendations are made.

#### Planned Reserve Contributions 2023-24

- 4.41. The base budget currently has two planned contributions into earmarked reserves;
- Corporate Property Income Volatility      £75,000
  - Regeneration Projects                              £100,000
- 4.42. The current 2022-23 financial year has seen some additional income being reported within the latest quarterly Performance and Financial Performance report and prudently one option open to the Council is to forward fund the above reserve contributions planned for next year and make them early from the current financial year.
- 4.43. The income volatility reserve already has a built up reserve balance of £150,000 and was created to deal with potential income volatility following the acquisition of Green Lanes Shopping Centre in November 2021 and to smooth the impacts of any rental income changes within the financial year. I am pleased to report that the income from this asset is performing in line with budgeted expectations and currently on track for the 2022-23 year, thus this earmarked reserve will not be required to be called upon and the balance maintained.
- 4.44. It is therefore proposed to forward fund the £100,000 reserve contribution to the Regeneration Projects reserve and make this within the current 2022-23 financial year and remove the contribution from the base budget for 2023-24. It is also proposed to remove the £75,000 contribution to the income volatility reserve from the base budget for 2023-24. This will still leave a balance of £150,000 within the reserve.
- 4.45. Future year reserve contributions to these two reserves will be determined as part of the following year budget setting process for 2024-25 year taking into account reserve usage and reflect updated projections in the autumn of 2023 and the overall Council financial position.
- 4.46. The latest forecast reserve balances for 31 March 2023 can be found in **Appendix C**.

## 5. RESOURCE IMPLICATIONS

5.1. The most pressing concern for the Council is the ongoing impact of these inflationary budgetary pressures outlined earlier within the report; we can mitigate against the in-year pressure in 2022-23 year but as was shown earlier we were already forecasting a significant budget gap before the current inflationary pressures were being experienced.

5.2. These forecasts were refreshed prior to the Cross Party Budget Workshops and the revised forecast budget gaps were set out as;

Years	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
b/f Budget gap / (surplus)	0	0.551	0.785	2.595	3.220	3.141
Inflation forecast 2022-23	1.000	1.000	1.000	1.000	1.000	1.000
One off fund – reserve	(1.000)	0	0	0	0	0
Inflation forecast 2023-24	0	0.450	0.450	0.450	0.450	0.450
<b>Budget gap / (surplus) c/f</b>	<b>0</b>	<b>2.001</b>	<b>2.235</b>	<b>4.045</b>	<b>4.670</b>	<b>4.591</b>

5.3. The options put forward and discussed at the Budget Workshops set out to reduce and bridge the identified budget gaps, more pressingly the £2m gap for 2023-24 and 2024-25. Members on the Working Group were aware of the importance of taking early decisions on these options prior to the finance settlement being released in December and in advance of the detailed budget setting process during December 2022 and January 2023.

5.4. Further changes being seen through the current financial period together with updated assumptions on potential future levels of Government funding can be incorporated into the Medium Term Financial Strategy projections as follows;

Fair Funding Review assumed now postponed and the assumption of a cash freeze in funding	(£528,000)
Reversal of 1.25% rise on National Insurance (employers)	(£80,000)
Growth in sale of Recycling materials income	(£250,000)
Energy reduction on Council offices following capital investment	(£29,000)
	<b>(£887,000)</b>

5.5. The above options outlined in section 4 which are being put forwards by the Cross Party Budget Workshop for formal Member decision have the following potential budgetary implications;

Review of Car Parking charges	(£450,000)
Review of Garden Waste charges	(£90,000)
Potential transfer of Public Conveniences to Town and Parish Councils	(£240,000)
Increased capital acquisitions of property for use as Temporary Accommodation	(£80,000)
Reduction in contribution to 2 x earmarked reserves due to making planned contributions earlier in 2022-23 year	(£175,000)
	<b>(£1,035,000)</b>

5.6. The options set out in 5.4 and 5.5 **culminate in a potential budget reduction of £1.9million** against the projected budget gap of £2million set out above. Approval of these options would bridge the forecast gap and enable the Council to work through the annual detailed budget setting during December and January.

5.7. Building these options into the refreshed Medium Term Financial Strategy, which can be found in **Appendix D**; has the following impact upon the refreshed forecast budget gaps;

Years	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
Budget gap / (surplus)	0	0.141	0.239	2.651	3.276	3.197

5.8. As set out earlier this does assume a cash freeze level of Government Funding being received.

5.9. Subject to Members approving the options outlined above to bridge the potential budget gaps being forecast, the team will continue to work on options to reduce the forecast gaps further and bring forwards a balanced budget 2023-24 for approval by Members in February 2023.

## 6. EQUALITIES ASSESSMENT

6.1. There are no equalities implications anticipated as a result of this report.

## 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 budgetary position. Individual projects within the wider Capital Programme will have highlighted any specific environmental impacts associated with those individual schemes when they came forwards for initial funding.



## 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.

## 9. CONSTITUTIONAL CONTEXT

- 9.1. Part 3 Annexe 1 paragraph 1(d).
- 9.2. 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