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Northumberland County Council

CABINET

8 February 2022

Budget 2022-23 and Medium-Term Financial Plan 2022-26

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

Purpose of Report

The purpose of this report is to enable the Cabinet to make formal budget recommendations to the County Council.

The report provides the Revenue Budget for 2022-23 and Revenue Medium-Term Financial Plan (MTFP) 2022-26 and the Capital Budget for 2022-23 and Capital MTFP 2022-26, following the Government's Spending Round Announcement 2021 (SR 2021), on 27 October 2021, and the publication of the provisional Local Government Finance Settlement on 16 December 2021.

It is important to note that there may need to be some revisions to the figures following receipt of the Government's February 2022 Final Local Government Finance Settlement figures. It is proposed that any changes to the figures as a result of this announcement, which impact on the Budget 2022-23 and MTFP 2022-26 are delegated to the Council's Section 151 Officer in consultation with the Portfolio Holder for Corporate Services.

Recommendations

The Cabinet is requested to make the following recommendations to the County Council:

1. Note that the figures contained within the Budget 2022-23 within Appendix 1 are based on the provisional Local Government Finance Settlement of 16 December 2021.
2. Approve the revenue budget for 2022-23 including, the budget balancing target totalling £9.704 million contained within Appendix 1.
3. Note the Revenue MTFP covering the period 2022-26 detailed within Appendix 1 and the requirement to deliver budget balancing measures in both 2023-24 and 2024-25 of £14.000 million and £12.732 million in 2025-26.
4. Note the estimated receipt of Revenue Support Grant of £10.838 million for 2022-23 contained within Appendix 1.
5. Note the estimated retained Business Rates and the Top-Up grant funding to be received by the Council for 2022-23 of £86.801 million and £278.304 million over the remaining period of the MTFP.
6. Note the estimated deficit from prior years on Collection Fund Business Rates balances of £12.547 million in 2022-23 and £0.342 million in 2023-24.
7. Note the estimated receipt of Rural Services Delivery Grant of £2.456 million for 2022-23.
8. Note the estimated receipt of the New Homes Bonus of £3.983 million for 2022-23.
9. Note the total estimated receipt of Improved Better Care Funding grant of £12.495 million for 2022-23.
10. Note the estimated receipt of Social Care grant funding of £13.287 million for 2022-23.
11. Note the estimated receipt of non-recurrent Market Sustainability and Fair Cost of Care Grant of £1.027 million in 2022-23.
12. Note the estimated receipt of non-recurrent Lower Tier Services Grant of £0.451 million in 2022-23.
13. Note the estimated receipt of the non-recurrent Services Grant of £4.751 million in 2022-23.
14. Approve a 1.99% increase in Council Tax for 2022-23, noting that this is in line with the Government's assumptions regarding the Council's Core Spending Power: and, within the Government's referendum limit of 2.00%.
15. Note that the MTFP 2022-26 includes a 1.99% annual increase in Council Tax for the remaining years of the MTFP and, that an estimate of annual tax base growth has been included.

16. Note the non-collection rate for Council Tax purposes remains at 1.00% for 2022-23 (1.00% in 2021-22).
17. Note the estimated surplus and deficit from prior years on the Collection Fund Council Tax balance, comprising a surplus of £4.215 million for 2022-23 and a deficit of £0.554 million for 2023-24.
18. Approve a 1.00% increase in Council Tax for 2022-23 for use on Adult Social Care services; raising an additional £2.119 million to support the Budget 2022-23, and note the assumed increase included in the MTFP of 1.00% for 2023-24 and 2024-25.
19. Approve the remainder of the 3.00% allowed by Government in 2021-22, an increase of 1.25% in Council Tax in 2022-23 for use on Adult Social Care services; raising an additional £2.648 million to support the budget in 2022-23.
20. Approve the Reserves Policy for 2022-23 detailed in Appendix 2.
21. Note the Schedule of Reserves and Provisions contained within Appendix 3.
22. Approve:
 - (a) the net contributions to the Strategic Management Reserve of £1.587 million in 2022-23 and note the proposed contributions from reserves of £10.216 million in 2023-24, £15.494 million in 2024-25 and £2.953 million in 2025-26, comprising:
 - non-recurrent pressures of £3.338 million for 2022-23, and note the non-recurrent pressures totalling £2.834 million in 2023-24; £0.409 million in 2024-25 and £0.909 million in 2025-26 (as detailed within Appendix 8 excluding the Transformation Programme),
 - the Active Northumberland Management fee of up to £1.000 million in 2022-23, and note the Active Northumberland Management fee of up to £1.000 million in 2023-24,
 - delayed receipt of investment income of £1.025 million in 2022-23; and note that delayed receipt of investment income of £0.513 million is forecast for 2023-24 and that interest of £0.398 million will be repaid into the reserve in 2024-25 and 2025-26 in this respect,
 - revenue contribution to capital (RCCO) of £12.231 million in 2024-25 and £2.442 million in 2025-26 for the Schools' Development Programme,
 - contribution to the reserve of £6.950 million in 2022-23 and note the subsequent proposed use of £5.869 million in 2023-24, and £3.252 million in 2024-25 in order to balance the budget.
 - (b) the use of the Severe Weather Reserve of £2.500 million in 2022-23, to fund the RCCO for the Todstead Landslip project, and

- (c) the use of the Contain Outbreak Management Reserve of £0.132 million in 2022-23, to fund the RCCO for the Multi Use Vehicles.
23. Approve the use of the General Fund Reserve: £25.000 million in 2022-23 to be set aside as a voluntary minimum revenue provision (MRP) to enable the Council to repay debt at an appropriate time in the future and note the proposal to use a further £7.850 million in 2024-25 for the same purpose.
 24. Approve the use of the Regeneration Additional Capacity Reserve of £0.190 million in 2022-23, to contribute to the funding of Regeneration staffing costs.
 25. Approve the use of the Council Transformation Fund Reserve of £3.000 million in 2022-23 and note the use of £3.000 million from this reserve in financial years 2023-24 and 2024-25.
 26. Approve the use of the Collection Fund Smoothing reserve of £10.129 million in 2022-23, to part fund the 2021-22 forecast deficit of the Business Rates element of the Collection Fund, and prior year deficits on Business Rates and Council Tax; and note the proposed use of this reserve in 2023-24 to fund £0.896 million Collection Fund deficit; being the final year of the 2020-21 Council Tax and Business Rates deficits spread over 3 years.
 27. Note:
 - a) the Schedule of Service Specific grants of £238.825 million contained within Appendix 4.
 - b) the 2022-23 Public Health grant allocation of £16.891 million contained within Appendix 4, and it's proposed usage.
 28. Approve the Inflation Schedule for 2022-23 totalling £19.767 million detailed in Appendix 5.
 29. Approve the Recurrent Growth and Pressures Schedule of £8.746 million and the additional revenue costs associated with the Capital Programme of £6.081 million for 2022-23; and note the growth and pressures of £2.609 million in 2023-24; £3.261 million in 2024-25; and, £0.906 million in 2025-26 and the additional revenue costs associated with the capital programme of £5.907 million in 2023-24; £16.878 million in 2024-25; and £5.783 million in 2025-26 included within Appendices 1, 6 and 7.
 30. Approve the Non-Recurrent Pressures of £6.338 million for 2022-23 and note the non-recurrent pressures of £5.834 million for 2023-24; £3.409 million for 2024-25 and £0.909 million for 2025-26 included within Appendix 8.
 31. Approve the Non-Recurrent Income of £2.770 million for 2022-23 and note the non-recurrent income of £0.466 million for 2023-24 included within Appendix 8.
 32. Approve the identified budget balancing measures contained within Appendix 9 of £9.704 million for 2022-23; and note those budget balancing measures totalling £10.466 million already identified for 2023-24 to 2025-26.

33. **Note the Corporate Equality Impact Assessment at Appendix 10.**
34. **Note the Budgets by Service Area 2022-23 detailed in Appendix 11.**
35. **Note the receipt of Dedicated Schools Grant of £152.123 million in 2022-23; and note the revised allocation of £146.729 million for 2021-22. This is following the conversion of one school to academy status during 2021-22.**
36. **Agree the Housing Revenue Account 2022-23 budget as detailed within Appendix 12, which will reduce the balance on the HRA reserve from £29.596 million at 31 March 2022, to £22.011 million at 31 March 2023; and note the indicative budgets to 2025-26 which will reduce the balance on the HRA reserve to £16.637 million.**
37. **Note that from 1 April 2022 in line with the Rent Standard for rent setting for Council tenants, the budget detailed in Appendix 12 assumes that rents and service charges will rise by the Consumer Price Index of 3.10% plus 1.00% for the period 1 April 2022 to 31 March 2023.**
38. **Approve the increase of 4.10% for Housing rents from 1 April 2022.**
39. **Note the indicative 30-year Housing Revenue Account business plan as detailed within Appendix 12.**
40. **Note that £48.221 million has been set aside over the 4-year period 2022-23 to 2025-26 in the HRA Capital Programme to invest in Affordable Housing. Details are set out in Appendix 12.**
41. **Approve the Capital Strategy 2022-23 to 2025-26 contained within Appendix 13.**
42. **Approve the revised Capital Programme as detailed within Appendix 14; and the projects highlighted within the main body of the report which will complete after 2025-26; and note the changes in the Capital Programme 2022-26 of £118.380 million detailed in Appendix 15.**
43. **Approve the delegation of the detail of the final Local Transport Programme and any subsequent in-year amendments to the Executive Director responsible for Local Services and the Leader of the Council.**
44. **Approve the delegation of the detail of the capital allocation for highways maintenance investment in U and C roads and footpaths to the Executive Director responsible for Local Services and the Leader of the Council.**
45. **Agree delegation to Cabinet to approve individual projects which propose to utilise the flexibilities of capital receipts.**
46. **Agree a delegation which enables the Cabinet to approve expenditure and funding for projects (revenue and capital) to be added to the budget which are 100.00% grant funded.**
47. **Approve the Prudential Indicators based on the proposed Capital Programme detailed within Appendix 16.**

- 48. Approve the Annual Minimum Revenue Provision Policy detailed in Appendix 17.**
- 49. Approve the proposed Treasury Management Strategy Statement 2022-23 detailed in Appendix 18.**
- 50. Approve a delegation to amend the Budget 2022-23 and MTFP in light of any changes as a result of the final Local Government Finance Settlement to the Council's Section 151 Officer in consultation with the Portfolio Holder for Corporate Services.**

Key Issues

1. In February 2021, the Council approved the Budget for 2021-22 and the Medium-Term Financial Plan (MTFP) covering the period 2021-24.
2. This report updates the MTFP position; and the budget for 2022-23, following the Spending Round Announcement 2021 (SR 2021) on 27 October 2021 and the provisional Local Government Finance Settlement on 16 December 2021. The final settlement is not due until February 2022, which could alter the financial position. It is proposed that any changes to the figures as a result of this announcement, which impact on the 2022-23 Budget and the 2022-26 MTFP are delegated to the Council's Section 151 Officer in consultation with the Portfolio Holder for Corporate Services.
3. The report sets out in detail the budget balancing proposals for 2022-23 and illustrates that there is a requirement to deliver efficiencies equating to £9.704 million in 2022-23; and £40.732 million over the period 2023-26.
4. The report also sets out the forecast budget position for the financial year 2022-23. Whilst the position represents the best estimate at the current time, the income streams available to the Council are likely to change.
5. The Government consultation "Fair funding review: a review of relative needs and resources", a technical consultation on relative need, concluded on 12 March 2018. The Secretary of State had said that the results of the review would be introduced in 2020-21. The Secretary of State also confirmed that there would be a business rates baseline reset in 2020-21; and, from 2020-21, business rates retention would be at 75%.
6. The Government was expected to publish its Spending Round (SR) in the summer of 2019 covering a three-year period. Due to the on-going uncertainties around Brexit the Government announced on 8 August 2019 that the SR would be delayed until 2020 with another one-year settlement for local government for 2020-21. It was expected that, following the UK's departure from the European Union, the UK economy would be on a less turbulent footing in 2020. However, the impact of Covid-19 has created a far greater uncertainty than caused by Brexit and as a result the Government announced on 25 November 2020 a further one-year SR. Following this, on 27 October 2021 the Government announced a three-year SR, and shortly after this on the 16 December 2021, a one-year funding settlement for 2022-23. Given the uncertainty of future funding this report concentrates on the revenue budget for 2022-23. The budget beyond 2022-23 therefore contains a number of assumptions.
7. It was also expected that the outcome of the Fair Funding Review (FFR) including the move to 75.00% Business Rate Retention would be published during 2021. In line with the delays to Brexit and the impact of Covid-19 highlighted above the outcome of the FFR and review of Business Rates will also be delayed by at least one more year and possibly implemented in 2023-24.
8. The MTFP will be updated for future years once this information is available.

9. The on-going Covid-19 pandemic continues to impact the financial position of the Council. There is greater demand for Council services to provide vital support to the community. There continues to be increased financial pressure through lost income and increased expenditure, particularly through Business Rates income. In previous years the Government has implemented measures to support councils with these burdens and has also provided additional grant funding to help offset these pressures. The SR 2021 and provisional Local Government Finance Settlement of 16 December 2021 announced measures to continue to support specific local businesses with the financial burdens caused by the Covid-19 pandemic. However, unlike previous years no general Covid-19 grant support has yet been announced to assist councils with the continued wider financial burdens caused by the pandemic.
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BUDGET 2022-23 AND MEDIUM-TERM FINANCIAL PLAN 2022-26

BACKGROUND

National Context

1. The Government is currently reviewing the funding mechanisms for Local Government. As part of the provisional Local Government Finance Settlement of 19 December 2017 the Secretary of State launched a “Fair funding review: a review of relative needs and resources” consultation which concluded 12 March 2018. The Secretary of State had said that the results of the review would be introduced in 2020-21. The Government is looking to allocate resources to local authorities based on assessed need. This will be done using a number of key indicators which considers factors such as deprivation and sparsity, amongst others. Once need is assessed, resources will be allocated to individual authorities through the Business Rates Retention mechanism.
2. The Government is also considering the system that will be used to calculate and allocate Business Rates across the sector. Although it is not yet clear, many of the core grants within the MTFP will disappear and will be replaced with retained locally collected Business Rates. As part of the provisional Local Government Finance Settlement of 19 December 2017 the Secretary of State announced that there would be a business rates baseline reset in 2020-21; and, from 2020-21, business rates retention would be at 75.00% instead of 50.00%. The reset when it occurs will see National Non-Domestic Rates (NNDR) baselines adjusted to reflect the amounts local authorities are collecting in business rates (currently it is based on the amounts collected in 2010-11 and 2011-12).
3. The Government subsequently published two further consultation papers as part of the provisional Local Government Finance Settlement on 13 December 2018. The consultations concluded on 21 February 2019:
 - “A review of local authorities’ relative needs and resources” - a technical consultation on the assessment of local authorities’ relative needs, relative resources and transitional arrangements”; and,
 - “Business Rates Retention Reform - Sharing risk and reward, managing volatility and setting up the reformed system” - a consultation on the proposed 2020-21 Redesign and Reset of the Business Rates Retention (BRR) scheme.
4. SR 2019 announced that the outcome of the FFR and review of Business Rates would be delayed by one year until 2020, with implementation in 2021-22. However, SR 2020 further delayed the outcome of these reviews by at least one year and following this SR 2021 made no reference to when the FFR would be implemented. It is expected that the FFR will be delayed by at least one year and possibly implemented in 2023-24. In the absence of the outcome of these reviews it remains difficult to accurately forecast the financial position for the Council

beyond 2022-23. However, for the purpose of the MTFP it is assumed that the Council will continue to retain 50.00% of business rates.

5. The on-going Covid-19 pandemic continues to place great pressure on the nation's finances. Local authorities are not exempt from this and have seen their finances come under significant pressure. The Government has previously recognised this and has implemented a number of measures to assist local authorities. Without these interventions many local authorities simply would not have been able to balance their budgets and it is likely that there would have been several Section 114 notices issued. The financial burden on local authorities will continue into 2022-23, but the provisional Local Government Finance settlement announced on 16 December 2021 made no provision for continued financial support through the general Covid support grant from Government.
6. The position will be monitored closely and the MTFP will be updated once more information is available.

Provisional Local Government Financial Settlement

7. The 2022-23 provisional Local Government Finance Settlement was announced by Government on 16 December 2021. The settlement covers the financial year 2022-23. Beyond this, the report identifies that the Government intends to change the funding mechanism for the sector from 2023-24. This report therefore utilises the financial data that was published as part of this announcement. Beyond that period the figures have been forecast as identified in this report. The final Local Government Finance Settlement is due in February 2022. Members are requested to note that the figures from the provisional settlement are included within Appendix 1. **(Recommendation 1)**
8. It is recommended that the Council approves the Budget 2022-23 (Appendix 1) including the requirement to implement budget balancing measures totalling £9.704 million. **(Recommendation 2)**
9. Members are requested to note the MTFP at Appendix 1 including the requirement to deliver budget balancing measures totalling £14.000 million in both 2023-24 and 2024-25 and £12.732 million in 2025-26. **(Recommendation 3)**

Settlement Funding Assessment and Revenue Support Grant

10. The Settlement Funding Assessment is a combination of resources received from Revenue Support Grant and Baseline Funding (including Top up Grant).
11. From 2016-17 the methodology in determining the Settlement Funding Assessment reduction changed. Instead of a flat rate cut across all authorities, as has been done in the past, Government has taken into account the ability of each authority to raise Council Tax locally (including increases in the Tax Base, Council Tax rate and inflationary uplift). Under this methodology, where an authority has greater capacity to raise resources locally through Council Tax, Revenue Support Grant has been reduced.

Revenue Support Grant

12. The Revenue Support Grant to be received in 2022-23 is £10.838 million, which includes a CPI inflationary uplift of 3.10%. There is no announcement beyond 2022-23. However, for the purposes of the MTFP it is assumed that the grant remains unchanged for the remainder of the period of the MTFP. The MTFP at Appendix 1 contains details of the Revenue Support Grant, which Members are asked to note. **(Recommendation 4)**.

Baseline Funding

13. This is the Government's assessment of what the Council should generate from Business Rates income to meet assessed need. It comprises two elements: Assessed Retained Business Rates income and a Top up Grant. The grant is provided to top up the Government's assessed retained Business Rates income to the Baseline Funding level applicable for the Council.
14. Prior to 2019-20 the Council retained 50.00% of the Business Rates it collected and was classified as a Top-Up authority. This meant that the Council received a Top-Up grant over and above the 50.00% locally retained Business Rates, which increased the overall funding the Council expected to receive from Business Rates to the assessed baseline level.
15. In 2019-20 the success of the North of Tyne combined authority bid to the Government to become a 75.00% Business Rates Retention Pilot allowed the region to retain 75.00% of the net Business Rates Income for the authorities involved in the pool. The pilot ended on 31 March 2020 and the Government's assessed Baseline Funding level for the Council (including Top up grant) reverted to 50.00% retention of Business Rates income. This position continues for 2022-23 and is assumed to remain unchanged over the period of the 2022-26 MTFP, in the absence of the outcomes of the Fair Funding Review and Review of Business Rate Retention Scheme.
16. As stated above, the Baseline Funding level is the Government's assessment of what the Council should achieve through retained Business Rates income (including Top up Grant) to meet assessed need. However, any variation in the actual level of Business Rates income collected will result in a variation from the assessed Baseline Funding level and a shortfall or excess in Business Rates funding.
17. It should be noted that there are risks to Northumberland's business rates income as a result of factors such as the success of appeals. This makes financial planning and forecasting complex. It is forecast that the Council's provision for Business Rate appeals will be £15.984 million by 31 March 2022 (£14.989 million at 31 March 2021). This figure excludes NHS Foundation Trust appeals but includes the estimated reductions for known appeals including GP surgeries and the material change of circumstances for office spaces because of Covid-19.

18. As announced at SR 2021, the business rates multiplier has been frozen for 2022-23. Therefore, the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) remain unchanged.
19. Members are requested to note the following table which shows the Council's estimated value of locally retained Business Rates and Top-up grant payments included in the MTFP 2022-26; based on 50.00% retention of Business Rate income. Any variation from these figures will ultimately result in a surplus or deficit which will impact on the Budget and MTFP. **(Recommendation 5)**

	Estimated Retained Business Rates £m	Top-Up Grant Funding £m	Total £m
2022-23	59.266	27.535	86.801
2023-24	61.390	28.471	89.861
2024-25	63.862	29.097	92.959
2025-26	65.834	29.650	95.484

20. The provisional Local Government Finance Settlement announced that for 2022-23 the Multiplier Cap Grant, which is included within the Core Spending power calculation, was based on a CPI inflationary uplift of 3.10%. However, the provisional Local Government Finance Settlement confirmed this would be increased to RPI (approximately 4.90%) for the final Local Government Finance Settlement. The estimated retained business rates income figure for 2022-23 in the table above includes the multiplier cap grant and is assumed at RPI. Should the final Local Government Finance Settlement in February 2022 not confirm this change the MTFP will be updated accordingly for the reduction in multiplier grant funding.
21. In addition to the figures in the table above the Government previously announced that it would allow local authorities to spread any deficit on the Collection Fund which was attributable to business rates in 2020-21 over three financial years, to ease the Covid-19 burden. The MTFP includes the remaining two year spread, equating to £0.342 million within 2022-23 and £0.342 million in 2023-24. The funding for this will be transferred from the earmarked Collection Fund Smoothing Reserve in 2022-23 and 2023-24 to offset this pressure. The transfer from the Collection Fund Smoothing Reserve is contained within the MTFP, shown in Appendix 1. **(Recommendations 6 and 26)**
22. Also, normal accounting rules require that any forecast deficit on the Business Rates element of the Collection Fund from the prior year, must be charged to the General Fund in the following financial year. Within 2021-22 there is a forecast deficit of £12.547 million (including the £0.342 million spread deficit from 2020-21) on the Business Rates element of the Collection Fund which is charged to 2022-23, as shown in Appendix 1. This deficit is largely because of the Retail,

Hospitality and Nursery reliefs granted by Government on Business Rates, within 2021-22. This was a national scheme which was designed to assist businesses to deal with the financial impact of Covid-19. Members are asked to note the 2021-22 forecast deficit charged to General Fund in 2022-23 and 2023-24. **(Recommendation 6)**

23. To compensate local authorities for the loss of Business Rates Income from Retail, Hospitality and Nursery reliefs, Government has provided grant funding in 2021-22 of £9.233 million to fully cover the cost of these reliefs. This funding will be transferred to the earmarked Collection Fund Smoothing Reserve in 2021-22 and then fully utilised in 2022-23 to offset this pressure. The transfer from the Collection Fund Smoothing Reserve is contained within the MTFP, shown in Appendix 1. **(Recommendation 26)**
24. The provisional Settlement of 16 December 2021 made no announcement regarding any potential non-recurrent funding as a result of a surplus on the national Business Rates Retention Levy/Safety Net account. The position will be monitored and the MTFP updated should this be announced.
25. As mentioned previously the Business Rates projections contained within the MTFP have not been inflated in 2022-23 in line with Government freezing the Business Rates Multiplier, which is to help ease the Covid-19 impact on businesses. Beyond 2022-23 the projections have been inflated annually by forecast CPI: 3.40% (2023-24), 2.20% (2024-25) and 1.90% (2025-26).
26. Known business rates growth and reductions have also been forecast for all years, along with an additional income allowance of £0.075 million per annum in each year to accommodate other general growth and a 1.00% reduction in net rates payable to account for the economic impact of Covid-19.
27. These figures are subject to the risks identified above and any changes to the figures will affect the level of savings required to balance the Council's budget.
28. Through the Business Rates Retention Scheme, the Council not only faces a significant risk of reduced funding if Business Rates decline, but it also could increase funding by encouraging new business within and to the area. In most cases under the current scheme the Council will be allowed to retain 50.00% of any new Business Rates within the area; and in the case of renewable energy the Council can retain 100.00% of Business Rates collected.

Rural Services Delivery Grant

29. The Rural Services Delivery Grant to be received in 2022-23 remains unchanged from 2021-22 at £2.456 million. There is no announcement beyond 2022-23 pending the outcome of the Fair Funding Review and implementation of the new system for Business Rates retention. However, for the purposes of the MTFP it is assumed that the grant remains unchanged, and Members are requested to note the grant. **(Recommendation 7)**

New Homes Bonus

30. The New Homes Bonus was first introduced in 2011-12. For each newly built house or conversion the Council received a reward of the national average Council Tax for the relevant band. Long-term empty properties which have been brought back into use have also been included in the reward and there is a premium for affordable homes. The scheme originally paid grant for six years.
31. There were changes made to the scheme with effect from 2017-18 following the outcome of the consultation "New Homes Bonus: Sharpening the Incentives". These included:
 - A move to 5-year payments for both existing and future New Homes Bonus allocation in 2017-18; and, then to 4 years from 2018-19.
 - The introduction of a national baseline of 0.40% from 2017-18, below which grant would not be paid.
 - A statement by the Government that it would retain the option of adjusting the baseline in future years to reflect significant and unexpected housing growth.
 - A statement by Government that it would not introduce the proposals to withhold payments for areas without a local plan in 2017-18. However, it said that the issue would be revisited for 2018-19.
32. The provisional Local Government Finance Settlement of 16 December 2021 announced that there would be a new allocation for 2022-23 (with no legacy payments), plus the final legacy payment from 2019-20. The rest of the scheme remains unchanged from 2021-22.
33. The Council expects to receive New Homes Bonus grant funding of approximately £3.983 million for 2022-23; thereafter it is less clear, and no announcement has been made by the Government. The MTFP assumes there will be no allocation beyond 2022-23. The funding supports the overall revenue budget of the Council and Members are requested to note the inclusion of the grant in the Council's MTFP shown at Appendix 1. **(Recommendation 8)**

Improved Better Care Funding Grant

34. The Government's December 2021 provisional Local Government Finance Settlement confirmed that the Government proposes to roll-forward the 2021-22 distribution of the Improved Better Care Funding grant. The grant will continue to be required to be pooled as part of the Better Care Fund. Alongside maintaining the existing distribution formula, Government proposes to increase the 2022-23 Improved Better Care Funding grant by £63.000 million. This is an inflationary uplift on the 2021-22 allocation in line with the change in the 12-month September Consumer Price Index (3.00% CPI).
35. The Council will receive Improved Better Care Funding grant of £12.495 million in 2022-23. This grant allocation is not ring fenced and is intended to help address some of the financial pressures faced by councils, including those in Adult and

Children's social care. There is no guarantee that this funding will continue beyond 2022-23. However, it has been assumed within the MTFP that this grant will continue at its current level over the duration of the MTFP. The position will be monitored and the MTFP will be updated if required. Members are requested to note the grant inclusion in the Council's MTFP shown at Appendix 1. **(Recommendation 9)**

Social Care Support Grant

36. The Government's December 2021 provisional Local Government Finance Settlement confirmed additional funding of £636.000 million nationally for adults and children's social care.
37. In total the Council will receive Social Care Grant of £13.287 million in 2022-23. There is no guarantee that this funding will continue as the Finance Settlement was for one year only. However, the MTFP assumes that this funding will continue at its current level over the period of the MTFP. The position will be monitored and the MTFP will be updated if required. Members are requested to note the grant inclusion in the Council's MTFP shown at Appendix 1. **(Recommendation 10)**

Market Sustainability and Fair Cost of Care Grant

38. The December 2021 provisional Local Government Finance Settlement announced a non-recurrent grant allocation of £162.000 million nationally.
39. This is a new grant to ensure local authorities can prepare their markets for reform and move towards paying providers a fair cost of care. Local authorities are to carry out the following activities:
 - Conduct a cost of care exercise to determine the sustainable rates and identify how close they are to it.
 - Engage with local providers to improve data on operational costs and number of self-funders.
 - Strengthen capacity to plan for, and execute, greater market oversight; and,
 - Use funding to increase fee rates, as appropriate to local circumstances.
40. There are conditions associated with this grant which the Government is currently finalising. The Council will receive £1.027 million in 2022-23. Members are requested to note the grant inclusion in the Council's MTFP shown at Appendix 1. **(Recommendation 11)**

Lower Tier Services Grant

41. The December 2021 provisional Local Government Finance Settlement announced a non-recurrent grant allocation of £111.000 million nationally. This is a technical grant to ensure floors in the funding formula are negated, and local authorities do not receive an annual reduction in the Government's assessment of Core Spending power. The Council will receive £0.451 million in 2022-23.

Members are requested to note the grant inclusion in the Council's MTFP shown at Appendix 1. **(Recommendation 12)**

Services Grant

42. The December 2021 provisional Local Government Finance Settlement announced a new non-recurrent grant allocation of £822.000 million nationally for 2022-23.
43. This is an un-ringfenced grant with no reporting requirements and is intended to provide funding to all tiers of local government in recognition of the vital services.
44. The grant makes provision for the increase in National Insurance for social care purposes, which equates to approximately £0.959 million in 2022-23 for Northumberland. However, at this point it is unclear how this would be funded recurrently if this grant is not made available to local authorities beyond 2022-23.
45. Government has said that whilst the funding will remain within the local government funding envelope beyond 2022-23 it will be distributed differently. There are therefore no guarantees that the Council will receive any of this funding beyond 2022-23.
46. The Council will receive £4.751 million in 2022-23. Members are asked to note the grant receipt. **(Recommendation 13)**

Council Tax

47. The budget proposals for 2022-23 contained within this report assume that the Council will agree to increase the Council Tax by 1.99% and Members are requested to approve the increase. **(Recommendation 14)**
48. The December 2021 provisional Local Government Finance Settlement set the referendum limit for general Council Tax increases at 2.00%. For the purposes of this report the increase used in 2022-23 is 1.99%. The MTFP assumes that the limit will remain at 2.00% in line with the SR 2021 announcement, and an increase of 1.99% has been included for all years over the period of the MTFP. Members are requested to note this assumption. **(Recommendation 15)**
49. There has been no Government decision to implement referendum limits for Town and Parish Councils.
50. An assessment of potential housing development across the County has been undertaken and an estimate of the growth in the tax base has also been included within the MTFP.
51. The increase in the tax base and the 1.99% inflationary increase in 2022-23 provides additional funding of approximately £6.278 million which helps to retain the levels of service the Council provides; as well as reduce the value of measures required to balance the budget to the levels shown within the MTFP. It is also worth highlighting that the Government's Core Spending Power calculation assumes that the Council will apply an inflationary uplift to Council Tax each year

and that there is growth in the Council Tax Base figure.

52. The provision for non-collection of Council Tax remains at 1.00% for 2022-23, following a review of actual collection rates and the impact of Covid-19. **(Recommendation 16)**
53. It is forecast that the Council's share of the Council Tax element of the Collection Fund will generate a surplus of approximately £4.215 million by 31 March 2022. This is largely due to an increase in the tax base due to additional properties. **(Recommendation 17)**
54. Accounting rules require any surplus to be transferred to the General Fund within the following financial year. However, SR 2020 announced that the Government would allow authorities to spread any 2020-21 in-year deficit over three financial years to help ease the burden created by Covid-19. The MTFP includes the remaining two year spread of the 2020-21 deficit, equating to £0.554 million within 2022-23 and £0.554 million in 2023-24. The surplus figure of £4.215 million shown in 2022-23 is net of the £0.554 million deficit from 2020-21. The funding for these deficits will be transferred from the earmarked Collection Fund Smoothing Reserve in 2022-23 and 2023-24 to offset this pressure. The transfer from the Collection Fund Smoothing Reserve is contained within the MTFP, shown in Appendix 1. **(Recommendations 17 and 26)**
55. The Council agreed at its meeting on 3 November 2021 to continue with the 2021-22 local Council Tax Support Scheme unchanged for 2022-23; that is, the maximum level of support for working age claimants will be 92.00%. This report, and the Budget 2022-23 and MTFP 2022-26 at Appendix 1 includes the estimated cost of the full scheme to the Council of £24.021 million.
56. In addition to this the Council Tax Discount Policy has been updated for 2022-23 to include a hardship payment of up to £200 per household. This is being funded from the underspend on the Local Council Tax Support grant which will be carried forward into 2022-23. The Council Tax Discount Policy is included in the report "Approval of Revenues and Benefits Policies for 2022-23" which will be presented to Cabinet and Council along with this report.
57. The Spending Review 2015 introduced the concept of an Adult Social Care Precept.
58. The provisional Local Government Finance Settlement announced by the Government on 16 December 2021 allows local authorities to add an Adult Social Care precept to its budget. Councils can levy an additional 1.00% on council tax in 2022-23 in relation to Adult Social Care. The total funding raised through this precept has to be spent entirely on Adult Social Care.
59. The Council's MTFP included at Appendix 1 assumes that a 1.00% increase is applied in 2022-23 and 2023-24 and 2024-25. This will generate additional recurrent funding of approximately £2.119 million for Adult Social Care purposes in 2022-23. For 2022-23 this will result in a Band D property increase of £18.24. It is proposed that Council Tax is increased for the Adult Social Care precept by 1.00%

in 2022-23, and Members are asked to note the assumed increase for 2023-24 and 2024-25. **(Recommendation 18)**

60. Members are also requested to approve an Adult Social Care precept increase of 1.25% for 2022-23, which is the balance of the 3.00% precept allowed in 2021-22. This will generate additional recurrent funding of approximately £2.648 million for Adult Social Care purposes in 2022-23. For 2022-23 this will result in a Band D property increase of £22.80. **(Recommendation 19)**

RESERVES AND PROVISIONS

61. The Council has several reserves and provisions set aside for specific purposes and to meet potential significant general unforeseen costs.
62. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer, Section 151 Officer (S151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
63. CIPFA issued Local Authority Accounting Panel (LAAP) Bulletin No.99 Guidance Note on Local Authority Reserves and Balances in July 2014, which updated previous Bulletins to reflect the new requirements of the International Financial Reporting Standards (IFRS) Code of Practice. In addition, during the period of financial austerity for the public sector, the Local Authority Accounting Panel considered it necessary to update the guidance on local authority reserves and balances. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government.
64. The Council's reserves policy is attached at Appendix 2. This policy sets out the Council's approach for compliance with the statutory regime and relevant non-statutory guidance. Members are asked to approve the Reserves Policy for 2022-23 detailed in Appendix 2. **(Recommendation 20)**
65. Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience. The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks

Reserves

66. There are two categories of reserves: unusable and usable. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements. These

reserves cannot be used for any other purpose and are therefore not considered as part of this report. Usable reserves are split between those that are earmarked for known or predicted purposes, such as Section 106 developer contributions, and those of a general nature which are available; to fund unforeseen costs, smooth cash flow and prevent unnecessary temporary borrowing. A schedule of all usable reserves is detailed at Appendix 3.

67. A review of all usable reserves has recently been undertaken to ensure they are still required and are at an appropriate level. Appendix 3 details the outcome of the review which Members are requested to note. **(Recommendation 21)**
68. Given the uncertainty around much of the future funding for local government there is a real risk that the Council may be unable to meet significant unforeseen cost pressures. There is also a high level of risk associated with Business Rates income which was covered earlier in this report. It is therefore essential that the Council continues to maintain an adequate level of general reserves to fund such unforeseen events. There are two main general reserves that can be utilised for these purposes: the General Fund Reserve and the Strategic Management Reserve. Regular reviews of the reserves will continue to be undertaken to ensure reserve levels are appropriate to risks in line with legislation and best practice. The Council aims to hold a general reserve of between 5.00% and 7.50% of the gross revenue budget, which equates to £41.750 million to £62.626 million for 2022-23.
69. It is proposed to utilise a net contribution of £27.076 million from the Strategic Management Reserve over the duration of the MTFP 2022-26, comprising of a net contribution to the Strategic Management Reserve of £1.587 million in 2022-23, and contributions from the Strategic Management Reserve of £10.216 million in 2023-24, £15.494 million in 2024-25 and £2.953 million in 2025-26. Proposed contributions to and from the reserve are as follows:
 - the non-recurrent pressures detailed in Appendix 8, excluding the Transformation Programme which is proposed to be funded from the Council Transformation Fund Reserve below: £3.338 million 2022-23, £2.834 million 2023-24, £0.409 million 2024-25 and £0.909 million 2025-26,
 - the Active Northumberland Management Fee of up to £1.000 million in 2022-23 and 2023-24,
 - delayed investment interest due from the airport as a result of Covid-19, of £1.025 million in 2022-23 and £0.513 million in 2023-24. Thereafter, it is anticipated the airport will start to repay the delayed interest over the remaining duration of the loan, and £0.398 million will be received and repaid to the Strategic Management Reserve in both 2024-25 and 2025-26,
 - revenue contribution to capital of £12.231 million in 2024-25 and £2.442 million in 2025-26 for the Schools' Redevelopment Programme, and

- in 2022-23 it is proposed to transfer £6.950 million to the Strategic Management Reserve following the front loading of additional Government grant funding announced for Local Government within the provisional Local Government Finance Settlement on 16 December 2021, and subsequently utilise £5.869 million in 2023-24 and £3.252 million in 2024-25 to help smooth the savings requirements.
70. These amounts are shown in the MTFP contained within Appendix 1, and Members are requested to approve the contributions to the Strategic Management Reserve for the items above in the 2022-23 Budget and note the position for 2023-24, 2024-25 and 2025-26. **(Recommendation 22)**
71. It is proposed to utilise £2.500 million of the Severe Weather Reserve in 2022-23 to enable a revenue contribution to fund the Todstead Landslip project. This amount is shown in the MTFP contained within Appendix 1, and Members are asked to approve the use of the Severe Weather Reserve in 2022-23. **(Recommendation 22)**
72. It is proposed to utilise £0.132 million of the Contain Outbreak Management Reserve in 2022-23 as a revenue contribution to fund the capital Multi Use Vehicles project. This amount is shown in the MTFP contained within Appendix 1, and Members are asked to approve the use of the Contain Outbreak Management Reserve in 2022-23. **(Recommendation 22)**
73. It is proposed to utilise £25.000 million of the General Fund Reserve in 2022-23 and £7.850 million in 2024-25 to fund a voluntary MRP contribution. These amounts are shown in the MTFP contained within Appendix 1, and Members are asked to approve the use of the General Fund Reserve in 2022-23 and note the use in 2024-25. **(Recommendation 23)**
74. With regard to the Regeneration Additional Capacity Reserve, it is proposed to utilise £0.190 million in 2022-23 to contribute to Regeneration staffing costs in order to ensure the delivery of key projects and to enable the retention of key staff shown within Appendix 3. This amount is shown in the MTFP contained within Appendix 1, and Members are asked to approve the use of the Regeneration Additional Capacity Reserve in 2022-23. **(Recommendation 24)**
75. With regard to the Transformation Reserve, it is proposed to utilise £3.000 million per annum between 2022-23 and 2024-25 to offset the non-recurrent transformation costs shown within Appendix 8. These amounts are shown in the MTFP contained within Appendix 1, and Members are asked to approve the use of the Transformation Reserve in 2022-23 and note the use in 2023-24 and 2024-25. **(Recommendation 25)**
76. It is also proposed to utilise £10.129 million of the Collection Fund Smoothing Reserve in 2022-23 to fund the forecast 2021-22 deficit on the Business Rates element of the Collection Fund and prior year deficits spread from 2020-21 on Business Rates and Council Tax and note the proposed use of this reserve to fund £0.896 million deficit in 2023-24; being the final year of the 2020-21 Council Tax

and Business Rates deficits spread over 3 years. These amounts are shown in the MTFP contained within Appendix 1, and Members are asked to approve the use of the Collection Fund Smoothing Reserve in 2022-23 and note the use in 2023-24. **(Recommendation 26)**

77. The Schedule of Reserves contained within Appendix 3 demonstrates that the financial standing of the Council is sustainable and therefore the Council is able to withstand a significant revenue shock.
78. Part Two of the Local Government Act 2003 comprises a set of duties and powers that gives statutory support to important aspects of good financial practice in Local Government.
79. Section 25 requires the Chief Financial Officer (also referred to as the Section 151 Officer) to report to an Authority when it is making the statutory calculations required to determine its Council Tax or Precept. The Authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included within the budget and the adequacy of the reserves for which the budget provides.
80. The Interim Executive Director of Finance (the Council's Section 151 Officer) is satisfied that the Council is setting a viable budget based on the assumptions contained within this report and confirms that the Council has the required financial strength within its reserves position to cope with any anticipated financial challenge.

CIPFA Financial Resilience Index

81. In December 2019 CIPFA published a Financial Resilience Index for all English local authorities. This information was presented to Members as part of the budget report in February 2020.
82. Due to Covid-19 CIPFA has not yet been able to publish an index for 2020 or 2021. A report will be brought before Members once this information is made available.

Provisions

83. The Council maintains a number of provisions which are also detailed in Appendix 3. Provisions are set aside for specific purposes and there are prescribed criteria which are set out in International Accounting Standard 37 (IAS 37), which must be satisfied before a provision can be created. Provisions are scrutinised annually by the Council's external auditors as part of the final accounts process to ensure that they comply with the requirements of IAS 37. It is essential that the Council provides for these items when the criteria set out in IAS 37 is met to prevent unbudgeted charges to the General Fund. There is a requirement to review all provisions annually to ensure they are still relevant and satisfy the requirements of IAS 37. A review of all provisions has recently been undertaken to ensure they

are still required. Appendix 3 details the outcome of the review and Members are requested to note the provisions. **(Recommendation 21)**

Service Specific Grants

84. In addition to the core funding grants detailed in this report there are a number of service specific grants which are detailed at Appendix 4. These grants are included within the baseline budget figure and total £238.825 million and Members are requested to note the grants. **(Recommendation 27)**
85. The Public Health Grant is ringfenced for the provision of services to improve the health of the local population through a sustainable health and care system by improving access, experience, and outcomes; and reducing health inequalities from deprivation, ethnicity, and vulnerable groups. The 2022-23 allocation has not yet been announced therefore it has been assumed within the MTFP that this grant will continue at its current level of £16.891 million over the duration of the MTFP. The position will be monitored and the MTFP will be updated if required. **(Recommendation 27)**

EXPENDITURE

Inflation

86. The Council, like many others, comes under increasing pressure to provide or enable essential statutory services. There are pressures within Children's and Adult's Social Care services as a result of the National Living Wage and National Minimum Wage where demand for the provision of care and support for looked after children and the elderly continues to grow. These inflationary increases add significantly to the budgetary pressures faced by the Council and are included within Appendix 5.
87. All inflationary pressures are detailed within Appendix 5 which includes the costs associated with incremental drift, pay inflation and non-pay inflation.
88. Pay inflation for 2022-23 is based on 2.25%, recognising the public sector pay restraint announced by the Government in CSR 20. Where applicable the Local Government pay award will be effective from 1 April 2022. For the purposes of the MTFP it is assumed that the pay awards will be 2.25% for each financial year.
89. Excluding hyper-inflation (recommended to be funded by the Strategic Management Reserve), total inflation equates to £19.767 million for 2022-23, £13.438 million for 2023-24; £12.239 million for 2024-25, and £12.781 million for 2025-26. It is recommended that the inflationary pressures identified in Appendix 5 for 2022-23 are approved. **(Recommendation 28)**

Demand for Services

90. The pressures facing the Council and the requirement to fund growth in services are shown in Appendices 6 and 7, with further detail in the following paragraphs. Recurrently, £8.746 million has been added to the base budget for 2022-23, £2.609 million in 2023-24; £3.261 million in 2024-25 and £0.906 in 2025-26. Also, the year-on-year increase in the revenue costs attributable to the Capital Programme, (Appendix 14), is included within the MTFP at Appendix 1. These equate to £6.081 million in 2022-23, £5.907 million in 2023-24, £16.878 million in 2024-25, and £5.783 million in 2025-26, comprising of:
 - revenue contribution to capital of £2.682 million in 2022-23, for the Choppington Primary Artificial Pitch scheme (£0.050 million), Multi Use Vehicles (£0.132 million), and the Todstead Landslip project (£2.500 million); and £12.231 million in 2024-25 and £2.442 million in 2025-26 for Schools Redevelopment;
 - income from Choppington Primary of £0.050 million in 2022-23 for the capital scheme; and,
 - revenue cost of borrowing associated with the Capital Programme of £3.449 million in 2022-23, £5.907 million in 2023-24, £4.647 million in 2024-25, and £3.341 million in 2025-26.

91. It is proposed that Members approve the 2022-23 pressures and revenue costs associated with the Capital Programme and note the 2023-24, 2024-25 and 2025-26 figures. **(Recommendation 29)**
92. In addition to the grants mentioned earlier, the Government's offer to add up to 1.00% Adult Social Care Precept, plus the remaining 1.25% unutilised Adult Social Care Precept from 2021-22, to Council Tax levels for 2022-23 has provided some additional funding to meet the increasing costs. However, there remains a significant recurrent on-going pressure which needs to be funded by the Council. The MTFP assumes an increase of 1.00% for the remaining years of the MTFP.
93. The Council has set aside recurrent funding within the Budget 2022-23 and the MTFP to address the demographic pressures in relation to both Adult's and Children's social care as well as the ongoing revenue consequences of the Council's ambitious capital investment programme and a number of other identified pressures and growth areas.
94. It is proposed that the Council continues to fund Active Northumberland up to an additional £1.000 million, for the first two years of the MTFP 2022-24, from the Council's Strategic Management Reserve. **(Recommendation 22)**
95. Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council has a 7.86% share in Newcastle International Airport Limited (NAL). Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012-13, issuing £67.665 million shareholder loan notes. The loan notes will be repayable in 2032 with interest normally being received up to that date on a six-monthly basis.
96. Due to major curtailments in the airport operation as a result of the Covid-19 pandemic the terms of these loans have been modified. Given the unprecedented circumstances the airport has deferred interest repayments for two financial years with catch up payments to be made in instalments at a later period. This will result in a loss of investment income in 2022-23 (as well as 2021-22) to the General Fund of £1.025 million and £0.513 million in 2023-24. Thereafter, it is forecast that repayment of the delayed interest will commence, replenishing the Strategic Management Reserve by £0.398 million in both 2024-25 and 2025-26. It is proposed to fund the 2022-23 delayed interest from the Council's Strategic Management Reserve and then subsequently replenish the reserve following receipt of the delayed interest. **(Recommendation 22)**
97. There are also non-recurrent issues which the Council needs to address from time to time. The MTFP identifies that £6.338 million will be required in 2022-23; £5.834 million in 2023-24; £3.409 million in 2024-25 and £0.909 million in 2025-26. Details are contained within Appendix 8. It is proposed that this one-off expenditure is approved and that when it is incurred it is funded from the Strategic Management and Council Transformation Fund Reserves. **(Recommendations 22, 25 & 30)**

98. The Council also expects to achieve non-recurrent income of £2.770 million in 2022-23 and £0.466 million in 2023-24, which is detailed in Appendix 8. It is proposed that Members note the non-recurrent income for 2022-23 and the expected receipt in 2023-24 (**Recommendation 31**)

Budget Balancing

99. The Council's Budget 2022-23 and MTFP 2022-26, which is contained within Appendix 1, has been updated to reflect the latest forecast position for both income and expenditure. The plan also highlights the value of budget measures required in order to set a balanced budget, equating to £9.704 million in 2022-23 and £40.732 million for the period 2023 to 2026. It is recommended that the identified efficiencies of £9.704 million for 2022-23, which are detailed in Appendix 9 are approved. **(Recommendation 32)**
100. The Schedule of Efficiencies contained in Appendix 9 has been agreed by the individual Cabinet Members. Any efficiency proposals that are considered to represent a risk will be subject to a separate comprehensive risk appraisal process. The risk appraisal process is the responsibility of the relevant Executive Director and will continue up to the County Council and beyond as individual budget reduction measures are implemented.
101. In addition, the potential impact of the proposed budget balancing measures on the Council's public sector equality duties has been considered by officers in each Directorate, and where screening identifies a need, detailed equality impact assessments have been carried out on the proposals. In some cases, these are provisional and will be reviewed before final decisions are made to implement these proposals. If this process makes it clear that there are unacceptable equality impacts which cannot be mitigated by adjustments within the proposal itself, the relevant Executive Director will be expected to find alternative compensating savings which they will agree with their relevant Cabinet Member. The Executive Director of Adults and Children's Services has provided an initial assessment of the overall equality impact of the budget proposals, shown at Appendix 10. This will be updated further as the budget process continues. Equality impacts will be considered further and subject to a comprehensive risk appraisal process as appropriate. Members are requested to note the Corporate Equality Impact Assessment shown at Appendix 10. **(Recommendation 33)**
102. A number of the proposals will require active management and each Executive Director will be responsible for their successful delivery.
103. If a proposal cannot be implemented either partially or in full the Executive Team will be expected to recommend alternative compensating savings for consideration.

Budget by Service Area

104. The 2022-23 budget is shown by service area at Appendix 11. This highlights expenditure, income, inflation, grant funding changes, pressures, savings and the proposed final budget 2022-23 by service area. Members are requested to note Appendix 11. **(Recommendation 34)**

Grant Funded Revenue Schemes

105. There may be instances throughout 2022-23 when additional unforeseen external revenue grant funding is received for a specific purpose. In these circumstances where the revenue scheme is fully funded from external grant, it is proposed to delegate authority to include the scheme and its funding within the 2022-23 revenue budget to Cabinet. **(Recommendation 46)**

Summary

106. The financial position of the Council over the period 2022-26 is detailed within Appendix 1.
107. It is recommended that Members approve Appendices 1, 2, 5, 6, 7, 8 and 9.

SCHOOL FUNDING

108. The Dedicated Schools Grant is a ring-fenced grant from the Department for Education to be spent on the education of pupils both in and out of school. The available grant funding for 2021-22 (after academy recoupment), which Members are requested to note is forecast to increase by £0.548 million from the 2021-22 original allocation to £146.729 million. This is as a result of additional High Needs block funding for increased Northumberland Special Educational Needs (SEN) pupils remaining in schools and academies within the county instead of attending those schools in other authorities.
109. The provisional value of the Dedicated Schools Grant for all schools in Northumberland (including Academies) for 2022-23 is £274.691 million. This is an increase of £10.341 million when compared to the 2021-22 original allocation across the Schools Block and High Needs Block. This is due to an increase in the funding rates per pupil, increased numbers of SEN children and the inclusion of additional High Needs funding for the Health and Social Care levy and wider cost pressures across the sector of £1.646 million. Mainstream schools will also receive funding for the Health and Social Care levy, but this will be met through a new grant for schools. The Council will receive £152.123 million which Members are requested to note. **(Recommendation 35)**
110. The Dedicated Schools Grant is divided into four notional blocks:
- Schools Block
 - Central School Services Block
 - High Needs Block
 - Early Years Block
111. Virement between the 4 notional blocks of up to 0.50% is possible by the local authority with school forum approval.
112. The Schools Block is in two parts:
- The Individual Schools Budgets (ISB) - Each school's ISB is calculated using the funding formula already approved by the Cabinet.
 - Central schools block – This block is used to meet the cost of statutory services provided to all schools including academies.
113. The High Needs Block will include funding for the additional needs of pre and post 16 students in Maintained Schools, FE Colleges and other establishments.
114. The Early Years Block includes funding for 2-year-old provision for the 40.00% most disadvantaged pupils as well as the statutory offer for 3- and 4-year-olds.
115. The implementation of the National Funding Formula has been further delayed. As in 2021-22, for 2022-23 there will be a phased transition from the current local formula as approved by Cabinet and there is a commitment from the Schools' Forum to match the formula values by 2023-24.

116. The Dedicated Schools Grant is currently predicted to underspend by £1.764 million in the financial year 2021-22 predominantly due to Contain Outbreak Management Funding that has been utilised in the current year to support Northumberland pupils on their return to school and the impact of Covid-19 on their education and wellbeing.

HOUSING REVENUE ACCOUNT

117. The Council is required by the Local Government and Housing Act 1989 to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing/tenant related services from this account.
118. The Council is also obliged to produce a HRA MTFP which is reviewed and updated on an annual basis. The current business plan clearly indicates that the Council can maintain its properties to the Decent Homes Standard for the full 30 years of the plan (which runs to 2052).
119. The Council keeps two HRA specific reserves that are required under statute:
- Housing Revenue Account Balance - This is a reserve and holds the HRA accumulated surpluses. It can be used to contribute to balance the revenue budget in year or to contribute to fund schemes within the capital programme.
 - The HRA Major Repairs Reserve (MRR) - This reserve was created to fund capital works to maintain the Council's housing stock or to repay debt.
120. The balance on the HRA account was £28.890 million at 31 March 2021 and is planned to increase to £29.596 million by 31 March 2022.
121. The HRA cannot be subsidised by the Council's General Fund and therefore needs to maintain an adequate level of reserves. Risks to the HRA include Central Government's influence in rent setting; increased borrowing costs due to interest rate increases; more homes purchased under right to buy regulations; the need for unplanned capital expenditure; the potential impact arising from the roll out of Universal Credit; and higher levels of pay awards and inflation than included in the plan. The HRA MTFP maintains a significant level of reserves which is considered to be adequate.
122. At this time, it is not proposed that current loans are repaid; and any loans maturing will be refinanced.

Right to Buy

123. The HRA MTFP assumes that the current Right to Buy policy will continue, and this is reflected throughout the plan as a reduction to tenant's rental income. Capital receipts from Right to Buy sales is estimated to contribute £6.701 million towards the Capital Programme between 2022-23 to 2025-26.

Rent Increases

124. On 26 February 2019, the Government issued a new Direction that requires the regulator of social housing to set a new rent standard for registered providers with effect from 1 April 2020. It is accompanied by a policy statement which sets out the Government's policy on rents for social housing from 1 April 2020. The standard states that the maximum allowable rent increase for the year will be the

Consumer Price Index (CPI) as at September plus 1.00% for the following 5 years. (new 2020 Limit Rent).

125. For the period 1 April 2022 to 31 March 2023, it has been assumed that the Council will apply a rent increase equivalent to CPI of 3.10% plus 1.00%.

Existing Housing and Affordable Housing Investment Programme

126. The HRA MTFP and 30-year Business Plan have been updated to fund £48.221 million of capital expenditure towards the Affordable Housing Investment Programme for the period 2022-23 to 2025-26.

127. In order to fund this programme, the MTFP includes:

- New borrowing of £15.000 million.
- External grant support of £8.610 million from Homes England. The Council was successful in securing funding through the previous Affordable Homes Programme (2016-21) for projects that are on target to complete by 31 March 2022. The next tranche of Affordable Homes Funding (2021 to 2026) has been launched by Homes England and the Council is currently working up schemes that could be bid for under the Continuous Market Engagement (CME) route on a scheme-by-scheme basis. Applications will be assessed against:
 - a. Cost Minimisation (grant per home); and,
 - b. Deliverability (within funding timeframe); and,
 - c. how they align with strategic objectives - use of Modern Methods of Construction (MMC), use of the National Design Guide, working with local small to medium sized (SME) house builders, provision of rural housing and supported housing.

In recognition of the costly nature of addressing such objectives indications are that the Council will be able to secure higher grant rates than previously achieved if schemes are aligned to them. Six of the Homes England Strategic Partners (Karbon, Riverside, Thirteen, Places for People, Vistry and Sage) already operate in Northumberland and due to their strategic status have secured significant longer-term funding that they have indicated could be used to support schemes within the county if they identify the right sites.

- Utilisation of the Capital Investment Reserve totalling £17.910 million; and,
- Use of capital receipts of £6.701 million generated from the Right to Buy sales.

128. The provision of affordable homes is a key priority for the Council. The Council is committed to increasing the provision of affordable homes through an ambitious capital programme using a combination of direct delivery, acquisitions and partnership work with other developers and registered providers of social housing. The priority is to deliver the right tenure of housing on the right scale for the local

area by the right landlord. The Housing Delivery team will work with other registered providers where the Council is not best placed to deliver what is required.

129. The extent to which the HRA will contribute to the delivery of new homes will be informed by both the need to bring forward new council housing in areas of greatest priority and the investment needs of the existing stock. A revised Housing Asset Management Strategy is being developed that will reflect emerging investment pressures and priorities for social landlords as well as the key strategic aims of the Council.

130. As part of the commitment to bring forward new affordable homes, the following schemes are actively being progressed:

- Building new affordable homes on 7 identified Council sites is currently progressing, including development of infill sites on existing estates.
- Conversion of 10 Council-owned garage sites into 30 new high quality, modern and accessible bungalows.
- A targeted acquisition programme, to purchase affordable Section 106 units from developers including Advance Northumberland.
- A targeted purchase and repair programme bringing 10 empty properties and former right to buy properties back into use as affordable rented homes in areas where the Council already has stock.
- Conversion of warden's accommodation to form 3 new affordable units.
- Demolition of an obsolete block of flats and re-provision at a higher volume.
- Delivery of 12 new build Dementia Care bungalows on a Council site to reflect the objectives set out within the Extra Care and Supported Housing Strategy.
- Delivery of 9 new build bungalows on an Advance Northumberland owned site.
- Acquisition of 3 identified sites for new build development are currently progressing with the Police Authority and 2 private landowners.
- Part of the HRA Asset Strategy will be to identify further opportunities for regeneration, development, and conversion within existing estates. e.g. low demand flats or maisonettes.

131. In addition to the Affordable Homes Programme, referenced above, officers are actively involved in bidding for grant to bring forward housing development in its widest sense through partnership with the North of Tyne Combined Authority and Homes England. This includes funding from the Brownfield Housing Fund, designed to address viability gaps on challenging sites and a wider pipeline of strategic regeneration priority sites for the Council. Where sites fall within HRA

operating areas and there is an opportunity to bring forward developments that will enhance the portfolio of council housing these will be explored.

Major Repairs Reserve

132. The Council is required to maintain a Major Repairs Reserve (MRR) with the main credit to the reserve being an amount equal to the total depreciation charge for all HRA assets.
133. The HRA MTFP includes provision for depreciation charges to increase in line with new capital expenditure and then by 0.50% each year with an assumption that the value of housing stock will increase. Any deviation from this assumption will affect the amount that is transferred into the MRR to fund future capital works.
134. The HRA MTFP assumes that the current adjustment factor for valuation of the housing stock for Northumberland of 44.00% of Market Value (Existing Use Value-Social Housing) will continue to apply throughout the plan for the purpose of valuation and depreciation.
135. The expenditure within the HRA MTFP for MRR, includes a planned programme of replacement roofs, kitchens, bathrooms, rewires and heating systems, along with other improvement schemes. The current 8-year plan which started in 2018-19 assumes that £75.000 million will be spent on maintaining the housing stock to a decent homes standard. It is £39.612 million for the period 2022-23 to 2025-26.

Emerging Issues

136. Alongside the development of new homes, there are a number of emerging challenges and pressures on the existing stock that will need to be managed through increased investment and funded from the Major Repairs Reserve:
 - Energy Efficiency – Linked to the Climate Change Commitment, work is ongoing to attract external funding to tackle hard to heat homes and invariably this will require an element of capital funding to subsidise the cost of works.
 - Building Safety – Through the Housing White Paper there will be increased obligations placed on social landlords in terms of areas of compliance and building safety (Fire Safety, electrical testing etc).
 - Housing Disrepair – the Fitness for Human Habitation Act that came into force for existing social tenants in April 2019, is giving rise to potential disrepair claims across the sector. The situation is being monitored.
 - Beyond Decent Homes – Alongside cyclical replacement of key decent homes elements (kitchens, bathrooms, heating systems etc) there are emerging investment needs linked to structure and age of the properties within the portfolio. Northumberland holds a number of non-traditional homes that will require significant investment or intervention. Additionally, environmental improvements that are contributing to low demand in some

areas may need to be prioritised and feature in the capital programme to ensure continued viability.

- The Independent Supported Living Agenda – working alongside adult services, to ensure that the offer in terms of specialist and supported accommodation is aligned to local need and properties are fit for the future.

Annual Review

137. The HRA MTFP is subject to formal annual review and is part of existing budget monitoring arrangements, which allows any policy changes or impact upon the plan to be identified and any significant changes to be reported.

Summary

138. The proposed 2022-23 Housing Revenue Account budget and HRA MTFP 2023-26 is attached at Appendix 12. An indicative 30-year business plan, showing the projected position at five yearly intervals, is also included for information.

139. Members are requested to:

- Agree the Housing Revenue Account 2022-23 budget as detailed within Appendix 12, which will reduce the balance on the HRA reserve from £29.596 million at 31 March 2022, to £22.011 million at 31 March 2023; and note the indicative budgets to 2025-26 which will reduce the balance of the HRA reserve to £16.637 million. **(Recommendation 36)**
- Note that from 1 April 2022 in line with the Rent Standard for rent setting for Council tenants, the budget detailed in Appendix 12 assumes that rents and service charges will rise by the Consumer Price Index of 3.10% plus 1.00% for the period 1 April 2022 to 31 March 2023. **(Recommendation 37)**
- Approve the increase of 4.10% for Housing rents from 1 April 2022. **(Recommendation 38)**
- Note the indicative 30-year Housing Revenue Account business plan as detailed within Appendix 12. **(Recommendation 39)**
- Note that £48.221 million has been set aside over the period 2022-23 to 2025-26 in the HRA Capital Programme to invest in Affordable Housing. Details are set out in Appendix 12. **(Recommendation 40)**

CAPITAL EXPENDITURE

Capital Strategy 2022-23 to 2025-26

140. The Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management revised Code of Practice and the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made. The Capital Strategy should form a part of the authority's integrated revenue, capital and balance sheet planning.
141. Appendix 13 sets out a proposed Capital Strategy for the Council.
142. Members are recommended to approve the attached Capital Strategy at Appendix 13. **(Recommendation 41)**

Capital Programme 2022-26

143. There is a revised Capital Programme covering the period 2022-26 within Appendix 14. The inclusion of a scheme in the programme signifies approval in principle; but each individual scheme will be subject to business case approval in line with the Council's Constitution.
144. The programme is largely based on that agreed in February 2021 but adjusted to reflect:
- a) re-profiling estimates from 2021-22 of £99.328 million.
 - b) further proposed re-profiling from 2022-23 of £20.281 million to 2023-24, £9.400 million to 2024-25 and £1.000 million to 2025-26, and
 - c) net changes over the period 2022-26 of £118.380 million which are detailed in Appendix 15; comprising of new projects agreed during the year by Cabinet; other newly identified commitments and a number of scheme either reducing or being removed from the programme as part of the budget setting process. The change of £118.380 million equates to a net increase in Council resource requirements over the period 2022 to 2026 of £71.649 million (£62.986 million for existing projects and £8.663 million for new projects), and a net increase in external grant contributions of £46.731 million. These figures are exclusive of the re-profiling mentioned above of £99.328 million. Members are requested to note the changes contained within Appendix 15. **(Recommendation 42)**
145. The Capital Programme includes £25.593 million for the Blyth Relief Road project that will complete after 2025-26. Members are requested to approve this commitment. **(Recommendation 42)**
146. Members are recommended to approve the revised Capital Programme as detailed within Appendix 14. **(Recommendation 42)**
147. Within the revised Capital Programme there is an indicative grant allocation from the Department for Transport for the Local Transport Programme (LTP). County

Council Members and Town and Parish councils will be consulted in the development of the proposed LTP Programme as part of the prioritisation process. Members are recommended to approve the delegation of the detail of the final Local Transport Programme, and any subsequent in-year amendments to the Executive Director responsible for Local Services and the Leader of the Council.
(Recommendation 43)

148. Within the Capital Programme there is also an allocation of £2.225 million in 2022-23 for highway maintenance investment in U and C roads and footways. Members are recommended to approve the delegation of the detail of the capital allocation for highways maintenance investment in U and C roads and footways to the Executive Director responsible for Local Services and the Leader of the Council.
(Recommendation 44)

HRA Capital Programme

149. The business case demonstrates potential capital expenditure over the MTFP of up to £87.833 million which is included in Appendix 14.

Flexible Use of Capital Receipts

150. Councils are generally only allowed to spend capital receipts - the money received when an asset is sold - on further capital projects or set aside the money for the repayment of debt. However, as part of the Local Government Settlement for 2016-17, Government announced greater flexibility for councils in how they make use of capital receipts by allowing them to use the receipts (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings.
151. In December 2017, and again in February 2021, the Secretary of State announced further continuation of the capital receipts flexibility programme. The latest announcement provides a 3-year extension for receipts received from 2022-23 onwards.
152. The flexibilities enable councils to use income from the sale of certain assets to fund the short-term revenue costs that support qualifying invest-to-save and efficiency projects in order to provide revenue savings in the future.
153. Qualifying expenditure under the guidance is defined as: "Expenditure on any project that is designed to generate on-going revenue savings in the delivery of services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demands for services in future years for any of the public sector delivery partners."
154. It is proposed that the Council utilises this flexibility for up to £0.500 million of capital receipts in 2022-23 on qualifying projects. It is proposed that approval of individual projects within these allocations is delegated to the Cabinet.
(Recommendation 45)

155. The proposal is not anticipated to have any revenue impact, as many of the qualifying projects will themselves provide on-going revenue benefits/efficiencies, which would in turn offset the additional cost of borrowing.

Grant Funded Capital Projects

156. There may be instances throughout 2022-23 when additional unforeseen external capital grant funding is received for a specific purpose. In instances where capital projects are fully funded from external grant sources it is proposed to delegate authority to include these projects and their funding within the capital programme to Cabinet. **(Recommendation 46)**

Prudential Borrowing Indicators

157. As a result of the revisions to the Capital Programme the Prudential Borrowing Indicators have been updated for the next four years. Prudential Indicators for approval are detailed within Appendix 16. **(Recommendation 47)**

Annual Minimum Revenue Provision Policy Statement

158. The proposed policy is enclosed at Appendix 17. The policy is unchanged from 2021-22.

159. On 30 November, the Department for Levelling-Up Housing and Communities (DLUHC) launched a consultation on proposed changes to the guidance for calculating the Minimum Revenue Provision for local authorities. The outcome of this consultation is expected to be implemented from 1 April 2023. The Minimum Revenue Provision Policy will be updated if required to reflect the outcome of the consultation.

160. Members are requested to approve the Annual Minimum Revenue Provision Policy. **(Recommendation 48)**

TREASURY MANAGEMENT

161. The proposed Treasury Management Strategy for 2022-23 is attached at Appendix 18. The report was also be considered by the Audit Committee on 26 January 2022. Any subsequent amendments following Audit Committee will be updated for the final report to the County Council in February.
162. Cabinet is requested to endorse the proposed Treasury Management Strategy Statement included at Appendix 18 and recommend its approval to the County Council. **(Recommendation 49)**

FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT

163. The provisional Local Government Finance Settlement 2022-23 was announced on 16 December 2021 and the figures contained within this report are based on this announcement. However, there is currently a consultation period which could alter these figures. The outcome of the consultation will be announced in February 2022 as part of the final Local Government Finance Settlement. It is not expected that the figures will change significantly. However, in the event that they do change it is proposed that delegated authority is approved for the Council's Section 151 Officer in consultation with the Portfolio Holder for Corporate Services to amend the 2022-23 budget if necessary. **(Recommendation 50)**

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	This is the first year of the MTFP 2022-26. The plan supports the priorities outlined in the Corporate Plan.
Finance and value for money:	The financial implications of the 2022-23 budget and the MTFP are detailed within this report. Financial year 2023-24 and beyond will continue to be challenging.
Legal:	The Council has a statutory responsibility to set a balanced budget for 2022-23. It also has a fiduciary duty not to waste public resources.
Human Resources:	The size of the financial challenge will have an impact on staffing levels across the Council. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible.
Property:	A significant proportion of the Capital Programme refers to property and assets. The estates rationalisation plan has now been implemented and is on-going.
Equalities: (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	The Executive Director of Adults and Children's Services has provided an overarching equality review, which identifies the main issues that need to be considered in setting the budget. Cabinet will be asked to consider changing the budget proposals should it at a later stage prove not to be possible to mitigate an unacceptable equality impact.
Risk Assessment:	The risks associated with the budget proposals are regarded as acceptable, but these risks will continue to be reviewed up to and including implementation of the detailed proposals.
Carbon Reduction:	The Council continues to develop proposals concerning the management of energy which are supported by the budget.
Crime & Disorder:	There are no specific crime and disorder implications within this report.
Customer Considerations:	The individual proposals will carefully consider the impact upon both customers and residents of Northumberland.

Consultation: During December 2021 and January 2022 consultation on the 2022-23 budget and MTFP has taken place at the five Local Area Councils in Northumberland. The report has also been subject to a review by an all-member Corporate Services and Economic Growth Overview & Scrutiny Committee. This meeting will consider the views of Scrutiny before making final recommendations to the County Council.

Health & Wellbeing The Council's budget is founded on the principle of promoting inclusivity.

Wards: All wards.

BACKGROUND PAPERS:

Date	Report to	Report
24 February 2021	Full Council	Budget 2021-22 and Medium-Term Financial Plan 2021-24
3 November 2021	Full Council	Approval of the Council Tax Support Scheme for 2022-23
18 November 2021	Cabinet	Budget 2022-23 and Medium-Term Financial Plan 2022-2025
7 December 2021	Cabinet	Approval of the Council Tax Base 2022-23
11 January 2022	Cabinet	Estimated Year End Collection Fund Balances – Council Tax and Business Rates
26 January 2022	Audit Committee	Treasury Management Strategy Statement for the financial year 2022-23

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

	Name
Interim Monitoring Officer	Suki Binjal
Interim Executive Director of Finance & Section 151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
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List of Appendices

Appendix 1	Budget 2022-23 and Medium-Term Financial Plan 2022-26
Appendix 2	Reserves Policy 2022-23
Appendix 3	Schedule of Reserves and Provisions 2022-26
Appendix 4	Service Specific Grants 2022-23
Appendix 5	Inflation Schedule 2022-23
Appendix 6	Recurrent Pressures Schedule 2022-26
Appendix 7	Growth Schedule 2022-26
Appendix 8	Non-Recurrent Pressures and Income Schedule 2022-26
Appendix 9	Schedule of Efficiencies 2022-26
Appendix 10	Corporate Equality Impact Assessment
Appendix 11	Budget by Service Area 2022-23
Appendix 12	Housing Revenue Account MTFP and Business Plan
Appendix 13	Capital Strategy 2022-23 to 2025-26
Appendix 14	Capital Programme 2022-23 to 2025-26
Appendix 15	Net Movement in the Capital Programme 2022-26 (excluding slippage)
Appendix 16	Capital Prudential Indicators 2022-23 to 2025-26
Appendix 17	Annual Minimum Revenue Provision Policy Statement 2022-23
Appendix 18	Treasury Management Strategy Statement 2022-23