



North Devon Council

Report Date: 6 February 2023

Topic: Revenue Budget 2023-24, Capital Programme and Medium Term Financial Strategy 2023-24 to 2028-29

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 2022-23 reported separately on the agenda and the draft Budget for 2023-24. These figures will be the basis of the recommendation to Council on 22 February 2022 when the Council Tax levels for 2023-24 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 2023-24 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 2022-23 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 4.1.4.7
- 2.1.3. Note the Chief Financial Officer's highlighted areas of risk identified within the budget process set out in paragraph 4.1.4.8 and section 4.3
- 2.1.4. Note the latest Medium Term Financial forecast for 2023-2029 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 2.99% (£5.93) in the level of Council Tax charged by North Devon Council for 2023-24 with a Band D Council Tax level of £204.28
- 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 2023-24 General Revenue Account Budget.
- 2.2.3. To adopt the Medium Term Financial Strategy 2023-2029 in section 4.1.5 as part of the Policy Framework.
- 2.2.4. The Capital Programme 2022-23 to 2025-26 as highlighted in section 4.2 be approved.

3. REASONS FOR RECOMMENDATIONS

- 3.1. The 2022-23 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 2022-23

- 4.1.1.1. The Performance and Financial Management Quarter 3 of 2022-23 is also reported on the agenda. The current position is that the Council has a forecast net budget surplus of (£0.019m) against its budget.
- 4.1.1.2. The Quarter 3 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.
- 4.1.1.3. 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 position previously highlighted to Members.
- 4.1.1.4. At the 31st December 2022 total external borrowing was £3m. The timing of any future borrowing is dependent on how the authority manages its treasury activity and due to previously unprecedented low interest rates and reduced returns on investments it was prudent for the Council to 'internally borrow' and use these monies to fund the Capital Programme.
- 4.1.1.5. The recommended level of general fund balance is 5%-10% of the council's net revenue budget £686,082 to £1,372,164. The forecast general fund reserve at 31 March 2023 is £1,211,000, which is a level of 8.8%.

4.1.2. Budget 2023-24

- 4.1.2.1. Preparation of the 2023-24 budget began in the summer of 2022 in order to consider the cost of known budgetary pressures highlighted above. 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.

- 4.1.2.2. 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. The culmination of that work was presented to Full Council in November 2022 to agree and approve the recommended options for inclusion within the draft 2023-24 budget.
- 4.1.2.3. The provisional local government finance settlement announced in December 2022 confirmed a 3% funding guarantee for all authorities and Council Tax Referendum limit principles of 3% or £5 (whichever the highest).
- 4.1.2.4. A consultation on the finance settlement was announced and North Devon Council's response to the consultation was submitted on 12th January 2023 and can be found in Appendix F of this report.
- 4.1.2.5. The key context to our response was that an average increase in core spending power of around 5% lies a long way behind current and projected future levels of inflation. It gave no recognition to the impact of high inflation in 2022-23, which is now "baked in" and was not taken into account in the settlement for that year. The average increase in core spending power for districts also falls a long way short of the 9% increase that will be enjoyed by social care authorities.
- 4.1.2.6. In North Devon, a 3% increase (£5.93) on the Band D Council Tax produces additional income to the Council of £208,000 and it was our view that the proposed settlement is not an adequate response to the spending needs of district councils such as North Devon.
- 4.1.2.7. The 3% funding guarantee on core funding, whilst welcomed only provides around an additional £120,000 of grant to North Devon, therefore the additional Council Tax revenue and core funding increase totalling £330,000 does not correlate to the additional cost burdens the Council has faced with the 2022-23 pay award alone costing an additional £1m over and above the original budgeted cost, which continues into 2023-24 base and a potential further increased pay award for 2023-24; together with additional inflationary impacts across service areas.
- 4.1.2.8. The outcome of the consultation and final local government finance settlement will be published in February 2023.
- 4.1.2.9. 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 2023-24 year has now further been delayed to we anticipate 2025-26.

4.1.2.10. 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 2023-24 year is again only a one-year funding announcement which leaves local authorities with much greater uncertainty in being able to plan further ahead.

4.1.2.11. The refreshed six-year Medium Term Financial Strategy was approved this time last year (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

A further refresh, in light of the Fair Funding Review being delayed until 2025-26 and the financial impact being experienced due to the inflationary pressures was carried out in November 2022 and amended the forecast position to be;

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
Budget gap / (surplus) c/f	0	2.001	2.235	4.045	4.670	4.591

4.1.2.12. The assumptions used to arrive at the above were:- 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 was included. The revised forecast then assumed a return to original predicted inflation levels in 2024-25.

4.1.2.13. The forecast for 2023-24 (in November 2022) was a projected budget gap of circa £2million. Members at Full Council meeting on 23 November 2022 received a further report on the Budget 2023-24 and Medium Term Financial Strategy refresh and approved a number of options to close the forecast budget gap, such as an increase in the level of fees and charges for council services and opportunities to transfer public conveniences to town and parish councils.

4.1.2.14. The above options together with further changes being seen through the financial period together with updated views on potential future levels of Government funding were incorporated into the refreshed Medium Term Financial Strategy and bridge the above budget gap 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)
Sub-total	(£887,000)
Review of Car Parking charges	(£450,000)
Review of Garden Waste charges	(£90,000)
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)
Total	(£1,922,000)

4.1.2.15. 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 2023-24 financial year.

4.1.2.16. 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.

4.1.2.17. 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.

4.1.2.18. The draft budget for the current 2022-23 year included 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)

4.1.2.19. The 2021-22 financial outturn for the Centre (4.5 months ownership) produced a net return (income less costs) of (£243,600) due to minimal borrowing costs for last financial year as these started fully in 2022-23. This is a positive return for the Council for the four and half month's ownership in the 2021-22 year.

4.1.2.20. The net return to the Council of (£243,600); it was agreed 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 £168,600 into an earmarked reserve to fund future asset management initiatives to promote, market and maximise the occupancy of the Centre over the next few years, which we anticipate would then have a positive financial return on ongoing revenue streams.

4.1.2.21. Of the annual budgeted net return for 2022-23; it was proposed to place a further £75,000 into the above corporate property income volatility reserve and a further £100,000 into an earmarked reserve to fund future regeneration projects within the wider North Devon district.

4.1.2.22. It is pleasing to report that the actual financial performance for Green Lanes Shopping Centre for the current 2022-23 financial year is in line with the budgeted position and the cash flow forecasts for the next year 2023-24 are in line with the draft budgeted position.

4.1.2.23. The Council's net budget for 2023-24 is £14.766m; a table outlining the summary Budget 2023-24 is attached as **Appendix A**.

4.1.2.24. Details showing the recommended level of strategic grants for 2023-24 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.

4.1.3. Budget 2023-24 Funding

4.1.3.1. There are three main sources for the Council to fund its net budget of £14.766m; 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 £7.345m.

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 £3.336m. The final settlement is due to be approved by Parliament in February 2023.

4.1.3.5. The balance of funding of £4.085m used to fund the Budget 2023-24 is as follows:

- New Homes Bonus of £0.448m, 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 2025-26 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 £2.000m. Includes retained growth, renewable energy business rates and distribution from the Devon Business Rates Pool.
- Rural Services Delivery Grant of £0.325m. Funding provided in recognition of the additional costs of delivery of services in sparsely populated areas.
- Services Grant of £0.116m. A new grant provided for 2022-23 in recognition of the vital services local government provides and extended into the 2023-24 settlement.
- Funding Guarantee Grant of £1.196m. A new grant intended to ensure authorities receive at least a 3% increase in core spending power, prior to local decisions made on council tax levels.

4.1.4. Reserves

- 4.1.4.1. The Council started 2022-23 with earmarked reserves of £14.522m 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 £5.722m. 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.
- 4.1.4.3. This reserve included a £4.523m balance that will be utilised in 2022-23 to mitigate timing differences of business rate reliefs awarded in 2021-22 that from an accounting perspective impact over the 2022-23 financial year; and an in-year £0.400m transfer into the budget management reserve to replenish this reserve balance to help mitigate future budget fluctuations, thus leaving the fund reserve with a residual balance of circa £0.800m protection against future volatility. This level of reserve protects the Council against a 40% share of a £2million overall Business Rates income volatility.
- 4.1.4.4. The Performance and Financial Management Quarter 3 report of 2022-23, 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 £6.938m and the General Fund Balance to remain at £1.211m as at 31 March 2023.
- 4.1.4.5. The Budget 2023-24 includes contributions to and (from) specific earmarked reserves. Appendix A summarises these reserve movements.
- 4.1.4.6. **Appendix C** details the forecast reserve balances for the period to 31 March 2024 and it is currently forecast that the amount held in earmarked reserves will be £5.688m and the General Fund Balance of £1.211m as at 31 March 2024.
- 4.1.4.7. 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
- 4.1.4.8. 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 2023-2029

4.1.5.1. Whilst preparing the Budget 2023-24 each Head of Service was tasked with preparing service plans covering 2023-24 and beyond. These plans have been through Policy Development Committee in January 2023 and if applicable the revenue implications have been factored into the budget.

4.1.5.2. The Medium Term Financial Strategy (MTFS) was considered by Full Council who approved the MTFS 2022-23 to 2027-28 at its meeting on 23 February 2022. As set out above in section 4.1.2 there was a further refresh carried out in November 2022 in light of the Fair Funding Review being delayed until 2025-26 and the financial impact being experienced due to the inflationary pressures being experienced in the current year.

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, the 2021-22 pay award for staff was settled at 1.75% and the 2022-23 pay settlement was a flat-rate cash increase of £1,925 per full time equivalent which depending on salary grade resulted in increases between 4% and 10%. The budget has assumed a 4% increase within 2023-24; the MTFS has factored in 2% each year from 2024-25 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 2023-24 and Treasury Management strategy includes

borrowing costs of up to £1.3m in 2023-24 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 over the medium term 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 over and above what has already been factored into the budget.
- **No impact from future changes to pensions.** The impact from the 2022 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 2025-26. The next triennial review of the pension scheme takes place in the autumn of 2025; the model has prudently assumed an increased cost for 2026-27 in line with that experienced for the next three years.
- **Review of fees and charges.** Core fees and charges for service areas such as car parks have been reviewed as part of the 2023-24 budget. A further review of fees and charges has been incorporated within the forecast and will require Member approval in advance of the 2026-27 year. The risk to the financial forecast is that fees are not reviewed and thus increases the forecast budget gap by £0.250m.
- **Includes increases in the level of council tax per annum with effect from 2023-24.** 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 £0.220m 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 2023-24 includes budgeted £2m business rates growth.
- Due to the funding review changes originally planned for the 2023-24 year now being delayed, the financial settlement for 2023-24 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 assumed now for 2025-26 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 2025-26 onwards. Indicative funding allocations for 2024-25 should be announced in autumn 2023, 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 rewarded growth over a national baseline of 0.40%.
- The 2020-21 finance settlement announced that the in-year allocation of New Homes Bonus funding 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 2023-24 a further one-year allocation of £0.448m 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 2025-26 financial year. We await to see the outcome from this review and what impact this has on the funding level for North Devon; however 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 2023-24 to 2028-29. The starting position is the Budget 2023-24, 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 2025-26 year on a worse-case scenario of losing around £2million of core funding/business rates growth.**

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	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m
Budget gap / (surplus)	0	0.499	3.027	3.488	3.548	3.455

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. The financial considerations around this acquisition were highlighted earlier in this report.
- 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 2028-29 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 £0.170m; we have assumed 4% within the 2023-24 budget; the MTFs has factored in 2% each year from 2024-25 onwards therefore any variance to this will change the forecast
 - No Council Tax rise is a cost impact of £0.208m 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 £0.143m
- 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 plus reviewing the commercial trade waste service

- Further income generation and net revenue gains through the Commercialisation Strategy approved at Full Council in November 2020
- Any significant new Business Rates growth following the 2025-26 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 2023 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 2022-23 is also reported on the agenda. This report highlights the latest plans for capital investment for the period 2022-23 to 2025-26, which amounts to £32.211m and is broken down as follows:

- 2022-23 £9.506m
- 2023-24 £18.336m
- 2024-25 £4.299m
- 2025-26 £0.070m

4.2.2. Further investment of £1.961m has been identified following business cases submitted to the Project Appraisal Group, which is broken down across the following schemes:

- LED Lighting - renewal & safety testing £75,000
- Old Lime Kiln Larkstone Cove regeneration £111,325
- Victoria Pleasure Grounds – PC / bus Shelter £180,000
- Fairview & Brookdale – car park resurfacing £395,000
- Disabled Facility Grants (Better Care Fund) £1,200,000

4.2.3. Back in February 2018, Members approved Capital funding of £1.2m for the acquisition of property for use as temporary accommodation. This resulted in a more cost effective provision of housing due to reducing the

need for more expensive Bed and Breakfast accommodation and has also resulted in a much improved housing offer for those in need. It also provides the Council with assets that will grow in future capital appreciation.

- 4.2.4. The Head of Planning, Housing and Health has reviewed the need for temporary accommodation and is requesting Members to consider a further capital investment of £2m to acquire more properties to meet the increased requirement and more importantly to do this in a cost effective manner on the revenue budget. A separate report is being considered on this agenda for Members to consider this capital investment.
- 4.2.5. The Council therefore has identified overall investment needs of £36.172m, which it expects to be funded from capital receipts/borrowing (£16.119m), external grants and contributions (£16.904m) and reserves (£3.149m).
- 4.2.6. **Appendix E** provides an individual project detail of the Capital Programme for 2022-23 to 2025-26.
- 4.2.7. We 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 £3.000m.
- 4.2.8. The timing of any future borrowing is dependent on how the authority manages its treasury activity and due to previously unprecedented low interest rates and reduced returns on investments it was prudent for the Council to 'internally borrow' and use these monies to fund the Capital Programme. This has resulted in a forecast £0.275m reduction in loan interest payments in 2022-23 and it was proposed to place this amount into a new Treasury Management reserve to mitigate against higher interest rates as we move into the 2023-24 and 2024-25 financial years.

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 2023-24;
- 4.3.2. **Government grants** – Parliament is expected to approve the funding allocated to Local Government in February 2023. The risk to 2023-24 is that it could be approved at different levels to that assumed in the Budget 2023-24, 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, planning/building control fees and sale of recyclable materials can experience volatility due to market conditions and therefore continue to be a source of major risk to the Council's Budget 2023-24. At the end of last financial year we placed funds into a Budget Management reserve to help mitigate any further adverse variances due to revenue budget volatility and the Council does have both general fund and other earmarked reserve balances which it could call upon in 2023-24 to mitigate any shorter term economic impact being experienced but clearly this would have much longer term solvency implications for the authority. The Budget Management reserve has a current balance of £0.536m which does provide some protection to the budget in the medium term.
- 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 2023-24 budget.
- 4.3.5. **Savings plans** – Service plans have been approved and any net savings factored into the 2023-24 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 2023-24 financial year.
- 4.3.6. **Increase in demand for services** – Demand for specific services has continued to increase during 2022-23. Homelessness prevention measures in particular have increased over the past few years. It is considered that in light of the current economic climate and general public sector finances that this will continue through 2023-24, 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 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 £46,000.

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 Annexe 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