**Report of the Deputy Chief Executive**

# MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2025/26 AND BUSINESS STRATEGY 2022/23

1. Purpose of report

To present an update on the Council's Medium Term Financial Strategy and to highlight progress with the delivery of the Business Strategy.

2. Background

As reported to this Committee on 8 July 2021, there was an underspend of £2.121m on the General Fund revenue budget in 2020/21 resulting in a General Fund balance of £6.873m as at 31 March 2021. This was predominantly due to various underspends, additional income, carry forwards, government COVID support grants and effective financial management across the Council.

There are a number of significant issues concerning local government finance that will have a major impact upon the financial position of this Council, including the uncertainty on the outcome of the Government's Spending Review 2021 (not due until 27 October 2021), the delayed Fair Funding Review that intends to review the level of business rates retention and the current and ongoing economic and financial impact of COVID-19. Further details of these and how they may impact upon the General Fund, Housing Revenue Account and the Capital Programme are set out in appendix 1.

It is also important to highlight two budget pressure impacting on the Council's 2022/23 budget, namely the cost of a rise in employer's National Insurance contributions and the financial impact of the market supplements which have been necessary to recruit and retain key staff across the Council.

The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. An updated MTFS based upon the latest information and assumptions is set out in appendix 2.

In order to address the financial challenges facing the Council, a Business Strategy is maintained that sets out initiatives that will be pursued to reduce costs, generate additional income and/or improve services. A number of these initiatives have already been implemented and were taken account of in the production of the 2021/22 budget. Further details of the Business Strategy 2022/23 are set out in appendix 3 for consideration.

**Recommendation**

**The Committee is asked to RESOLVE that the updated Medium Term Financial Strategy and the Business Strategy 2022/23 in the appendices be approved.**

Background papers – Nil

**APPENDIX 1**

## 1. General Fund Revenue Budget

Introduction

As reported to this Committee on 8 July 2021, there was an underspend of £2.121m on the General Fund revenue budget in 2020/21 resulting in a General Fund balance of £6.873m as at 31 March 2021. This was predominantly due to various underspends, additional income, carry forwards, government COVID support grants and effective financial management across the Council.

There are a number of significant issues concerning local government finance that will have a major impact upon the financial position of both this Council and others, including the significant financial impact of COVID-19.

The Chancellor has only recently commenced the Government's Spending Review 2021 and the outcome will not be known until 27 October 2021. It is difficult at this stage to determine exact impact on the Council's future financial position and it is expected that any additional spending will be targeted at health and social care. As such, the assumptions within the Medium Term Financial Strategy (MTFS) assume modest increases in the Council's spending plans for future years. Also, no further information is available on the Fair Funding Review, which is intends to review the level of business rates retention. A further uncertainty is the current economic and financial environment, so it is important to note that the net financial impact of COVID-19 is difficult to assess accurately and will be subject to revision as more information becomes available.

There are two budget pressures highlighted that will impact on the Council's 2022/23 budget. Firstly, the cost of a 1.25% rise in employer's National Insurance contributions (an additional cost of around £110k on the General Fund and £30k for the Housing Revenue Account). Secondly the financial impact of the market supplements (around £130k including oncosts), which have been necessary to recruit and retain key staff across the Council, including HGV drivers, vehicle technicians, finance officers, planners, and ICT staff.

The MTFS is the Council's key financial planning document. An updated MTFS based upon the latest information and assumptions is set out further below in appendix 2. In order to address the financial challenges facing the Council, a Business Strategy is maintained that sets out initiatives that will be pursued to reduce costs, generate additional income and/or improve services. Further details of the Business Strategy 2022/23 are set out below in appendix 3.

Financial impact of COVID-19

The COVID-19 pandemic had a significant impact on the Council and on its residents and businesses across the Borough. In line with CIPFA guidance, the following impacts need to be highlighted:

- Provision of services – During the COVID-19 pandemic, the Council continued to provide the vast majority of its services, with a significant majority of its staff working remotely. Council and Committee meetings continued remotely using Microsoft Teams software. Senior officers were engaged with a number of Local Resilience Forum cells set up to manage the impact of the pandemic (including Finance, Excess Deaths, Recovery, Strategic Co-ordination Group).

- Council's workforce – During the pandemic, a significant majority of staff were working from home utilising Microsoft Teams to communicate and front-line services continue to be delivered, in line with Government guidance.

- Supply chains – Wherever possible, the Council continued to utilise existing suppliers and process payments in line with stipulated terms.

- Reserves and financial performance – The pandemic has resulted in significant loss of income (including leisure, car parks, rental income) and additional costs (shielding staff, top-up furlough costs), which have been reported to Central Government (MHCLG) on a monthly basis and as reported to the Finance and Resources Committee. Given the very uncertain economic and financial environment, it is important to note that the net financial impact of COVID is difficult to assess accurately and will be subject to revision as more information becomes available. The refreshed Business Strategy identifies measures to mitigate and manage the financial impact of COVID-19.

- Cash-flow management – No issues with cash-flow have been identified.

- Major risks to the Council – The main risks related to the significant loss of income at Liberty Leisure Limited, commercial rents, and car parking. Also the major distress in the food and beverage market, which previously resulted in difficulties in securing tenants for the Beeston Phase 2 development.

- Recovery plan – The Council's strategic approach to the COVID 19 pandemic and its Recovery Strategy was presented to the Policy and Performance Committee on 1 July 2020.

Spending Review 2021

The Chancellor of the Exchequer recently launched Spending Review 2021 (SR21) on 7 September 2021 which will conclude on 27 October 2021 alongside an Autumn Budget and set out the government's spending priorities for the Parliament. The three-year review will set the government departments' resource and capital budgets for 2022/23 to 2024/25 and the devolved administrations' block grants for the same period.

The Spending Review allocates central government funding to its priority areas over the medium term, such as health, housing, environment, defence, local government and welfare spending. Additional monies have previously been allocated to health and it is anticipated that any additional funds for local government will be directed to demand led services such as adult social care and children's services.

National Non Domestic Rates

National Non-Domestic Rates (NNDR) is more commonly referred to as ‘business rates’. The removal of Revenue Support Grants (RSG) and the reduction in New Homes Bonus (NHB), in association with the rules limiting increases in Council Tax mean that business rates will become an increasingly significant funding stream for the Council. The need to develop the business rates base across the Borough will become more important for the Council.

The Nottinghamshire authorities are part of a Business Rates Pool. This allows business rates income that would otherwise have been returned to central government to be retained within the county and provides a safety net for local authorities whose income falls below a defined level.

The current Business Rates Retention Scheme sees 50% of the business rates collected retained by the precepting bodies and 50% returned to central government. The Government had announced plans to move towards 75% local retention of business rates from 2020/21, but this has not taken place as the Fair Funding Review has not yet been completed and the current Business Rates Pool continued in 2021/22. It is not yet clear whether the Nottinghamshire pool will continue in 2022/23.

Fair Funding Review / Business Rates Review

The Government is undertaking a Fair Funding Review to accompany the move towards 75% business rates retention. It is not possible at this stage to profile what, if any, impact this may have upon the Council. However, it would appear that priority in any redistribution exercise is likely to go to those authorities with social care responsibilities. The current Business Rates Retention Scheme continued in 2021/22.

New Homes Bonus

The Council’s income from New Homes Bonus (NHB) has reduced considerably in recent years reducing from a peak of £829k in 2016/17 to £110k in 2020/21. The provisional NHB allocation to Broxtowe for 2021/22 falls even further to just £19k and represents a reduction of 82% on the amount received in 2020/21.

No further allocations of new NHB are expected in the 2022/23 settlement in December 2021. The government intend to explore incentives to encourage housing growth more effectively by, for example, using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. The government will consult on any changes prior to implementation.

Council Tax Base

The Council Tax Base for 2022/23 will be presented to the Finance and Resources Committee on 6 January 2022. In recent years the Council Tax Base has increased by around 1% over that in the previous year.

## 2. Housing Revenue Account (HRA)

The Government have announced that rents can be increased by CPI plus 1% each year from 2020/21 for the following five years. This is reflected in the annual update of the financial model that accompanies the 30-year HRA Business Plan.

In order to maintain a sufficient balance on the HRA it is necessary to reduce costs or increase income and alternative strategies have been developed, including changes in other sources of income, such as garage rents and leaseholder charges, reduction in management costs through, for example, returning to in-house provision of voids works and electrical testing and re-phasing planned capital expenditure over the lifetime of the plan.

The previous borrowing cap has now been removed, allowing new-build housing to be funded, subject to viability and business case. There are numerous variables which will affect the financial model, including the level of Right to Buy (RTB) properties and new builds achieved over the next 30 years as well as changes in the level of interests rates and inflation.

The financial model makes assumptions about the levels of housing stock but these have tended to assume a level of RTB in single figures. The numbers of RTB sales since 2014/15 were 26; 27; 20; 39; 37; 17; and 16 in 2020/21.

The Council recruited an Interim Housing Delivery Manager to accelerate the delivery of the approved housing delivery plan, which includes new-build, acquisitions and re-modelling of existing housing stock.

## 3. Capital Programme

Regular updates on progress with the approved Capital Programme are provided to General Management Team and this Committee, which includes a capital budget variations reports included elsewhere on this agenda.

A lack of capital resources in terms of capital receipts or grants is limiting progress with schemes in the General Fund 2021/22 capital programme that are unable to proceed at present due to the lack of a source of funds.

With the exception of the funding from the Better Care Fund for disabled facilities grants and related activities, the Council no longer receives capital grants to the extent that it once did. However, further tram (NET) compensation in addition to the previous sums received sums is anticipated. These resources will assist with the financing of future capital expenditure.

There were also two sources of capital resources which assisted the financing of the Beeston Town Centre phase 2 re-development, namely the receipt from the sale of the Beeston Square site for residential development and £750k funding from the D2N2 Local Enterprise Partnership.

**APPENDIX 2**

## GENERAL FUND FINANCIAL PROJECTIONS 2021/22 TO 2025/26

| | Revised Estimate 2021/22 £'000 | Estimate 2022/23 £'000 | Estimate 2023/24 £'000 | Estimate 2024/25 £'000 | Estimate 2025/26 £'000 |
|---|---|---|---|---|---|
| **BASE EXPENDITURE** (including vacancy factor of £300k) | 10,951 | 11,494 | 11,891 | 12,223 | 12,498 |
| **CHANGES TO BASE** | | | | | |
| One off changes within prior year not required going forward | 393 | (378) | - | (166) | - |
| Reduction in New Homes Bonus | - | 2 | 17 | - | - |
| Increased Fees and Charges | - | (65) | (65) | (70) | (70) |
| Pay Inflation: Pay award/pension back-funding | 86 | 287 | 237 | 242 | 246 |
| Pay Inflation: Employers NI increase | - | 110 | - | - | - |
| Pay Inflation: Market Supplements | 39 | 125 | - | - | - |
| Price Inflation | - | 86 | 49 | 37 | 33 |
| Revenue effects of capital programme | - | - | - | - | - |
| Borrowing Costs - MRP and Interest | - | 205 | 69 | 207 | (87) |
| **BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES** | **11,469** | **11,866** | **12,198** | **12,473** | **12,620** |
| Beeston & Stapleford Special Expenses | 25 | 25 | 25 | 25 | 25 |
| **BUDGET REQUIREMENT** | **11,494** | **11,891** | **12,223** | **12,498** | **12,645** |
| **FINANCED BY:** | | | | | |
| NNDR Business Rates | 3,755 | 3,830 | 3,907 | 3,985 | 4,065 |
| NNDR Share of Previous Years Collection Fund Deficit | (25) | (92) | (92) | - | - |
| NNDR Section 31 Grants | 1,118 | 1,140 | 1,163 | 1,186 | 1,209 |
| NNDR Returned Levy from Notts Business Rates Pool | 180 | 100 | 100 | 100 | 100 |
| NNDR Growth Levy/Safety Net to/from Pool | (813) | (824) | (843) | (863) | (880) |
| Council Tax | 5,941 | 6,128 | 6,318 | 6,514 | 6,711 |
| CT Share of Previous Years Collection Fund Surplus | (43) | (6) | (6) | - | - |
| Government Grants (Lower Tier Grant) | 124 | 1 | 1 | 1 | 1 |
| Beeston & Stapleford Special Expenses | 25 | 25 | 25 | 25 | 25 |
| **TOTAL RESOURCES** | **10,262** | **10,302** | **10,573** | **10,948** | **11,231** |
| **DEFICIT/(SURPLUS) TO BE MET BEFORE MOVEMENT IN RESERVES** | **1,232** | **1,589** | **1,650** | **1,550** | **1,414** |
| **MOVEMENT IN RESERVES** | | | | | |
| Movement into Earmarked Reserves | 30 | 30 | - | 30 | 30 |
| Movement from Earmarked Reserves | (104) | (30) | (155) | (65) | (57) |
| **PLANNED (SURPLUS)/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE** | **1,158** | **1,589** | **1,495** | **1,515** | **1,387** |

| | Revised Estimate 2021/22 £'000 | Estimate 2022/23 £'000 | Estimate 2023/24 £'000 | Estimate 2024/25 £'000 | Estimate 2025/26 £'000 |
|---|---|---|---|---|---|
| **FORECAST BALANCES - 31 MARCH** | | | | | |
| General Fund Opening Balances | 6,873 | 5,715 | 4,126 | 2,631 | 1,116 |
| In-year Net Movement in Reserves | (1,158) | (1,589) | (1,495) | (1,515) | (1,387) |
| **General Fund Closing Balances** | **5,715** | **4,126** | **2,631** | **1,116** | **(271)** |
| **BALANCE OF RESERVES** | | | | | |
| Minimum Balance | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Available Reserves | 4,215 | 2,626 | 1,131 | **(384)** | **(1,771)** |
| (Figures in **bold** - below minimum balance) | | | | | |
| Earmarked Reserves Opening Balance | 7,839 | 723 | 538 | 199 | 164 |
| In-year Net Movement in Reserves | (7,116) | (185) | (339) | (35) | (27) |
| Earmarked Reserves Closing Balance | **723** | **538** | **199** | **164** | **137** |

| | | | | | |
|---|---|---|---|---|---|
| **Council Tax Base** | **34,572** | **34,962** | **35,339** | **35,718** | **36,075** |
| **Basic Council Tax** | **£171.85** | **£175.29** | **£178.79** | **£182.37** | **£186.02** |
| **Change on previous year** | **2.55%** | **2.0%** | **2.0%** | **2.0%** | **2.0%** |

**APPENDIX 3**

## BUSINESS STRATEGY

Since 2015 the Council has developed a Business Strategy which is designed to ensure that it will be:

- Lean and fit in its assets, systems and processes
- Customer focused in all its activities
- Commercially-minded and financially viable
- Making best use of technology.

A number of initiatives within the Business Strategy have been implemented and have resulted in either reduced costs or additional income and/or improved services for the Council.

The Business Strategy is complemented by the Commercial Strategy that was approved by Policy and Performance Committee on 3 October 2017. The Commercial Strategy seeks to implement a more business-like approach to service analysis and delivery.

A number of initiatives within both the Business Strategy and the Commercial Strategy have been implemented including the conversion of residential units within the Beeston Square development and the conversion of the former Police Station in Stapleford to office use intended to encourage the growth of new businesses.

The latest refreshed Business Strategy proposals for 2022/23 are set out below and will be incorporated within the Medium Term Financial Strategy. A number of these proposals will arise from discussions with officers and will require further detailed engagement and development.

## BUSINESS STRATEGY 2022/23 AND 2023/24 PROPOSALS

| Proposal | Business Impact | Financial Impact – Additional Income/ Reduced Expenditure |
|---|---|---|
| **1. 2022/23 Proposals** | | |
| Business Rates Growth | Business rates income from three new large industrial units near A610 (fully tenanted), Beeston Business Park, new Beeston cinema development (summer 2020) and utilising a property inspector to identify additional business rates income (recently identified significant additional business rates income from Ikea). This also, assumes that the business rates relief will continue in 2021/22.<br>Identification of a reasonable target based on the information to date. The income growth is impacted by COVID, the pace of the economic recovery and the government's delayed Funding Review.<br>Current projections, suggest additional income in 2022/23, assuming the same funding regime remains (Business rates retention). | £200,000 |
| Garden Waste Income | Expected increase in subscriptions during 2021/22 and 2022/23. Given the recent service disruption, there is a need to consider a price freeze in 2022/23 or a £1 increase per annum (report to Environment and Climate Change Committee) | £30,000 |
| Leasing of Council Offices | Lease of newly refurbished office space to public or private sector organisations, taking advantage of businesses re-locating out of other nearby office buildings. 2020/21 target savings of £30,000 | No further 22/23 target recommended. |
| Council Tax increase | Dependent on the government's Council Tax rise referendum limits, assuming the same as last year, then a Council Tax increase at £5 (Band D), equivalent to c 3% compared to the current MTFS which included a 2% rise for 2021/22. | £60,000<br>(MTFS assumes 2%, whilst £5 increase Band D provides to an additional 1% rise). |

| Proposal | Business Impact | Financial Impact – Additional Income/ Reduced Expenditure |
|---|---|---|
| Staffing efficiencies | Leverage technology (use of new software), take advantage of vacancies to restructure to save money, manage vacancies, and reduce administration. Where possible, we will aim to bring together and consolidate services under fewer senior managers where turnover allows and services can be improved. The staffing budget includes a turnover savings target of £300,000, which will be challenging due to the employers NI increase and the cost of market supplements. | No further 2022/23 target recommended |
| Homelessness – Reduce bed and breakfast. | Increased use of existing empty properties to reduce use of bed and breakfast accommodation. 2021/22 target saving of £15,000 | No further 2022/23 target recommended. |
| Beeston Phase 2 development income | Rental income | £120,000 |
| Car Parking Income | Abolish the free hour, and charge 50p for the first hour. Link to reduced carbon emissions and improved air quality. Offer free parking for hybrid and electric vehicles. Savings from phone payments to be confirmed. The Head of Governance and the Parking Manager will develop a range of increased pricing options for member's consideration. | |
| Planning Income | Following the approval of the Local Plan Part 2, additional income expected dependent on speed of development post-pandemic. | £50,000 |
| Housing - Lifeline Income | Potential income from the additional marketing of lifeline. Commercial manager will pursue this opportunity | £5,000 |
| Licensing Income – pavement licenses | Income from pavement licenses to be investigated | |
| Land Charges Income | Proposal to charge for land charges information (proposal presented to the Finance and Resources Committee on 7 October 2021) | £10,000 |

| Proposal | Business Impact | Financial Impact – Additional Income/ Reduced Expenditure |
|---|---|---|
| Environmental Enforcement Income | Income from environmental enforcement such as fixed penalty notices for littering and dog fouling etc. provided by external resources. A report will be presented to the Environment and Climate Change Committee. | £10,000 |
| Bramcote Crematorium | Potentially additional income during the pandemic, however the 2021/22 surplus is budgeted at an increase of £100k to £400k. Looking into potential additional income from pet cemetery, natural burials or retail opportunities (food and flowers) | The Bereavement Services Manager will look into these opportunities. |
| Lower Mileage Costs | Remote working has resulted in lower employee mileage claims | £10,000 |
| Reduced Overtime | Remote working has resulted in lower overtime, and this needs to be investigated further | |
| CCTV | Rationalise and ensure CCTV cameras are targeted effectively – possibly greater use of mobile cameras. CCTV review report was presented to the Community Safety Committee on 4 March 2021. The Head of Governance and the CCTV Manager will determine the potential revenue savings (cost avoidance by not replacing equipment) following the review. Any savings will be re-invested in mobile technology. | £20,000 savings with repairs, maintenance and monitoring |
| Procurement | Re-tendering contracts will bring efficiencies and savings, which will be predominantly capital savings. | Capital budget savings |
| Review the use of the Mayors Chauffeur | Proposal to replace the use of a chauffeur with taxis or the Mayors own transport. The Communications manager will identify the potential savings from this proposal | £15,000 |

| Proposal | Business Impact | Financial Impact – Additional Income/ Reduced Expenditure |
|---|---|---|
| Reshape our leisure offer | Outcome of strategic reviews of leisure facilities and leisure services. The current costs of leisure at circa £845,000 per annum. The potential savings and additional income are impacted by COVID. During the pandemic, financial support to Liberty Leisure provided by the Council and the National Leisure Relief Fund. | |
| | **Total 2022/23 savings and additional income identified** | **£530,000** |
| **2. 2021/22 – 2022/23 Proposals subject to commercial negotiations** | | |
| Sale of Crematorium land (capital receipt) | Commercial negotiations with a developer, are nearing completion, to sell land adjacent to the Crematorium, any proceeds would be shared 50/50 with Erewash Council. The site has planning approval for housing. | Revenue savings arising from the use of capital receipts can replace borrowing costs (MRP and interest) and result in revenue savings. |
| Tram compensation (receipt can be used for capital or revenue expenditure) | Tram compensation negotiations with Nottingham City Council, are nearing completion and will provide a receipt, which can be used to fund revenue or capital expenditure. | To be finalised |