

EXECUTIVE 18th November 2021

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| Report Title | Budget Strategy Process 2022/23 |
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| Executive Member | Cllr Lloyd Bunday, Executive Member for Finance and Transformation |

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| Key Decision | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Is the decision eligible for call-in by Scrutiny? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Are there public sector equality duty implications? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Does the report contain confidential or exempt information (whether in appendices or not)? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Applicable paragraph number for exemption from publication under Schedule 12A Local Government Act 1974 | |

List of Appendices

None

1. Purpose of the Report

- 1.1 This report sets out the draft budget strategy for 2022/23 and covers the period up to 2025/26. It includes consideration of the approach to consultation and Equality Impact Assessments (EIA) as part of the budget setting process, alongside the process to scrutinise the draft budget and Medium-Term financial assumptions. The timeline for the process leading up to the setting of the budget is also included.
- 1.2 At the Council Meeting on 23rd February 2022 the following reports will require approval in order to formally set the Council's budget:
- The **General Fund** budget and the Council Tax levels for 2022/23 and the General Fund Medium Term Financial Plan for 2023/24 to 2025/26.
 - The **Housing Revenue Account (HRA)** Budget for 2022-23 and the level of Housing Rents for 2022/23 and the Housing Revenue Account Medium Term Financial Plan for 2023/24 to 2025/26.

- The **Capital Strategy and Capital Programme 2022-26** for the both the Housing Revenue Account and the General Fund.
- 1.3 The budget proposals will be scrutinised by the Finance and Resources Scrutiny Committee before presentation of the final budget report to Executive on 10 February and Council on 23rd February 2022.
- 1.4 The draft process as set out in this report was presented to the Finance and Resources Scrutiny Committee at its meeting on 2nd November 2021 for comment and to make recommendations to Executive to consider when approving the strategy.

2. Executive Summary

- 2.1 The report provides an overview to the budget strategy for the 2022/23 budget process for the General Fund, the HRA and the Capital Programme including the proposals for scrutiny, equality impact assessment and consultation as part of that process, together with an overarching timeline.
- 2.2 The main sections of this report were presented to Finance and Resources Scrutiny Committee at its meeting on 2nd November, and feedback from this Committee is set out in Section 6 of the report.

3. Recommendations

- 3.1 It is recommended that the Executive:
- a) Approve the budget setting process set out within this report to allow a balanced budget to be set by the Council; and in consideration of the comments of the Finance and Resources Scrutiny Committee as set out in Section 6 of the report.
 - b) Note the proposed timeline for the setting of the budget may be subject to change in line with Government announcements.
 - c) Endorse the proposed scrutiny arrangements as set out in Section 6 of this report following comments from the Finance and Resources Scrutiny Committee also shown in Section 6.
 - d) Approve the consultation proposals set out in Section 7 of the report.
 - e) Delegate authority, on an equal basis, to the Leader and Executive Member for Finance and Transformation, in consultation with the Assistant Chief Executive and the Executive Director of Finance, to determine the final arrangements for the consultation process.
- 3.2 Reason for Recommendations – To seek approval for the budget strategy process for the 2022/23 budget and the medium-term financial plan to 2025/26.

4. Report Background

- 4.1 The Council's first budget was set by the Shadow Authority at its meeting on 25th February 2021. This report considers the approach for the setting of the 2022/23 Budget and Medium-Term Financial Strategy and includes details of the recommendations made by the Finance and Resources Scrutiny Committee at its meeting on 2nd November 2021.

General Fund

- 4.2 The Council's General Fund budget is funded from five main income sources which are Council Tax, Business Rates, government grants, fees and charges and, where needed, the use of reserves.
- 4.3 In recent years as central government funding has reduced, business rates retention and the ability to grow and maintain the amount of resources raised locally has become even more important for financial sustainability and is integral to the Council's financial planning.
- 4.4 The medium-term financial plan remains challenged by uncertainty. The outcome of the Spending Review (which looks at the quantum of funding available to the Local Government Sector) and the Fair Funding Review (which looks at how funding is distributed across the Local Government Sector) brings potentially significant changes to how local government funding is distributed. This, along with a review of the Business Rates regime including a likely new methodology for the Business Rates Retention Scheme and also a business rates reset (the point from which growth is measured), together with future funding for Adult Social Care, makes for significant uncertainty over the medium-term.

Housing Revenue Account (HRA)

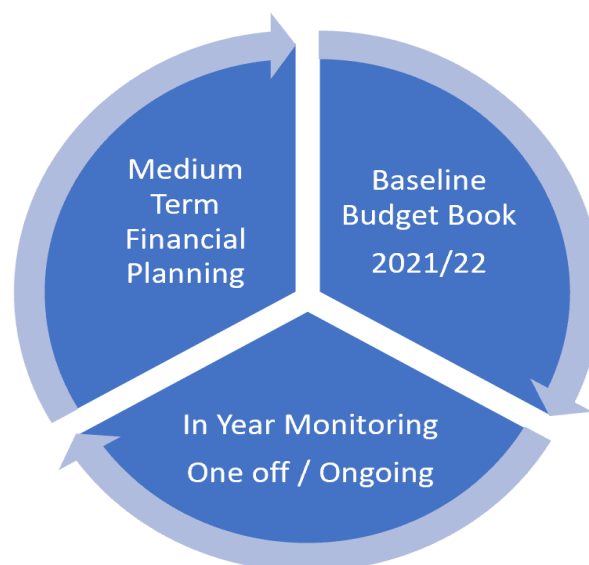
- 4.5 The HRA is a separate ring-fenced account within the Council for the income and expenditure associated with its housing stock. The HRA does not directly impact on the Council's wider General Fund budget or on the level of council tax. Income to the HRA is primarily received through rents and other charges paid by tenants and leaseholders.
- 4.6 Within North Northamptonshire there are currently two Neighbourhood Accounts, covering the former sovereign Councils of Kettering and Corby respectively. Whilst North Northamptonshire Council must only operate one HRA it will, for a limited period, operate two separate Neighbourhood Accounts for Corby and Kettering, and the 2022/23 budget is based on two Neighbourhood Accounts.
- 4.7 A key element of the HRA budget will be to determine and set rent levels for 2022/23. The basis for calculating Housing Rent levels is determined by the Housing Rent Regulator and for the five year period (2020/21 to 2025/26) these are based on the CPI in September each year plus 1%. A deviation from Government's Policy on Rents for Social Housing would require the Council to apply to the Secretary of State for agreement that it would be inappropriate to apply this policy.

Capital Programme

- 4.8 The Council is required to approve a Capital Programme for the period 2022-27 for both the HRA and the General Fund and a Baseline Development Pool based on the Capital Strategy. The Medium-Term Capital Programme must be affordable and sustainable, ensuring that the Council's internal resources and application of external borrowing are utilised to fund capital expenditure where it supports the delivery of the Council's financial sustainability and to meet statutory requirements such as health & safety.
- 4.9 The Capital Strategy should make explicit the links to, and integration with, the Council's other strategies including the budget and policy framework as set out in the Constitution - with new capital investment only being permitted if it contributes to the achievement of the Council's corporate priorities.

5. Budget Strategy 2022/23

- 5.1 The Budget Strategy provides the basis for the delivery of the 2022/23 Budget and for setting a robust Medium Term Financial Plan. With the uncertainty over future funding of Local Government, the Council will set a firm one-year budget and an indicative position for the following three years.
- 5.2 The robustness of the Council's assessment of the budget pressures and its plan to deliver the savings are of equal importance when setting a balanced budget – the pressures need to reflect those that the authority is facing, and the savings need to be considered deliverable.
- 5.3 The high-level strategy for setting the 2022/23 Budget is the same as that used to set the 2021/22 budget – this is illustrated in the following Chart. Information will be taken from the 2021/22 budget, reviewed through the budget monitoring process and updated to reflect known changes (savings/pressures) to produce a balanced budget position for 2022/23. The Council has a statutory duty to balance its budget.

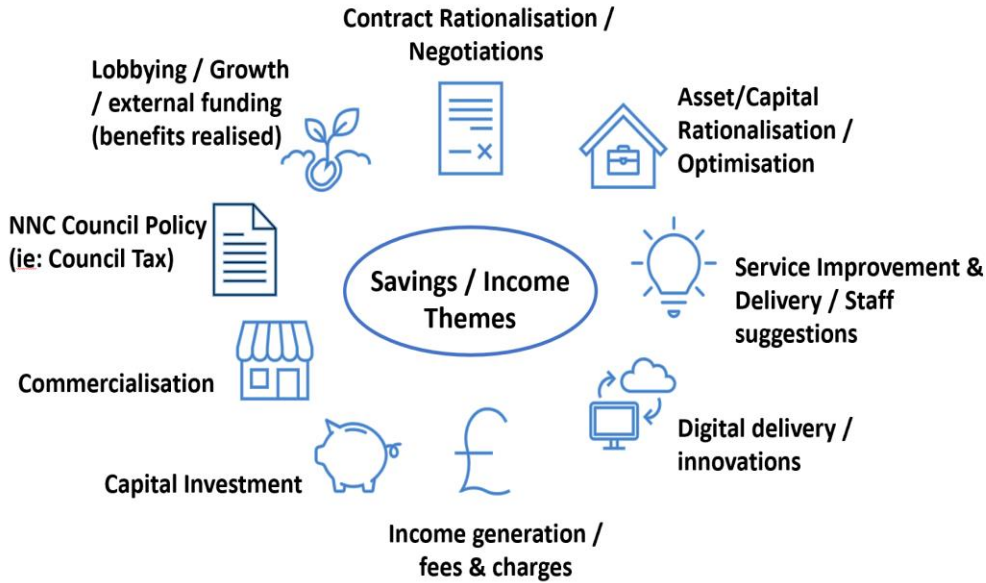


5.4 When the 2021/22 budget was set, there was an indicative financial gap over the following three years 2022/23 to 2024/25 as set out in the table below. This was based on the best information available at the time, including the assumption that the funding regime for Councils would change from 2022/23 as previously reported. The position from 2022/23 will be updated as part of the budget setting process and reported to Executive in December:

| | 2021/22 £m | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|-------------------------|---------------|---------------|---------------|---------------|
| Net Budget Requirement | 608.505 | 602.025 | 613.264 | 628.248 |
| Total Funding | 608.505 | 583.570 | 583.484 | 586.081 |
| Gap/Savings Requirement | 0 | 18.455 | 29.780 | 42.167 |

5.5 There is always a need to improve efficiency and review existing budgets, transformation will be a critical element in setting and delivering a balanced budget. This will require the Council to identify where business processes can be made more efficient and to establish opportunities to increase income. Where these are identified, and approval is given, then they will be reflected in the MTFP and, where appropriate, be included in the base budget for future years.

5.6 It is important budget managers continue to scrutinise their budgets to ensure that services are delivered as efficiently as possible. To assist and provide additional focus in delivering a balanced budget the following areas will be considered as part of the budget process.



National Context

5.7 Nationally, the context around future local government funding remains uncertain with the position being made more difficult by the impact of COVID-19.

5.8 It was expected that a consultation paper would be published on the Fair Funding Review (FFR) this year, which would seek to rebalance the funding

formula used to assess resource needs for local authorities. This consultation has not yet commenced and is now not expected to take effect until 2023/24 at the earliest. It is understood that government is keen to progress funding formula reform and a baseline reset in the Business Rates system. This could see business rates growth in income that has been generated locally being significantly reduced or even removed. Whilst it is expected growth will be redistributed as part of the FFR, those areas that have had above average growth, such as North Northamptonshire, could see a significant reduction in Government Funding. This partially accounts for the forecast budget gap for the Council from 2022/23 – 2024/25, as set out at paragraph 5.4 above. Whilst it is expected these reforms could take effect from 2023/24 the timelines still remain challenging owing to the complexities of the national funding schemes, the consultation requirements and the need for exemplars.

- 5.9 The Comprehensive Spending Review, which will inform the Chancellor's Autumn Budget statement, will provide control totals for Government departments. Longer term plans for public spending and changes to Local Government funding mechanisms have been postponed for the past two financial years in light of EU exit and the global pandemic. The Council has benefitted from the decision to delay funding reforms as it has been able to retain the business rates growth it has generated since the inception of the current system.
- 5.10 Once further information is released regarding the impacts of the issues described above, finance officers will model this into the Medium-Term Financial Plan and provide Members with an updated position.

Housing Revenue Account

- 5.11 The Housing Revenue Account (HRA) is currently operated by having two Neighbourhood Accounts, one for the area covered by the former sovereign Council of Kettering and the other being the area covered by the former sovereign Council of Corby. The Council will continue to operate two Neighbourhood Accounts in 2022/23. It was previously reported to the Shadow Authority that this would operate in this way for the first few years.
- 5.12 The HRA financial Business Plan will be informed by the housing strategy for North Northamptonshire which will consider the challenges faced by the Council across the local housing market and will set out measures to enhance housing options for local residents. This will form a key element of the overarching strategy for North Northamptonshire.

Risks in Preparation of the Budget

- 5.13 The basis of the budget strategy will ensure that the Council delivers a balanced budget for 2022/23 in February 2022; however, there are risks that may cause expenditure to increase or income to reduce. Consequently, income and expenditure levels will be kept under review throughout the budget process.
- 5.14 It is recognised that as a new Council there will be inherent risks within the process. A significant proportion of the Council's budget was prepared on the basis of disaggregation of County Council budgets, and this may change as spending patterns take shape that are specific for North Northamptonshire.

There are also a number of lead and host arrangements for which budgets need to be confirmed for future years alongside disaggregation of some services that were previously operated across Councils, most notably North Northamptonshire and West Northamptonshire.

- 5.15 It will not be possible to finalise funding in the budget until government announcements on future funding levels are published, which is expected to be later in the year. The Chancellor’s Autumn Budget 2021 and Spending Review took place on 27th October and is expected to set out planned public spending over the next three years, with the detailed Finance Settlement for Local Government expected mid-late December.
- 5.16 Members are asked to consider the budget strategy and make recommendations to the Executive. The impacts of the changes in Government Funding will be reported to Members once this has been announced and officers have understood the implications on the Council.

Timetable

- 5.17 The Council is required to set a Balanced General Fund Budget and the levels of Council Tax for 2022/23 at its meeting on 23rd February 2022. The Council is also required to set a Balanced HRA Budget and rent levels for 2022/23 along with a Capital Programme for both the General Fund and HRA.
- 5.18 The summary timetable for the setting of the budget is as set out below:

| Key Dates | Activity |
|--------------------------------|--|
| 27 th October 2021 | Chancellor announces Autumn Budget 2021 and three-year spending review |
| 18 th November 2021 | Executive to Review the Budget Strategy Report. Update on Chancellor’s Autumn Budget – key headlines and announcements - provided to Executive |
| 16 th December 2021 | Draft budget report 2022/23 presented to Executive for approval Consultation on the budget will commence following the meeting and subject to Executive approval Draft Schools Budget (Dedicated Schools Grant) to Schools Forum |
| Mid-late December | Local Government Finance Settlement (exact date to be confirmed) |
| January 2022 | Budget scrutiny sessions take place to consider Directorate budget plans, in advance of February Executive HRA rent increase consultation to tenants’ forums |
| 13 th January 2022 | Budget Update to Executive following the Local Government Finance Settlement |
| 28 th January 2022 | Budget consultation ends |

| Key Dates | Activity |
|--------------------------------|---|
| 10 th February 2022 | Updated Budget report, including feedback from Scrutiny, presented to Executive for approval and recommendation on to Council |
| 23 rd February 2022 | Setting of the Budget - Suite of Budget Reports presented to Council for approval |

6. Issues and Choices – Scrutiny Arrangements

- 6.1 The Finance and Resources Scrutiny Committee has a critical role to play in scrutinising and reviewing the budget proposals, ensuring that they are subject to rigorous challenge. The Scrutiny Committee will provide recommendations back to the Executive on the proposals put forward.
- 6.2 It is proposed that the scrutiny of the budget proposals takes place after the planned presentation of the 2022/23 budget to Executive on 16th December 2021. The Scrutiny process will complete in January, to feed into the updated budget report to Executive on 10th February 2022.
- 6.3 In order to assist in the scrutiny process it is proposed that separate scrutiny sessions take place across the main service areas of:
- Place and Economy
 - Adults, Communities and Wellbeing Services, including the HRA
 - Children’s and Education Services – this will include the Children’s Trust (although Members may also wish for a separate session for the Trust recognising the joint arrangements with West Northamptonshire Council)
 - Enabling and Support Services – Finance, Transformation and ICT, and Legal and Democratic (which includes HR).
- This will include both the revenue budget and the capital programme for each of the main service areas.
- 6.4 Each service area, as outlined above, will attend its respective scrutiny session to present its service and budget plans. The Finance and Resources Scrutiny Committee will scrutinise each plan and may request further details on a particular area.
- 6.5 To maximise the effectiveness of the scrutiny arrangements, Scrutiny Members are requested to identify any areas requiring further detailed information prior to the meeting with the Directorates taking place in order that this can be drawn together in preparation for the meeting. This will enable the Finance and Resources Scrutiny Committee to ensure that it has the required information necessary to adequately scrutinise the proposals and provide any subsequent recommendations to the Executive.
- 6.6 These proposals were considered by the Finance and Resources Scrutiny Committee when it met on 2nd November 2021. It commented as follows:
- That a further date be included for each of the Directorate Scrutiny Sessions to enable additional scrutiny as required including further reports to be written for the Committee as requested.

- That the Scrutiny of the Children's Trust takes place as a dedicated session.
- Consultation should be as wide as possible, and it was requested that an amendment be made that this should include all libraries and not just those of the Council, which had initially been stated.

6.7 The Executive is asked to endorse the proposed budget scrutiny arrangements, taking into account the recommendations of the Finance and Resources Scrutiny Committee so that a detailed timetable for the separate, dedicated scrutiny sessions can be established in advance of January 2022.

7. Implications (including financial implications)

7.1 Resources and Financial

7.1.1 The resource and financial implications are set out within this report.

7.2 Legal

7.2.1 The legal implications are as set out in the report.

7.3 Risk

7.3.1 The risks for the budget are outlined above and will be set out in further detail as part of the Executive Director of Finance's Section 25 Report on the budget calculations which reports on the robustness of the estimates and adequacy of the proposed financial reserves.

7.4 Consultation

7.4.1 Once the first draft of the budget has been prepared, this will be reviewed by the Corporate Leadership Team to ensure that it is aligned to the Corporate Plan this will take place during November 2021.

7.4.2 The first public draft of the budget will be presented to the Executive at its meeting on 16th December 2021. The Finance and Resources Scrutiny Committee will then have the opportunity during the budget process to make suggestions to the Executive prior to final budget approval by the Council.

7.4.3 This report sets out the draft consultation proposal for the 2022/23 budget. If adopted, consultation on the proposals contained within the Draft Budget 2022/23 will begin on or immediately after 16th December 2021, subject to Executive approval of the draft budget proposals for 2022/23. It will conclude on 28th January 2022 in preparation for the presentation of the final budget proposals to Executive and Council in February 2022.

7.4.4 If there are any changes made to any of these proposals following the consultation process, then the effect of this upon the overall budget position will be considered for the final budget paper in February 2022. This does not predetermine any decision that the Council may make in February 2022.

7.4.5 The structure and design of the consultation will set out the budget proposals and will enable both online and non-digital means of participation, in accordance with good practice. This is to ensure the widest possible reach, a variety of consultation methods will be used to maximise the range of accessible channels for consultees, these include;

- Online survey – available free at libraries for those without internet access (with hard copies and copies in other formats available on request)
- An email address and telephone number
- Social media - including Facebook, Twitter and LinkedIn
- Postal address
- Emails to key stakeholders, inviting them to comment through the above consultation channels and asking them to promote the consultation to their members/community: e.g. partner organisations, MPs, Town and Parish Councils, Voluntary Sector Infrastructure Organisations.
- Emails to Residents' Panel members and other stakeholders who have registered to receive consultation alerts, inviting them to comment through the above consultation channels

7.4.6 The purpose of the consultation is to ensure that, when the Final Budget is considered by Council on 23rd February 2022, Members are fully aware of the consultation feedback and are in a position to take it into account when making final decisions. This includes full consideration of any viable alternatives for ways to save money/generate income, if provided.

7.4.7 In addition, there will be specific consultation for any budget proposals that require targeted consultation with service users. This will include consultation with local residents regarding the HRA and proposed rent levels via the respective Tenants Forum.

7.4.8 Consideration of the draft budget proposals will be undertaken by the Finance and Resources Scrutiny Committee who will report their recommendations to the Executive meeting on 10th February 2022. The Executive must then make recommendations on the final, scrutinised, budget and HRA rent proposals to Council for approval on 23rd February 2022.

7.4.9 Scrutiny is a means for councillors not on the Executive to influence the development of Council policies and services and hold decision makers to account. Budget Scrutiny involves councillors reviewing significant proposals from across the draft budget and reporting their conclusions about the deliverability and service impact of these proposals to the Executive. In this way Budget Scrutiny contributes to the development of the final budget proposals and supports local democracy.

7.5 **Equality Impact Assessment (EIA)**

7.5.1 In considering the budget for 2022/23 the Council must consider its ongoing duties under the Equality Act 2010 to have due regard to the need to eliminate discrimination and advance equality of opportunity between all irrespective of whether they fall into a protected category. Having due regard to these duties does not mean that the Council has an absolute obligation to eliminate

discrimination but that it must consider how its decisions will contribute towards meeting the duties in light of all other relevant circumstances such as economic and practical considerations.

7.5.2 As part of the budget consultation process options put forward may require an Equality Impact Assessment (EIA) to be undertaken.

7.6 **Climate Impact**

7.6.1 None specific to this report, however, the Council has made a commitment to tackling the climate impact and spending decisions will take this into account.

7.7 **Community Impact**

7.7.1 No distinct community impacts have been identified as a result of the proposals included in this report.

8. Background Papers

8.1 Suite of budget reports 2021/22 to Council, 25th February 2021.