Medium Term Financial Strategy

2025/26 to 2028/29

North Norfolk District Council

Executive Summary

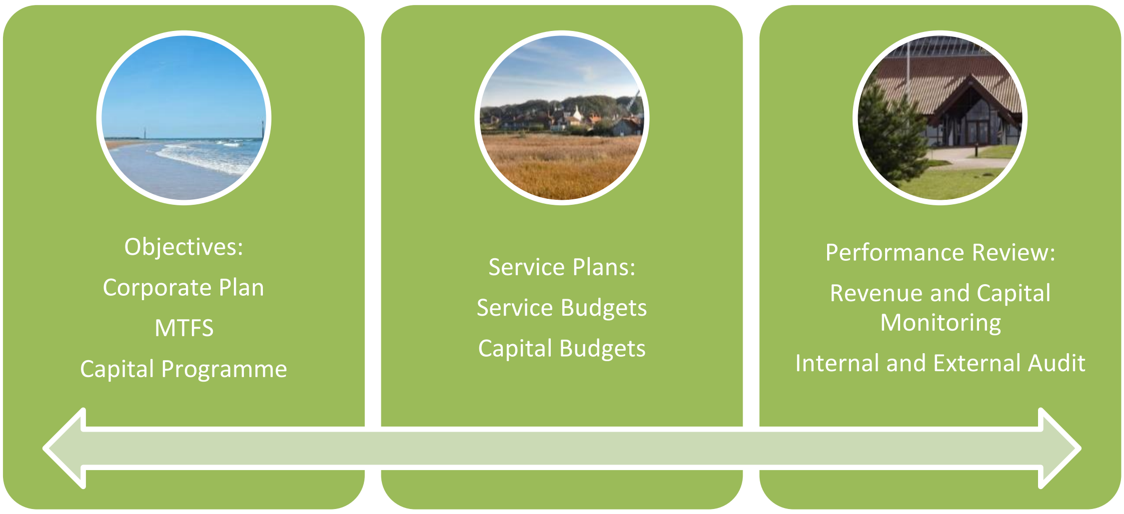
North Norfolk District Council's Medium Term Financial Strategy (MTFS) is a strategic document that supports the delivery of the Corporate Plan. The MTFS sets out how Council's priorities will be achieved by setting out the framework within which resources are available to the Council over the medium term and the financial challenges facing the Council in terms of future funding gaps. If approved by full Council on 19 February 2025 quarterly updates will be presented to Members alongside the budget monitoring reports.

The MTFS aims to:

- provide a high-level assessment of the resources available and outlines the projections for the following four financial years (beyond the current year);
- refresh the financial projections taking into account a number of local and national factors. These will include known spending pressures and commitments, along with forecast future funding reductions and the impact of the national economic outlook;
- provide preparatory work for the following year's budget;
- explore the demands on the capital programme both in terms of ambition and resources along with the impact on the revenue account and reserve levels held by the Council;
- address the sustainability of the Council's financial position.

The MTFS is fundamentally linked to the Corporate Plan, a summary of which can be found at: https://www.north-norfolk.gov.uk/media/9394/corporate-plan-2023-to-2027.pdf

The following diagram provides an overview of the financial processes undertaken by the Council to ensure value for money for tax payers.



The Council is currently projecting a deficit position for the coming years. Forecasting the deficit allows the Council time to plan mitigating actions more effectively, meaning they are more likely to be successful. This strategy will explore some of the Council's plans for addressing this deficit.

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1. Context

The population of North Norfolk is gradually increasing, with residents living longer. There is a higher than average number of residents migrating into the district, particularly in the 50-64 years age group as people retire to the area. When compared to county and regional averages, there are far more over 55 year olds proportionately that live in North Norfolk; this puts pressure on services such as Adult Social Care in the district.

North Norfolk has a fairly low index of deprivation score, but it is higher than the Norfolk and East of England averages. Areas of deprivation often require higher levels of service provision and put pressure on the budgets of both NNDC and the County Council. The Ministry of Housing and Local Government measures deprivation for all areas across England the measure “Barriers to Housing and Services domain” measures the physical and financial accessibility of housing and local services. This statistic shows that within North Norfolk residents suffer the highest levels of deprivation i.e. there isn’t enough housing available, and it is not affordable. This is an increasing issue in North Norfolk.

North Norfolk has proportionally more residential property sales than the East of England average, with house prices higher than the County average. The unaffordability of houses and number of second homes is proportionally higher in North Norfolk and is on the increase. The high number of second homes particularly increases the burden on Council services, as well as affecting the sense of community in individual areas with a high number of second homes.

Within the district there is a wide range of businesses across all sectors. The strongest business sectors in the district are:

- Accommodation and food services
- Manufacturing
- Arts, entertainment and recreation
- Retail

There is a higher than average number of micro-businesses in North Norfolk and this trend is increasing. This area has a lower than average number of new business start-ups. The Council offers support for small businesses in the district through various Business Rates relief schemes.

By far the largest part of the North Norfolk economy is dependent on tourism and travel to the area, with the Council itself benefiting directly from tourism in the form of car parking income. Visitor trips to North Norfolk are increasing, with July, August and December being the most popular months for tourists. The high season has extended over the years with this now seen as being from April to October taking in the school holidays. Overall, visitors’ spending and the numbers of jobs in the tourism sector are both increasing year on year.

2. National Pressures

Some financial pressures are driven nationally and are beyond the control of the Council and may come about due to policy directions or new legislation from Central Government. Some of these which act NNDC are shown below.

National Pay Review

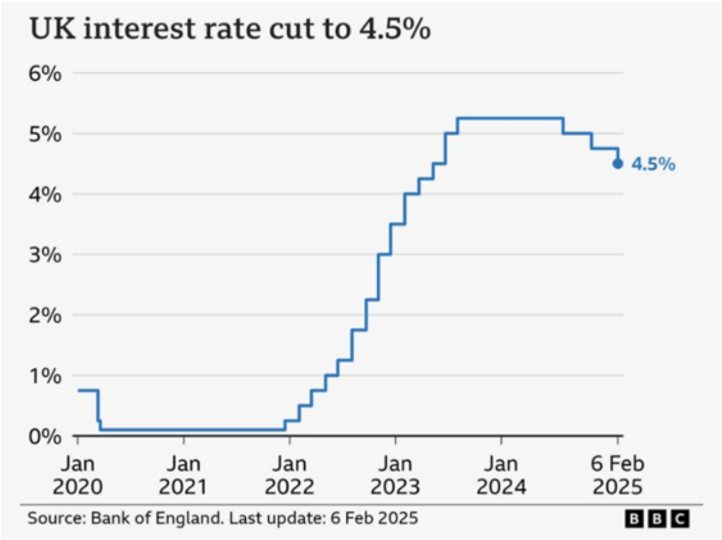
The discussions on pay come at a time whereby other public sectors have negotiated pay deals with junior doctors agreeing a 22.3% increase in pay over two years, alongside teachers who have negotiated a 5.5% pay increase. NHS Nurses and allied staff have recently been awarded a 5.5% pay increase.

For Local Government specifically, the 2022/23 and 2023/24 pay awards have been given as a flat rate increase for all NJC staff at £1,925 per annum (an average increase of around 5% for each year). The pay award for 2024/25 was agreed as a flat rate increase of £1,290 for NJC staff (an average of around 3.4%).

Interest rates

Interest rates fluctuate based on several factors, driven primarily by economic conditions, Bank of England policies, and market dynamics

The current Bank of England base rate is 4.50%, following a 0.25% reduction on 6 February 2025. The graph below (Source: BBC News 6 Feb 2025) shows the significant rate increases throughout the past 4 years peaking at 5.25% in August 2023 aimed at controlling inflation. The Bank of England base rate was reduced to 5% in August 2024, then reduced again to 4.75% in November 2024.



Financial market analysts and experts are expecting that the Bank of England that further cuts to the base will take place during over the coming year. Now that the inflation rate seems to be under control, with it falling to 2.5% in December, the focus has shifted to the stagnating economy and lack of growth in the economy. It is hoped that the lower interest rates will encourage more spending and stimulate the economy.

The fluctuating interest rates have an impact on the Council's Treasury Management Strategy. Investment income remains a crucial source of revenue derived from the investment of reserves and surplus funds, including the timing of daily cash inflows and outflows.

Higher interest rates improve returns on investments, but increase the cost of borrowing, therefore meaning that whilst the interest rates remain high any borrowing either short term to cover potential shortfalls in cash flows, or longer-term borrowing will be more expensive. Therefore, careful consideration needs to be given to the timing of taking longer-term borrowing as interest rates are predicted to fall. Internal borrowing is an option during these uncertain times, but this is at the cost of investment income.

3. Local Pressures

Local Economic changes

NNDC derives significant sums of income from fees and charges for services such as car parking and planning. These will be affected by factors outside the Council's control, such as the weather, consumer confidence and the general health of the economy.

Coastal Erosion & Environmental considerations

North Norfolk's coastline is vulnerable to erosion and the impacts of climate change. Protecting coastal areas and managing flood risks is a growing priority that requires significant investment. The council must also address the environmental sustainability of its services, which includes reducing carbon emissions. Grants are sought where possible for such coastal schemes.

Local Council Tax Support Schemes (LCTS)

The LCTS scheme was introduced in April 2013 as a replacement for Council Tax Benefit as part of the government's wider welfare reforms to reduce expenditure, giving responsibility of the replacement scheme to Local Councils. NNDC's scheme has remained unchanged since then.

Billing authorities were given the discretion to set their own scheme for working-age people. The scheme still have to offer 100% maximum support for low-income pensioners, as they did under the system of Council Tax Benefit. The funding for the LCTS forms part of the overall Local Government Funding system as non-ring-fenced funding within the Revenue Support Grant (RSG) and baseline funding level. The local scheme (for North Norfolk) has remained the same since it was introduced in 2013/14.

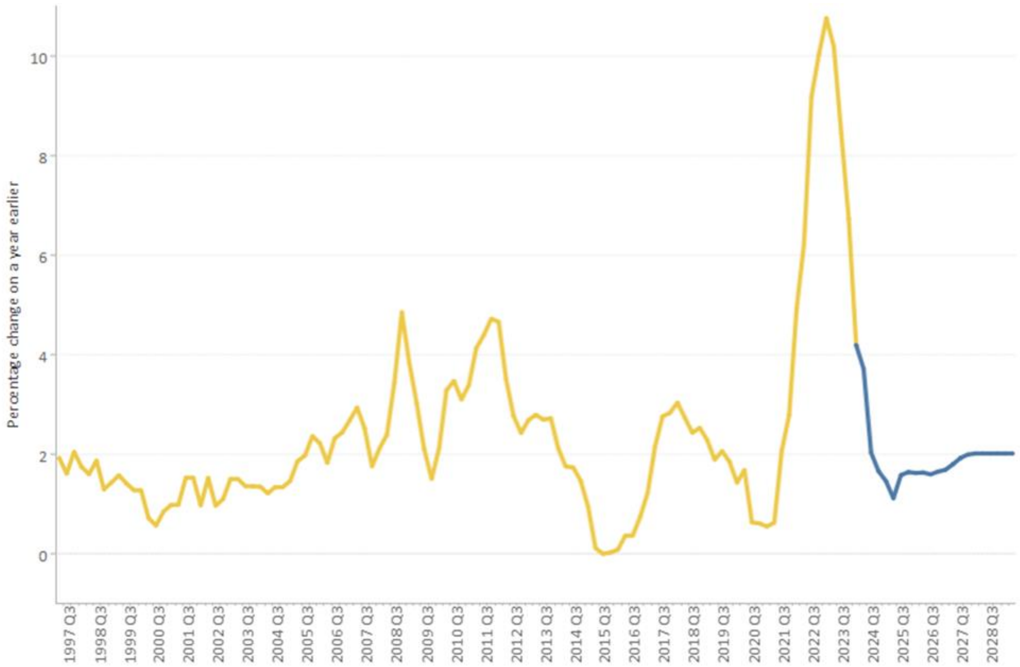
During 2024/25 a Council Tax Support Working Group was set up to review the scheme for working-age people. The purpose of the review was firstly to align the scheme with the Universal Credit so that efficiencies could be achieved and secondly to achieve some savings through the impact it has on the taxbase. As part of the review an extensive consultation exercise took place. The revised scheme was approved by full Council on 29 January 2025 and can be viewed here.

4. Inflation

Inflation is the rate at which the prices for goods and services that the Council buys are expected to rise. At the end of September, Consumer Price Index (CPI) inflation was at 1.7%, largely in line with the Government's target rate of 2%

Inflation in recent years has been particularly volatile. Inflation peaked at 11.1% in October 2022. This spike was driven largely by global supply chain disruptions, surging energy costs attributable to geopolitical tensions, and the economic recovery following the COVID-19 pandemic. The Bank of England Monetary Policy Committee (MPC) has been increasing the base rate to bring inflation back to the Government 2% target. Since the peak of inflation, it has slowly been brought back under control with the latest CPI inflation in December 2024 being 2.5%. The MPC have brought the interest rates down from 5.25% in by 25 basis points in August 2024, November 2024 and February 2025 to 4.50%. The financial markets are expecting further cuts. Now that the inflation rate is under control the MPC need to address the stagnating economy and lack of growth in the economy, even though this will probably lead to an increase in the rate of inflation later in the year. The Office for Budget Responsibility is forecasting an average rate of inflation for 2025 of 2.6%. The chart below shows historic rates and forecast rates of inflation.

Chart 1 – Inflation Forecast 2024/25 onwards (source OBR)



Source: ONS, OBR

General prices and contracts –The Council's major e.g. the waste contract, use different indices to calculate annual increases, and depending on the direction of travel for these it can have a significant impact on the annual contract price increases.

Income (fees and charges) – In recent years budgets for fees and charges have included a percentage increase reflecting the rate of inflation at the time, unless there have been specific reasons for higher or lower increases or alternatively where the Council is not able to influence them.

5. Funding changes

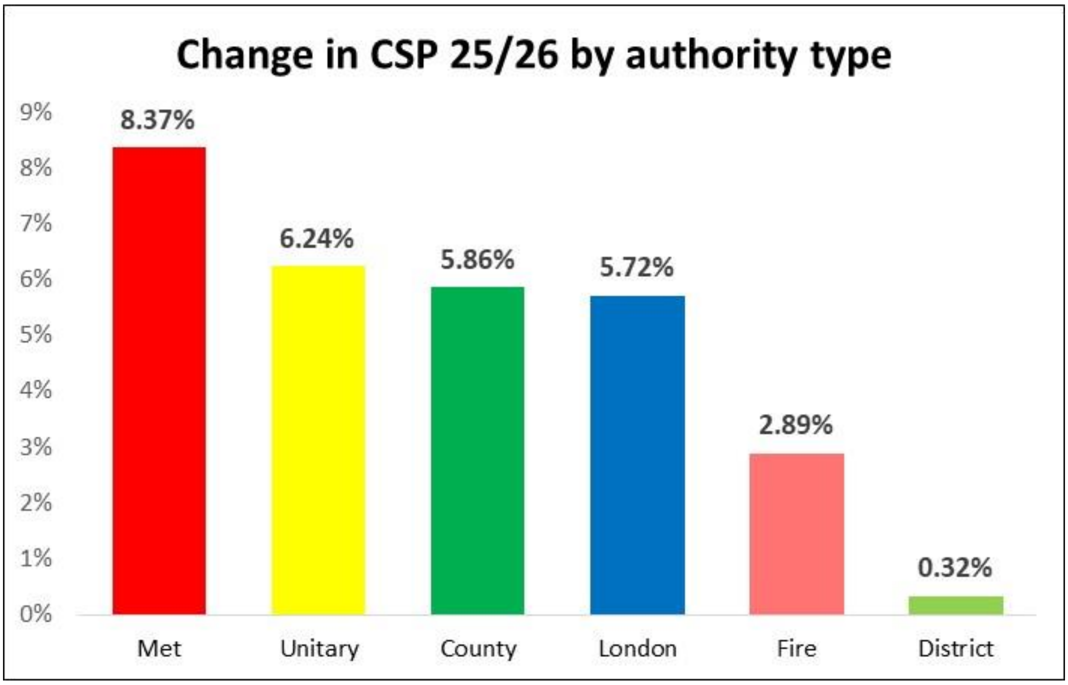
Local Government is currently going through a significant period of change in terms of the way it is funded and the way the funding elements are to be calculated for the future.

Settlement Funding

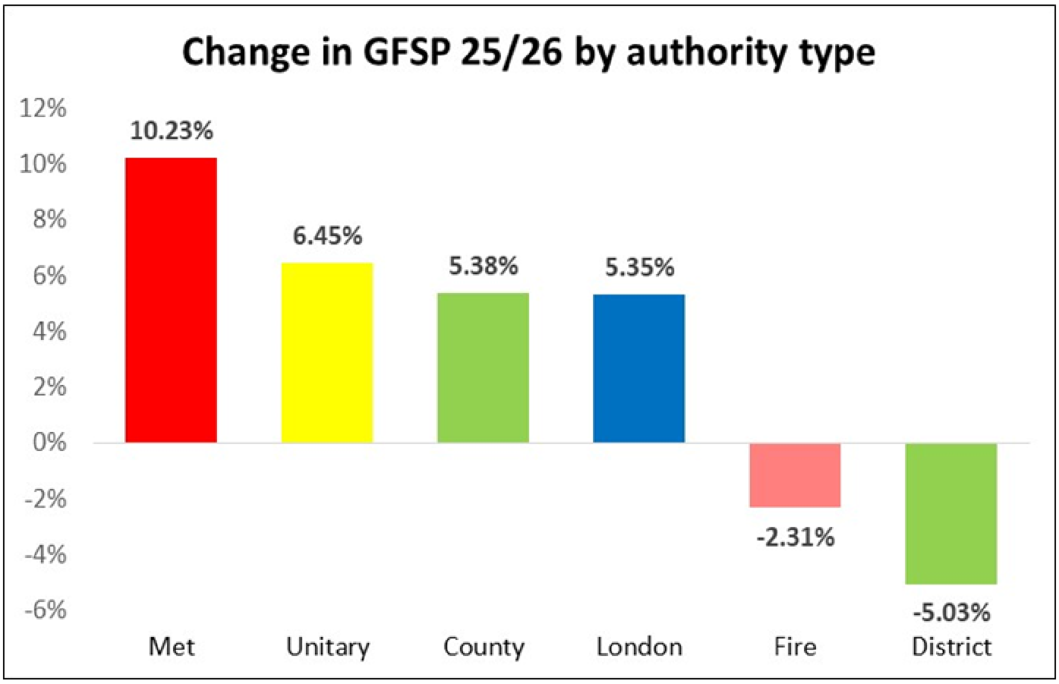
The Local Government funding settlement is issued each year by the Ministry of Housing, Communities and Local Government (MHCLG) and for NNDC has comprised several elements. These include Revenue Support Grant, New Homes Bonus, Baseline Funding Level (via the Business Rates Retention Scheme), Council Tax and Rural Services Delivery Grant.

The Government's Autumn Statement announced on 30 October 2024 set the scene for what to expect in the Local Government Settlement. It was announced that there would be an additional £1.3bn for local government that would be distributed through the settlement. However it, along with the policy statement the government published on 28 November 2024 gave councils notice of our proposals for the 2025-26 local government finance settlement, including how it intended to redistribute the £1.3 billion additional funding. The funding would be distributed based on need.

The redistribution of funding hit district councils hard with the redistribution being towards authorities with Adult Social Care and Children's Services along with the abolition of several grants e.g. Rural Services Delivery Grant which the Council received. The chart below (source: Pixel Financial Management) shows the increases in Core Spending Power by each authority type. There were 133 of the 164 district councils which received no increase at all and the total £121m made available for floor funding went to district councils.



The Core Spending Power (CSP) for each authority assumes that councils apply the maximum council tax increase. If council tax income is taken out of the calculation the change in CSP shows how the government funding has been redistributed. The chart below (source: Pixel Financial Management) shows how the government funded spending power was distributed.



<u>Spending Review/Fair Funding Review/Business Rates Reform</u>

The government have committed to re-introducing multi-year settlements which will give local authorities greater certainty over their future spending plans. The details of this have not yet been announced.

The Fair Funding Review has been on the horizon for a number of years, and work on this has been taking place. The review it is looking at refreshing the data and formulas that sit behind funding allocations for Local Authorities from Central Government. This has not been done since 2011. So even simply refreshing the data would potentially cause large shifts in funding between Councils. It is this impact and how to transition to using current data that is holding up the review as it is such a complex issue.

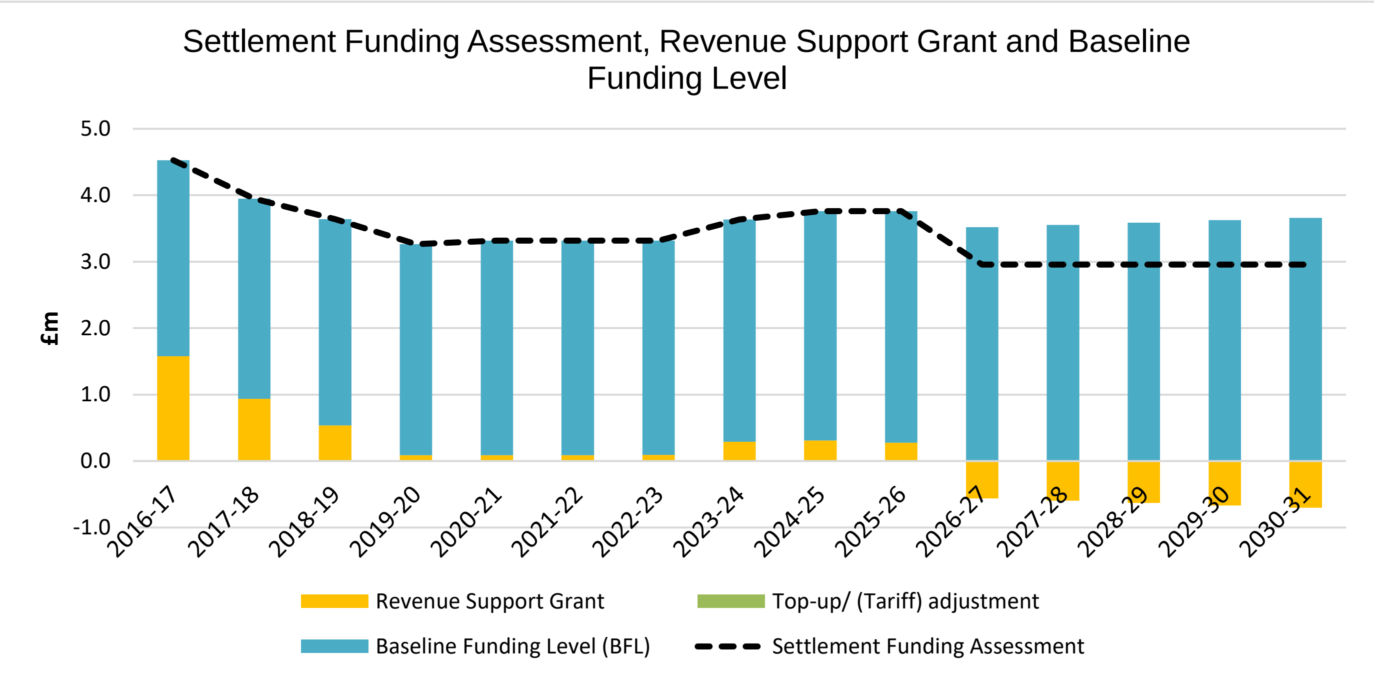
Business rates reform has also been in the pipeline for a number of years but has also been delayed. Again the impact of resetting of the baseline will be huge for many authorities. Resetting the baseline essentially takes out all the business rates growth and for North Norfolk this would have a significant adverse effect potentially amounting to £2m - £3m less income per annum.

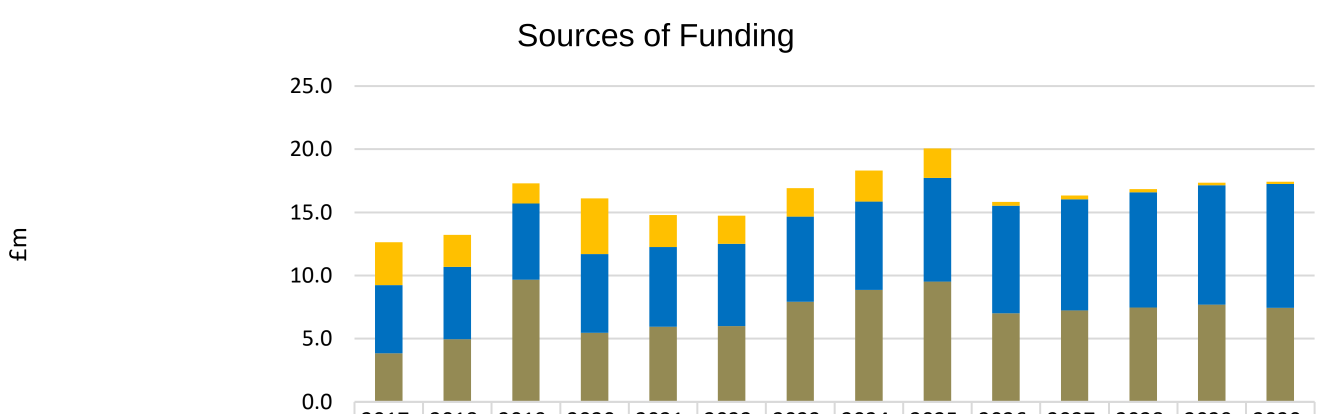
MHCLG are looking at several areas which have the potential to have a large and unpredictable impact on the Council's finances.

The current crisis in social care funding is likely to mean that more money is channelled towards local authorities with social care responsibilities (such as the County) and away from authorities such as NNDC. The crisis in Temporary Accommodation is a huge pressure for many councils e.g. Liverpool announced on 4 February that it has seen a 12,000% rise in homelessness services since 2019.

The forthcoming Spending Review will be critical for local authorities of all types as the sector has been under significant financial pressure for a number of years. S114 notices are now issued on a regular basis and requests for Exceptional Financial Supprot are becoming more commonplace rather than exceptional.

The forecasts for the future show a worsening financial position which is shown in the two charts below. The first chart shows how the funding is anticipated to drop and assumes a business rates baseline reset in 2026/27. The second chart shows the change in total funding sources, including Council Tax.





	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
TOTAL GRANT FUNDING	3.396	2.546	1.588	4.424	2.551	2.241	2.258	2.454	2.315	0.323	0.290	0.254	0.219	0.184
TOTAL COUNCIL TAX	5.381	5.730	6.043	6.218	6.296	6.511	6.722	6.996	8.205	8.501	8.806	9.128	9.455	9.796
TOTAL BUSINESS RATE INCOME	3.859	4.951	9.662	5.477	5.954	5.995	7.930	8.854	9.534	7.020	7.233	7.457	7.689	7.453

TOTAL BUSINESS RATE INCOME   TOTAL COUNCIL TAX   TOTAL GRANT FUNDING

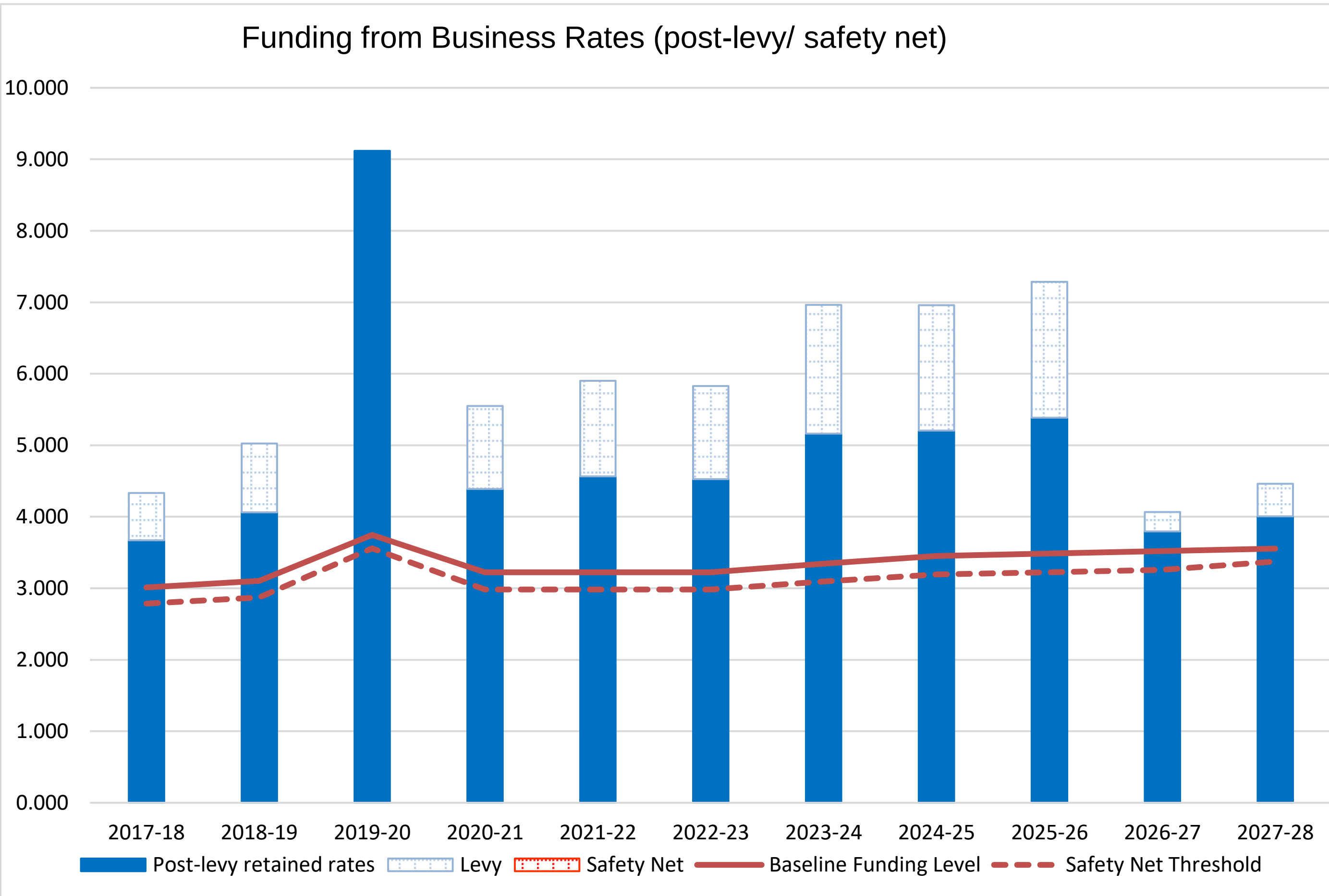
6. Income

The Council derives a limited and reducing amount of funding from Central Government, with the main sources of income now being locally raised taxes, fees and charges and specific grants. This section explains more about how the Council is funded and how this is expected to change over the coming years.

Business Rates Retention

The income from the current system is shared on the basis of 50% being returned to Central Government, 40% being retained by NNDC with 10% going to the County. However, while technically NNDC's share is projected to be around £15.9m, after the tariff payment is made the net income to NNDC reduces to around £8.5m for 2025/26. The chart below shows the anticipated funding for the Council from the Business Rates Retention Scheme.

The chart below shows the impact of the base line reset which is assumed to take place in 2026/27. The loss of income is around £3m. If this does take there is an expectation that that transitional arrangements will be put in place as councils could not balance their budgets with such a significant reduction in one go.



NNDC is a member of the Norfolk Business Rates Pool which comprises all the district councils and the county council within Norfolk. This is beneficial for all members of the pool as their safety net and levy payments are calculated for the pool as a whole, rather than as individual authorities. This has the effect of averaging out tariff and top-ups; leading to lower levy rates when calculated for the pool as a whole, compared to calculations for the same authorities treated individually. This maximises business rates income for NNDC.

<u>New Homes Bonus</u>

The New Homes Bonus (NHB) was introduced in 2011/12 as an incentive and reward mechanism to encourage housing growth in their areas by rewarding local authorities for net additional homes added to the council tax base i.e. for new houses built in the district and also long term empty properties that have been brought back into use. NNDC keep of the grant income and the County Council are paid 20%. Since its initial introduction there have been two fundamental changes to payment mechanism which have significantly impacted on the Council's income received.

Initially payments were made 6 years for each property period up to 2016/17 (for which the Council received £2.1m, to 5 years in 2017/18 to the new 'floor' of 4 years from 2018/19 onwards until 2020/21 when no legacy payments were made. So the NHB became a one-year grant.

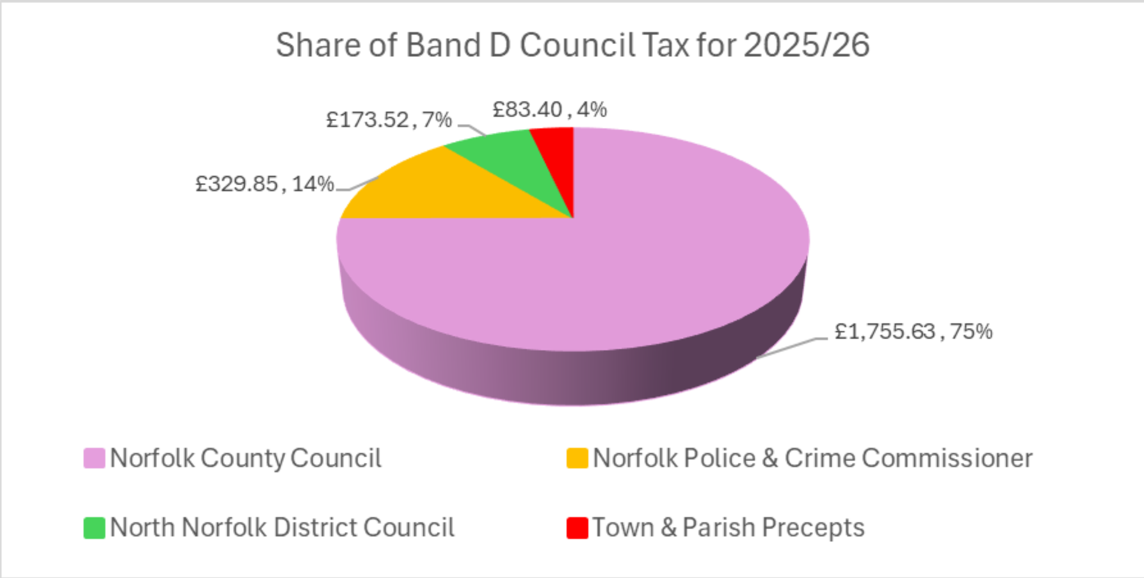
The second was in 2017/18 when a national baseline of 0.4% (based on property numbers within the district) was introduced. The combined effect of these two changes has seen income drastically decrease from the highest point in 2016/17 of £2.1m to only £5,600 in 2024/25.

The NHB that the Council will receive for 2025/26 is £596,000 which is a large increase on the £5,600 in the previous year. However the downside is that this is grant is taken into account in arriving at the Council's Core Spending Power, so we don't see any benefit in the significant increase.

It is the government's intention that 2025/26 will be the final year of the NHB in its current format and councils should consider this in their financial planning. The government is consulting on the NHB beyond 2025/26.

<u>Council Tax</u>

NNDC is the billing authority for the district of North Norfolk. This means that NNDC send out the Council Tax bills to residents and collect the Council Tax, but most of this is then distributed to the County Council and Norfolk Police Authority with a further element then going to town and parishes councils.



The charge on a Band D property which is retained by NNDC will be £173.52 if the increase of £5.05 (2.99%) is approved by full Council at its meeting on 19 February 2025. The increase that has been proposed falls within the maximum increase allowed by the Government, of 3% or £5.00, whichever is the greater. There is no indication that the Government is considering changing this threshold and the current view is that this cap will remain the same for the foreseeable future. Within the MTFS, it has been assumed that NNDC will increase the council tax annually by the maximum amount to partly offset the reduction in grant funding from Central Government.

Fees and charges

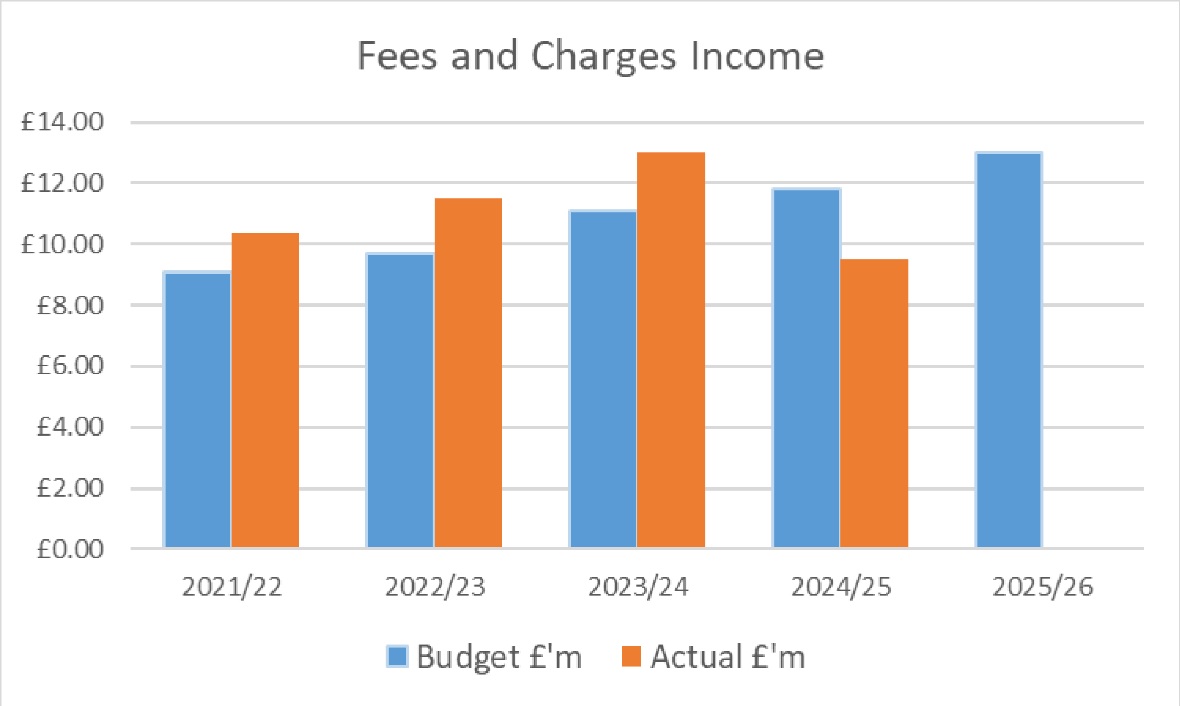
The Council generates income by charging for services provided to residents and businesses. These charges help fund essential services and maintain financial sustainability. The way these fees are determined can vary, with some being set by central government and others by the Council themselves. Additionally, some services have specific rules around how any surplus is managed.

Typically fees and charges regulated by Central Government include the fee structures in place for planning applications and licencing fees, whereby any increases in such fees are within limits set by Central Government.

Other fees and charges are determined by local councils based on local priorities, needs, and economic conditions. Examples of such fees include leisure services and parking fees.

Ring fencing also exists for specific areas regarding any surplus generated through the fees and income, meaning that it can only be used in the specific area it was generated. This mechanism of ring-fencing ensures transparency and accountability, ensuring that residents see a direct benefit from the fees they are charged.

The chart below shows the income budget alongside the actual income received for the years 2021/22 – 2024/25, and then the income budget for 2025/26. The chart shows that for all years actual income has exceeded the budget. The actual income for 2024/25 relates to only 10 months of the year so it is expected that the actual income will at least meet the budget level by the end of the financial year.



7. Looking forward

In the context of these pressures and reduced funding, the Council has produced a forecast for spend for Capital and Revenue purposes and also anticipated use of Reserves

General Fund

The General Fund shows how much the services provided by the Council cost the taxpayer, and how much funding is required from other sources.

This General Fund Summary is as presented in the Budget Report to full Council on 19 February 2025.

General Fund Summary 2025/26 – 2028/29

	2025/26 Budget £	2026/27 Projection £	2027/28 Projection £	2028/29 Projection £
Net Operating Expenditure	22,383,580	21,962,370	21,819,290	22,123,370
Contribution To/(From) Earmarked Reserves	1,524,150	500,780	529,020	598,320
Amount to be met from Government Grants and Taxpayers	23,907,730	22,463,150	22,348,310	22,721,690
Income from Government Grant & Taxpayers	(23,907,730)	(21,554,090)	(21,830,420)	(22,122,510)
(Surplus)/Deficit	0	909,060	517,890	599,180

Reserves

The Council holds a number of 'useable' reserves both for revenue and capital purposes which fall within one of the following categories:

- General Reserve
- Earmarked Reserves
- Capital Receipts Reserve

The General Reserve is held for two main purposes:

- a contingency to help cushion the impact of unexpected events or emergencies
- to provide a working balance to help cushion the impact of uneven cashflows and avoid temporary borrowing

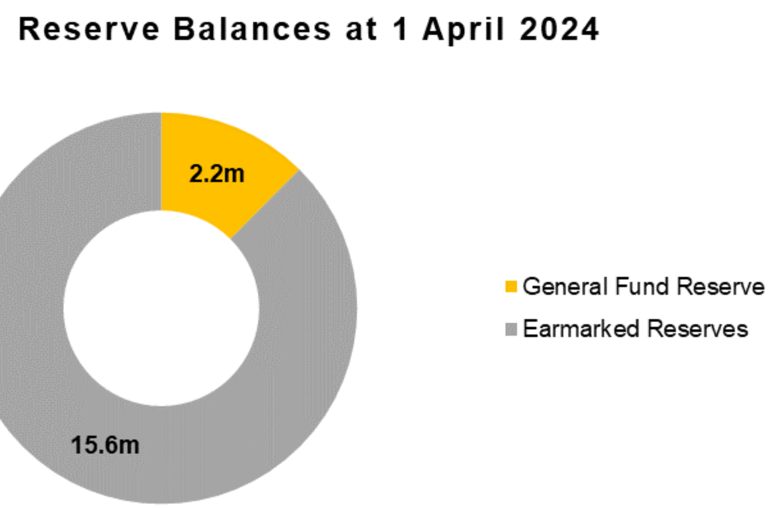
When setting the budget each year the adequacy of all reserves is assessed along with the optimum level of general reserve that an authority should hold. The optimum level of the general reserve considers a risk assessment of the budget and the context within which it has been prepared.

Earmarked Reserves provide a means of building up funds to meet known or predicted liabilities and are typically used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund other known future costs. A number of contingency reserves are also held by the Council to reduce the impact on Council Taxpayers of future uncertain events such as business rate appeals or clawback of benefit subsidy.

Reserves are regularly reviewed to determine if funds or reserve balances are still required and if the levels are still appropriate.

Use of reserves to balance a budget provides only a short term solution as the funds can only be used once. They can however be used to smooth the impact of funding gaps over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer term financial benefit through reduced costs and/or additional income.

Reserves Balances as at 1 April 2024

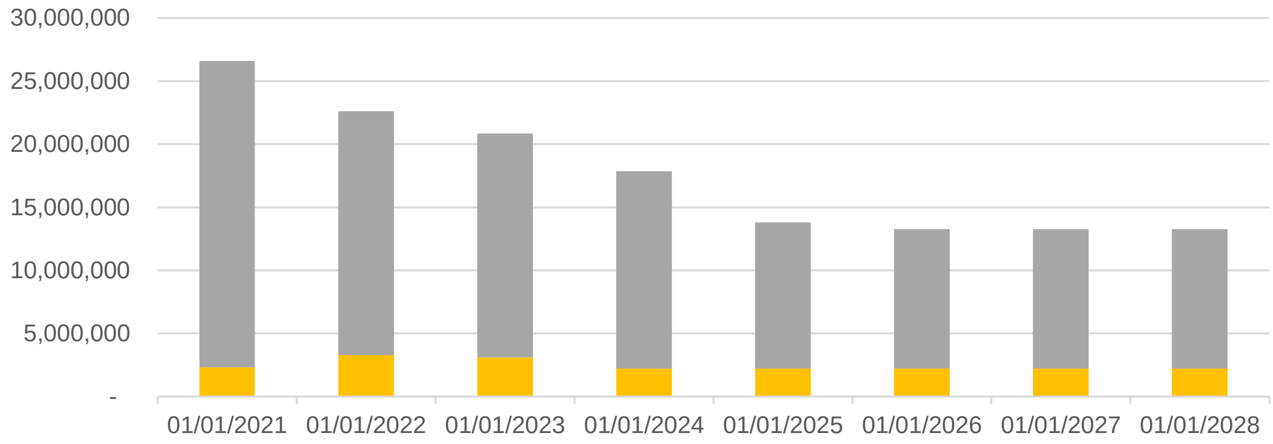


There are currently 26 earmarked reserves alongside the General Fund Reserve. The names and individual details of these earmarked reserves can be found in Appendix 2.

Similarly, reserves can be used to fund one-off costs for projects that will deliver a longer-term benefit. For example the use of the Restructuring and Invest to Save reserve to fund one-off restructuring costs, where a restructuring will deliver a longer term saving for a service and for some of implementation and project costs that will deliver future savings. The use of reserves in this way will be considered as part of the full business case for individual project proposals, taking into account the payback period of the project along with indirect financial implications, for example, reduced balances available for investment and the associated loss of investment income.

The Capital receipts Reserve consists of capital receipts from the disposal of assets and land and is used to fund the capital programme. Capital receipts cannot be used to fund revenue expenditure, except in exceptional circumstances usually requiring central government approval.

Projected Reserve Balances to 1 April 2028



	01/04/2021	01/04/2022	01/04/2023	01/04/2024	01/04/2025	01/04/2026	01/04/2027	01/04/2028
Earmarked Reserves	24,265,534	19,335,092	17,726,730	15,627,766	11,577,729	11,047,040	11,043,987	11,051,694
General Fund Reserve	2,326,735	3,276,687	3,114,823	2,223,322	2,219,279	2,219,279	2,219,279	2,219,279

General Fund Reserve   Earmarked Reserves

The above projection with Chart 8 predicts a fall in the levels of Reserves held from £17.85m as at 1 April 2024 to £13.27m by April 2028.

Forward Looking Assumptions

Assumptions play a critical role in the development of a local council's Medium Term Financial Strategy. The assumptions made about future income, expenditure, inflation, and service demand directly affect the accuracy of forecasts and budgets. If assumptions are overly optimistic or fail to account for potential risks, the council could face significant financial shortfalls, while overly conservative assumptions might lead to under-utilisation of resources or unnecessary service cuts.

Some of the key forward-looking assumptions involve the following:

- **Inflation** – Inflation assumptions affect the costs of delivering services and are essential when forecasting salaries, contracts, and procurement costs. If inflation rises higher than forecasted, costs could outpace available funding.

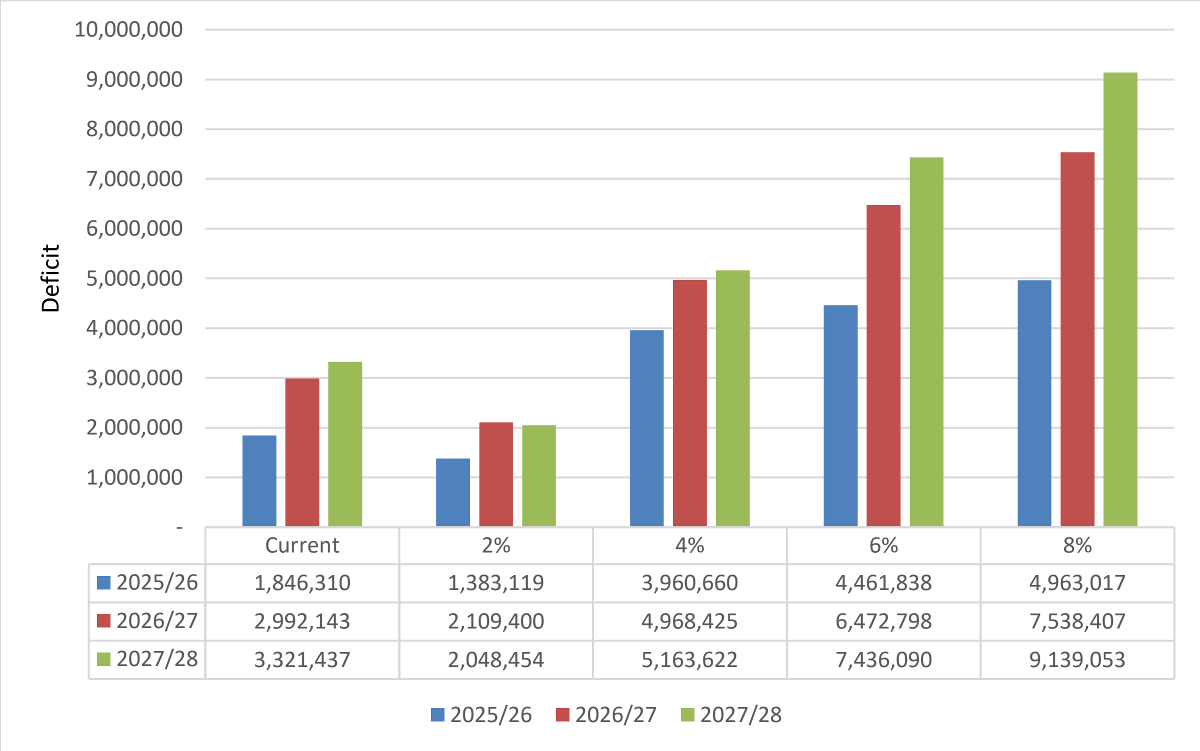
- **Interest rates** – The Council invests when there is surplus cash, the returns on these investments are typically linked to interest rates. When interest rates are low, the Council earns less on their investments, reducing the income that can support service delivery. When interest rates rise, the cost of servicing debt increases, which can reduce the funds available for other services if borrowing is sought.

- **Government Funding** – This is the major area of concern for the Council when making any assumptions around future funding. The levels of future government grants and funding levels are uncertain and fluctuate due to changes in national policy or funding formulas. There are several significant reviews that have been delayed and that the current government say will take place e.g. Business Rates Reform and a reset of the tax base, the Fair Funding Review and the Spending Review. It is anticipated that these will most likely have a significant negative impact on the Council's future funding levels. It is almost impossible to predict what the Council can expect to receive over the medium term.

- **Service Demands** – If demand increases due to demographic changes or social factors, councils will need to allocate more resources, impacting their budgets. Incorrectly predicting demand can lead to underfunding or over-provision of services.

Inflation rates have been turbulent since 2021. To demonstrate how these variances have the potential to impact the projections the chart below shows the impact of inflation on the overall surplus/deficit position at various increments; 2%, 4%, 6%, 8% alongside the current budget and projection as approved by the Council.

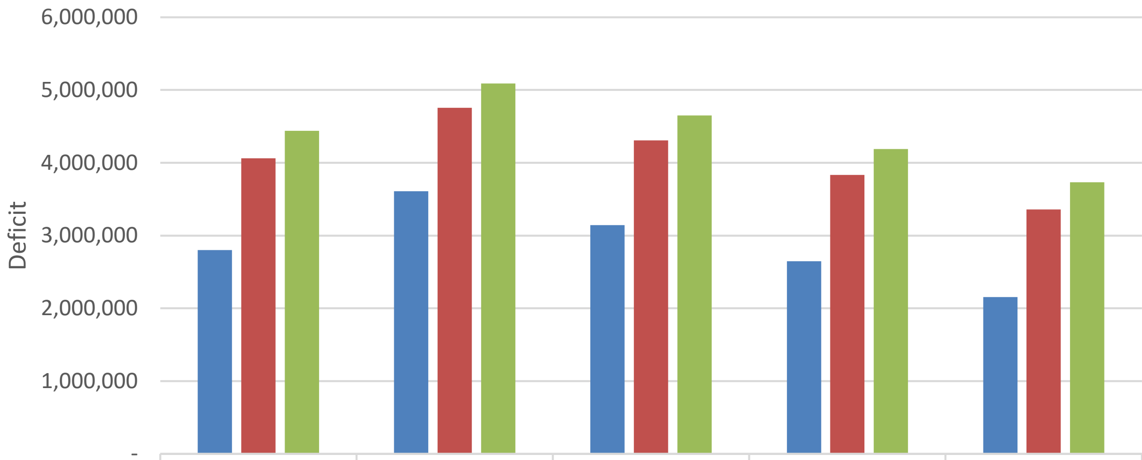
Impact on overall deficit projections from inflation movements



	Current	2%	4%	6%	8%
2025/26	1,846,310	1,383,119	3,960,660	4,461,838	4,963,017
2026/27	2,992,143	2,109,400	4,968,425	6,472,798	7,538,407
2027/28	3,321,437	2,048,454	5,163,622	7,436,090	9,139,053

Interest rates have been increasing since the beginning of 2022 until it stabilised for a 12-month period at 5.25%, recently have reduced to 5%. Interest is linked to inflation with the Bank of England base rate often set as an attempt to control inflation. As demonstrated in the chart below inflation is beginning to settle towards the target set by Central Government, therefore meaning drops in the base rates could be reasonably expected. However, there is scope for interest rates decreases to be held, or for subsequent rises should the economic environment not improve as forecasted. The chart below demonstrates the impact of effective return on investments rates on the overall surplus/deficit position at various increments; 0.1%, 2%, 4%, 6%, alongside an updated forecast based on latest interest rate projections.

The impact of effective interest rates earned on investment on the Deficit position

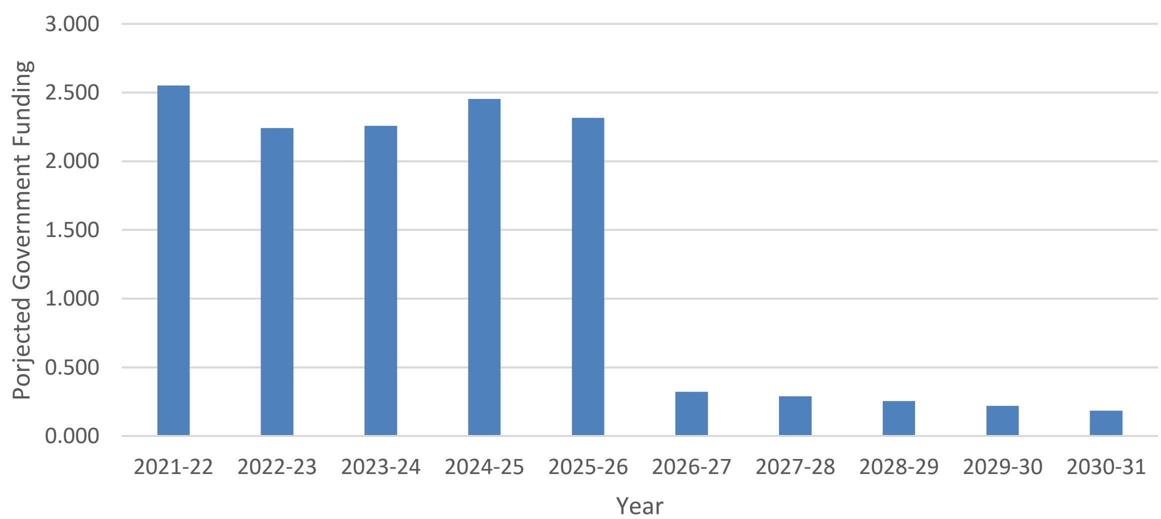


	Update forecasting	0.10%	2.00%	4.00%	6.00%
2025/26	2,798,848	3,611,334	3,142,239	2,648,455	2,154,670
2026/27	4,062,335	4,758,105	4,306,829	3,831,801	3,356,774
2027/28	4,438,927	5,088,148	4,651,128	4,191,106	3,731,084

2025/26 2026/27 2027/28

The future of government funding remains uncertain and is inherently difficult to predict with a complete rework of the system possible, with all councils eagerly awaiting further news from the recently elected Government regarding any funding reviews considering the financial turmoil faced by many Councils across the country. However, to demonstrate the sensitivity of this in relation to the projections the chart below shows the expected levels of government funding currently projected to be received, assuming that the fair funding review proceeds in the 2026/27 year.

The level of projected grant funding expected to be received.



Devolution and Local Government Reorganisation

Since the MTFS was first presented to Members in the autumn/winter of 2025, the government has laid out its plans for devolution and has moved quickly on its plans. The English Devolution White Paper was published on 16 December 2024. It wants to see devolution of political, social and economic power to the regions so that decisions can be made at a local level. The White Paper explains how it will do this and outlines what it wants to achieve. The government wants to see the model of Combined Mayoral Authorities introduced across all areas of England, with the transfer of power away from Westminster to the regions.

The government's vision is a simpler local government structure to provide better outcomes for residents, save significant public funds which can be reinvested in public services, and improve local accountability.

The Minister of State for Local Government and English Devolution Jim McMahon wrote to all councils in remaining two-tier areas and neighbouring small unitaries to set out plans for a joint programme of devolution and local government reorganisation. Norfolk and Suffolk responded to the invitation to submit a proposal on becoming a Combined Mayoral Authority. Both councils are on the Devolution Priority Programme, with a view to mayoral elections in May 2026. On 5 February 2025, the Deputy Prime Minister, wrote to the Norfolk councils inviting them to develop a proposal for local government reorganisation of the county. The deadline for submission of an outline proposal is March 2025 and then for detailed proposals the deadline is September 2025. This announcement has and will continue to overshadow all future decisions and activities of the Council.

Capital

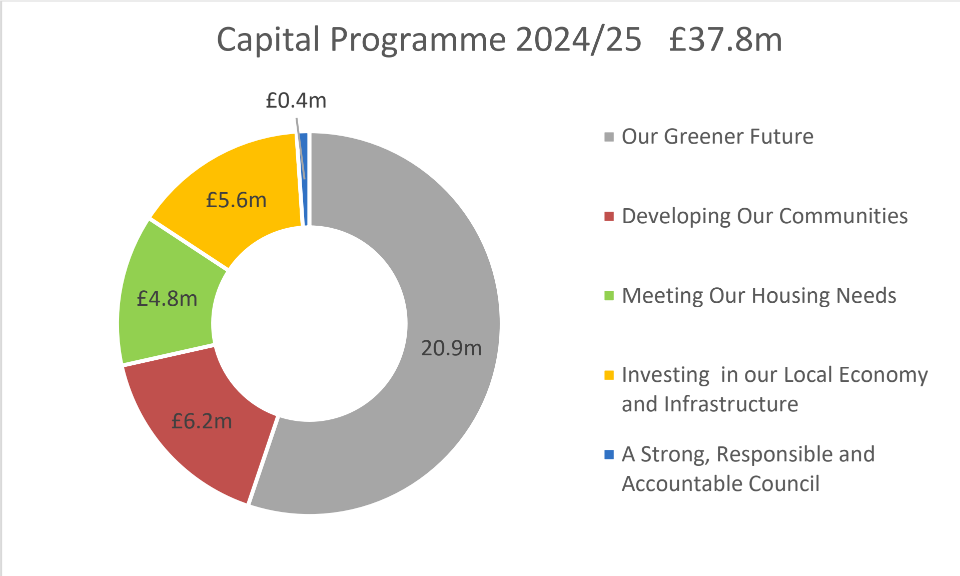
The capital programme shows what the Council intends to spend on purchasing new assets and improving its existing ones over the next three years.

As capital expenditure is incurred, a source of finance must be identified. Funding can come from capital receipts, grants and other revenue resources or alternatively through borrowing.

Any expenditure that is financed through borrowing increases the Council's 'Capital Financing Requirement' (CFR). Each year a revenue charge called the Minimum Revenue Provision (MRP) is made to reflect the funding of the CFR by the taxpayer, which is required to be set aside to cover the repayment of borrowing for capital purposes. As the need to borrow increases, the CFR and MRP also increase. It may not always be necessary to borrow externally in the short-term as cash balances can be used to cover the expenditure. This is referred to as 'internal borrowing' and attracts an MRP charge in the same way that external borrowing does. However in the long-term external borrowing will need to be taken to replenish the cash balances.

New projects, which are included in the programme in the future, will need to be financed by borrowing if there are no resources immediately available such as grants, capital receipts or revenue resources.

The Council's level of capital receipts and capital grants is low and so the main source of future funding for new capital expenditure will be borrowing. The Council needs to carefully monitor the level of borrowing it uses to fund its capital expenditure as borrowing costs are a real revenue cost charged to the taxpayer. Borrowing costs need to be kept at an affordable level.



8. Closing the Budget gap

The Council's strategy for reducing the budget gap covers several work streams as outlined below.

North Norfolk District Council faces a significant budget gap over the next three years, as outlined above in Section 7 'Looking Forward'. Developing a detailed plan to achieve the required savings over the next 3 years is inherently challenging, as it depends on both internal and external factors. Internal factors include the council's operational efficiency and the ability to innovate, while external factors range from economic conditions and government policy changes to unforeseen global, national or regional events. This section sets out the strategy to address the shortfall, ensuring financial sustainability while maintaining essential services and meeting statutory obligations. The proposed measures encompass a combination of efficiency improvements, revenue generation, cost containment, and strategic realignment.

Local Government Reorganisation

In December 2024, the UK government announced significant local government reforms aimed at enhancing efficiency, accountability, and financial resilience. Central to these proposals is the transition to larger, single-tier unitary authorities, which would replace the current two-tier system. This restructuring seeks to streamline governance and achieve economies of scale, with minimum populations for unitary authorities currently thought to be set at 500,000. Additionally, a comprehensive review of local authority funding is planned, with reforms anticipated to take effect from the 2026-27 financial year.

For North Norfolk District Council, the uncertainty surrounding the timeline, funding allocations, and transitional arrangements necessitates a flexible and adaptive approach to the Medium-Term Financial Strategy. Proactive engagement with stakeholders and close monitoring of developments will be essential to ensure the council is well-positioned to navigate these changes effectively and safeguard its financial sustainability.

Property Investment and Asset Commercialisation

Opportunities for investment in property, whether direct or indirect, are being considered to achieve either a direct income stream from the asset or improved returns on investment.

Opportunities for the most efficient utilisation of the Council's assets and maximising returns where appropriate are vital. Indirect property investments via treasury instruments, such as the purchase of pooled property funds, can potentially provide a return in terms of a regular income and growth in the value of the investment. Under the Treasury Management Strategy, the Council has made investments in a number of pooled funds which invest in property. One of these funds, the LAMIT Pooled Property Fund, invests exclusively in various property assets with the aim of achieving a regular income and growth in the value of the investment. In addition to these investments, the Council has agreed to provide capital expenditure loans to registered providers of social housing to facilitate the delivery of housing in the district, along with achieving an income return on its investment. The Council can choose to use its capital resources to finance a programme of asset commercialisation which aims to deliver long-term revenue streams for the Council and work on an ongoing basis is required to identify the most appropriate projects. This strategy of direct property investment can ensure a secondary benefit to the district as it is possible to generate an economic growth benefit when the investment is located in North Norfolk. This is; however, more resource intensive to manage than externalising these investments.

Service Reviews

Service reviews often reveal areas where costs can be reduced without severely impacting service quality. For example, a review might uncover inefficient processes, opportunities for automation. Service reviews may find through reviews that alternative models - such as partnerships, outsourcing, or shared services with neighbouring authorities - could deliver the same or even improved services at lower costs.

Service reviews will proceed by conducting detailed reviews of all service areas to evaluate cost-effectiveness, relevance, and alignment with strategic priorities.

- Identification of potential cost savings through consolidation, improved efficiency, or changes in service delivery models.
- Comparison of service performance and costs with similar councils to identify areas for improvement.
- Where necessary, consultations with relevant people to understand their priorities and ensure that any service changes align with public expectations.
- Gradual introduction of service adjustments to minimise disruption and allow time for adaptation.

Savings Proposals

Budget holders continue to look at their services to identify viable cost-saving measures and innovative solutions, aimed at reducing expenditure, improving efficiency, or generating additional revenue within their areas of responsibility. These proposals will undergo a structured evaluation process to assess their feasibility, potential savings, and impact on service delivery. Regular feedback will be provided to budget holders regarding the progress and implementation of accepted ideas, fostering accountability and transparency. This collaborative approach ensures that savings opportunities are identified comprehensively while maintaining a focus on strategic priorities and operational effectiveness.

Generating additional income

Generating additional income through services like car parks and waste collection can provide a steady revenue stream that helps close the Council’s budget gap reducing the impact on services the Council provides. Additionally the annual review of all discretionary fees and charges will occur to ensure they reflect market rates and appropriately recover costs.

Cessation of non-economically viable non-statutory services

One of the approaches to addressing the budget gap is the cessation of non-economically viable non-statutory services. Non-statutory services - those services which the Council does not legally have to provide - are often valued by communities but can significantly strain the Council's budget, especially when the costs are higher any derived income. By carefully assessing which services are both non-statutory and non-viable economically, the council can make informed decisions about which offerings to discontinue or reduce.

This process typically involves a detailed cost-benefit analysis to identify services that may be underutilised, duplicative, or unsustainable without substantial subsidy. Redirecting funds from these services allows the council to prioritise statutory and essential functions.

<u>Reduce level of statutory services</u>

Investigating the standard of statutory services provided offers an opportunity to identify where levels of service can be adjusted while still meeting the essential needs of the community. By reviewing current service standards, the council can pinpoint areas where delivery might be scaled back without compromising basic requirements. For instance, reducing the frequency of certain services, such as routine maintenance.

<u>Shared Services, collaboration and selling services</u>

Creating efficiencies through shared services continues to be a priority for central government. Identifying such opportunities must therefore continue at a local level, ensuring that realistic and deliverable benefits can be achieved. This could include joint procurement opportunities such as the new banking contract, shared service delivery where appropriate and selling services.

<u>Council Tax</u>

In the current funding environment, increasing council tax has become an important consideration for maintaining essential services amidst rising costs and budget constraints. Reduced central government funding, combined with inflationary pressures on service delivery, has intensified the need for councils to generate more local revenue. An increase in council tax can provide the council with the necessary funds to bridge budget gaps, ensuring that statutory services and vital community support are maintained at an acceptable standard.

<u>New opportunities</u>

Given the current uncertainties around issues such as changes to the Local Government funding mechanisms it will be essential to identify new opportunities to either increase income, increase efficiency, explore new partnership models for service delivery etc. and this will be one of the main challenges over the medium term.

While the Council’s reserves do provide some level of comfort over the short term and could be used to address budget deficits this is not a sustainable financial strategy for the medium to long term.

<u>Conclusion</u>

Closing the budget gap requires a bold and balanced approach, combining cost efficiencies, revenue growth, and strategic realignment. Through disciplined execution of this strategy, the council will achieve financial sustainability while continuing to serve the community effectively.

Appendix 1 – General Fund Summary – As presented to full council

General Fund Summary 2025/26 Base Budget

Service Area	2024/25 Base Budget £	2024-25 Updated Budget £	2025/26 Base Budget £	2026/27 Projection £	2027/28 Projection £	2028/29 Projection £
Corporate Leadership/ Executive Support	406,880	3,141,750	3,044,560	3,034,010	3,082,840	3,132,660
Communities	11,530,420	8,827,660	9,129,890	9,180,770	9,251,860	9,335,660
Place and Climate Change	7,121,380	5,420,880	4,520,790	4,384,060	4,430,660	4,508,800
Resources	4,707,480	6,219,660	5,653,740	5,600,040	5,272,520	5,364,840
Savings to be Identified	(250,000)	0	0	0	0	0
Net Cost of Services	**23,516,160**	**23,609,950**	**22,348,980**	**22,198,880**	**22,037,880**	**22,341,960**
Parish Precepts	3,129,190	3,129,190	3,736,380	3,736,380	3,736,380	3,736,380
Capital Charges	(2,962,370)	(2,962,370)	(2,962,370)	(2,962,370)	(2,962,370)	(2,962,370)
REFCUS	(761,650)	(761,650)	(761,650)	(761,650)	(761,650)	(761,650)
Interest Receivable	(1,865,160)	(1,865,160)	(1,403,400)	(1,403,400)	(1,403,400)	(1,403,400)
External Interest Paid	40,280	340,280	302,100	302,100	302,100	302,100
Revenue Financing for Capital:	210,000	2,447,780	320,000	0	0	0
Minimum Revenue Provision	487,860	487,860	527,260	576,150	594,070	594,070
IAS 19 Pension Adjustment	268,000	268,000	276,280	276,280	276,280	276,280
Net Operating Expenditure	**22,062,310**	**24,693,880**	**22,383,580**	**21,962,370**	**21,819,290**	**22,123,370**
Collection Fund – Parishes	(3,129,190)	(3,129,190)	(3,736,380)	(3,736,380)	(3,736,380)	(3,736,380)
Collection Fund – District	(7,068,940)	(7,068,940)	(7,812,580)	(8,026,540)	(8,302,870)	(8,594,960)
Collection fund surplus	(108,320)	(108,320)	0	0	0	0
Retained Business Rates	(7,683,010)	(7,683,010)	(8,660,930)	(8,500,000)	(8,500,000)	(8,500,000)

New Homes bonus	(5,600)	(5,600)	(596,090)	0	0	0
3.2% Funding Guarantee	(1,230,670)	(1,230,670)	(805,170)	(805,170)	(805,170)	(805,170)
Revenue Support Grant	(309,050)	(309,050)	(335,420)	(335,420)	(335,420)	(335,420)
NI Compensation	0	0	(150,580)	(150,580)	(150,580)	(150,580)
Recovery Grant	0	0	(194,580)	0	0	0
Extended Producer responsibility	0	0	(1,616,000)	0	0	0
Rural Services Delivery Grant	(656,970)	(656,970)	0	0	0	0
Ctax Discount Grant	(51,580)	(51,580)	0	0	0	0
Services Grant	(22,520)	(22,520)	0	0	0	0
Total Income from Government Grant and Taxpayers	**(20,265,850)**	**(20,265,850)**	**(23,907,730)**	**(21,554,090)**	**(21,830,420)**	**(22,122,510)**
(Surplus)/Deficit	**1,796,460**	**4,428,030**	**(1,524,150)**	**408,280**	**(11,130)**	**860**
Contribution To/(From) Earmarked Reserves	(1,796,460)	(4,428,030)	1,524,150	500,780	529,020	598,320
Net Position	**0**	**0**	**0**	**909,060**	**517,890**	**599,180**

Appendix 2 – Projected Reserve Movements

Reserves Statement 2025/26 Onwards

Reserve	Purpose and Use of Reserve	Forecast Balance 01/04/25 £	Budgeted Movement 2025/26 £	Balance 01/04/26 £	Budgeted Movement 2026/27 £	Balance 01/04/27 £	Budgeted Movement 2027/28 £	Balance 01/04/28 £	Budgeted Movement 2028/29 £	Balance 01/04/29 £
General Fund - General Reserve	A working balance and contingency, current recommended balance is £2.1 million.	**2,219,278**	(14,706)	**2,204,572**	0	**2,204,572**	0	**2,204,572**	0	**2,204,572**
Earmarked Reserves:										
Capital Projects	To provide funding for capital developments and purchase of major assets.	**0**	0	**0**	0	**0**	0	**0**	0	**0**
Asset Management	To support improvements to our existing assets as identified through the Asset Management Plan.	**292,342**	0	**292,342**	0	**292,342**	0	**292,342**	0	**292,342**
Benefits	Retained in case of any claw back by the DWP following audit of final subsidy claims. Plus service specific grants for service improvements that have not yet been offset by expenditure.	**681,200**	(51,567)	**629,633**	0	**629,633**	0	**629,633**	0	**629,633**
Building Control	Building Control ring-fenced surplus to cover any future service deficits.	**23,257**	(19,874)	**3,383**	0	**3,383**	0	**3,383**	0	**3,383**
Business Rates	To be used for the support of local businesses and to mitigate impact of final claims and appeals in relation to business rates retention scheme.	**1,934,000**	(18,000)	**1,916,000**	(18,000)	**1,898,000**	(18,000)	**1,880,000**	(18,000)	**1,862,000**
Coast Protection	To support ongoing coast protection maintenance programme & carry forward funding between financial years.	**(24,204)**	0	**(24,204)**	0	**(24,204)**	0	**(24,204)**	0	**(24,204)**
Communities	To support projects that communities identify will make a difference to the economic and social wellbeing of the area.	**168,941**	0	**168,941**	0	**168,941**	0	**168,941**	0	**168,941**

Reserve	Purpose and Use of Reserve	Forecast Balance 01/04/25 £	Budgeted Movement 2025/26 £	Balance 01/04/26 £	Budgeted Movement 2026/27 £	Balance 01/04/27 £	Budgeted Movement 2027/28 £	Balance 01/04/28 £	Budgeted Movement 2028/29 £	Balance 01/04/29 £
Delivery Plan	To achieve outputs in the Corporate Plan & Delivery Plan.	**322,333**	(80,000)	**242,333**	0	**242,333**	0	**242,333**	0	**242,333**
Economic Development and Regeneration	Earmarked from previous underspends within Economic Development and Regeneration Budgets.	**168,326**	0	**168,326**	0	**168,326**	0	**168,326**	0	**168,326**
Election Reserve	Established to meet costs associated with district council elections, to smooth the impact between financial years.	**123,000**	60,000	**183,000**	60,000	**243,000**	60,000	**303,000**	60,000	**363,000**
Enforcement Works	Established to meet costs associated with district council enforcement works including buildings at risk .	**45,962**	0	**45,962**	0	**45,962**	0	**45,962**	0	**45,962**
Environmental Health	Earmarking of previous underspends and additional income to meet Environmental Health initiatives.	**1,015,274**	0	**1,015,274**	0	**1,015,274**	0	**1,015,274**	0	**1,015,274**
Environment Reserve	To fund expenditure relating to the Council's Green Agenda.	**150,000**	0	**150,000**	0	**150,000**	0	**150,000**	0	**150,000**
Extended Responsibility Producer	Earmarking of grant for dealing with packaging, waste collection and disposal costs.	**0**	1,616,000	**1,616,000**	0	**1,616,000**	0	**1,616,000**	0	**1,616,000**
Grants	Revenue Grants received and due to timing issues not used in the year.	**2,608,727**	(85,159)	**2,523,568**	(49,148)	**2,474,420**	(19,780)	**2,454,640**	(9,020)	**2,445,620**
Housing	Previously earmarked for stock condition survey and housing needs assessment. Also now contains the balance of the Housing Community Grant funding received in 2016/17.	**1,065,969**	(56,299)	**1,009,670**	(57,406)	**952,264**	(58,535)	**893,729**	0	**893,729**
Land Charges	To mitigate the impact of potential income reductions.	**250,052**	0	**250,052**	0	**250,052**	0	**250,052**	0	**250,052**

Reserve	Purpose and Use of Reserve	Forecast Balance 01/04/25 £	Budgeted Movement 2025/26 £	Balance 01/04/26 £	Budgeted Movement 2026/27 £	Balance 01/04/27 £	Budgeted Movement 2027/28 £	Balance 01/04/28 £	Budgeted Movement 2028/29 £	Balance 01/04/29 £
Legal	One off funding for Compulsory Purchase Order (CPO) work and East Law Surplus.	**52,914**	(4,579)	**48,335**	0	**48,335**	0	**48,335**	0	**48,335**
Major Repairs Reserve	Provison for the repair & maintenance of the council's assets.	**402,379**	0	**402,379**	0	**402,379**	0	**402,379**	0	**402,379**
Net Zero Initiatives	To support the Council's Net Zero programme	**449,857**	(300,000)	**149,857**	0	**149,857**	0	**149,857**	0	**149,857**
New Homes Bonus	Established for supporting communities with future growth and development and Plan review	**(3,851)**	(83,763)	**(87,614)**	0	**(87,614)**	0	**(87,614)**	0	**(87,614)**
Organisational Development	To provide funding for organisation development to create capacity within the organisation, including the provision and support for apprenticeships and internships.	**86,098**	0	**86,098**	0	**86,098**	0	**86,098**	0	**86,098**
Pathfinder	To help Coastal Communities adapt to coastal changes.	**89,566**	0	**89,566**	0	**89,566**	0	**89,566**	0	**89,566**
Planning	Additional Planning income earmarked for Planning initiatives including Plan Review.	**250,626**	46,763	**297,389**	50,000	**347,389**	50,000	**397,389**	50,000	**447,389**
Restructuring & Invest to Save Proposals	To fund one-off redundancy & pension strain costs & for invest to save initiatives. Transfers from this reserve will be allocated against business cases as and when approved.	**671,595**	0	**671,595**	0	**671,595**	0	**671,595**	0	**671,595**
Second Home Premium	Additional income from second homes premium council tax, to be used for affordable housing and homelessness prevention initiatives.	**0**	515,337	**515,337**	515,337	**1,030,674**	515,337	**1,546,011**	515,337	**2,061,348**
Total Reserves		**13,043,642**	**1,524,153**	**14,567,795**	**500,783**	**15,068,578**	**529,022**	**15,597,600**	**598,317**	**16,195,917**

Appendix 3 – Capital Programme 2024/25 and beyond

Capital Programme						
Corporate Plan Objectives	**Budget 2024/25 £**	**Budget 2025/26 £**	**Budget 2026/27 £**	**Budget 2027/28 £**	**Budget 2028/29 £**	**Budget 2029/30 £**
Our Greener Future	22,451,187	6,296,051	6,697,712	300,000	0	0
Developing Our Communities	6,284,864	8,269,000	0	0	0	0
Meeting Our Housing Needs	5,030,980	2,380,858	1,900,000	1,600,000	1,600,000	1,600,000
Investing In Our Local Economy And Infrastructure	5,637,387	284,793	60,000	0	0	0
A Strong, Responsible And Accountable Council	427,619	162,000	60,000	0	0	0
Total	**39,832,037**	**17,392,702**	**8,717,712**	**1,900,000**	**1,600,000**	**1,600,000**
Capital Programme Financing	**Budget 2024/25 £**	**Budget 2025/26 £**	**Budget 2026/27 £**	**Budget 2027/28 £**	**Budget 2028/29 £**	**Budget 2029/30 £**
Grants	27,833,768	15,751,979	7,747,712	1,600,000	1,600,000	1,600,000
Other Contributions	2,127,014	718,723	300,000	0	0	0
Reserves	2,447,783	0	0	0	0	0
Revenue Contribution	0	0	0	0	0	0
Capital receipts	3,394,654	712,000	610,000	300,000	0	0
Borrowing	4,028,818	210,000	60,000	0	0	0
Total	**39,832,037**	**17,392,702**	**8,717,712**	**1,900,000**	**1,600,000**	**1,600,000**