

Joint Report of the Deputy Chief Executive and the Executive Director

MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2025/26

1. Purpose of Report

To seek approval of a Medium Term Financial Strategy for Bramcote Crematorium through to 2025/26 in accordance with the service objective of providing efficient arrangements for funeral directors and clergy which meet the need of their service users, at a reasonable cost.

2. Detail

The existence of a periodically reviewed Medium Term Financial Strategy (MTFS) is regarded as a key component of sound corporate governance in the public sector. In addition, the external auditors have previously commented upon the need for such a strategy.

The proposed MTFS for the next four years is set out in the appendix to this report including the basis of any broad assumptions used to produce the forecast. Figures and assumptions used in the MTFS are based upon the estimates reported elsewhere on this agenda.

3. Summary

Schedule 2 to the appendix summarises the financial forecast through to 2025/26. It demonstrates that all anticipated expenditure can continue to be met whilst maintaining a level of distribution of at least £400,000 to each constituent authority. General balances will be maintained above the minimum recommended level of £100,000 throughout the period.

Recommendation

The Joint Committee is asked to RESOLVE that the Medium Term Financial Strategy for Bramcote Crematorium be approved.

Background papers – Nil

APPENDIX**BRAMCOTE CREMATORIUM FINANCIAL STRATEGY 2021/22 TO 2025/26****1. Purpose and Background**

The purpose of this Medium Term Financial Strategy (MTFS) is to:

- provide indicative financial projections through to 2025/26 which can be used to inform the Joint Committee's decision making and budget setting process.
- provide a document for use by the Joint Committee which can assist in the development of policies and planning future initiatives.
- enable the Joint Committee to have a wider appreciation of the overall financial standing of the crematorium.

Strategies are by definition indicative and subject to change, particularly in the later years. The MTFS starts with a base year of 2021/22 and Schedule 1 provides a commentary on the robustness of the assumptions and calculations made in preparing the budgets for the subsequent years up to 2025/26.

2. Detailed Projections

The figures for the period 2021/22 through to 2025/26 are summarised in Schedule 2. In formulating these projections, a number of assumptions have been made which are described in more detail below.

In essence, the MTFS essentially takes forward budget plans proposed for 2022/23 and then incorporates only known service commitments and changes.

As with the normal budget setting process, the basic underlying assumption is that current levels of service will be maintained with the distributions to each of the constituent authorities adjusted to maintain the minimum general end of year balances above £100,000.

In summary, Schedule 2 shows that in future years the distribution to Broxtowe and Erewash Borough Councils is projected to remain at or greater than £400,000 during the period of the MTFS.

3. Assumptions Made

3.1 Base Expenditure Levels

Base levels are built up from the budget for 2022/23 and assume a similar level of service as used when formulating the budget.

3.2 Developments

The proposed development programme for 2022/23 to 2024/25, as presented within the budget report elsewhere on this agenda, has been included.

Members should be aware that it is anticipated that a separate report will be brought to the Joint Committee during 2022/23 presenting a suitable business case and seeking funds towards new cremators as a separate concept. The cost of this scheme has not been incorporated into the MTFS at this stage.

3.3 Inflation

An estimate of 2% has been made in the salaries base budget in respect of the pay award due to employees from 1 April 2021 with a similar estimate made for the following years throughout the strategy.

Given the current price inflation pressures on fuel and energy, an allowance for inflation on utilities has been proposed at £10,000 with further small allowances have also been built into the base budget for unavoidable increases in certain items. This has not been continued throughout the strategy period at this stage.

Other budgets have been determined based on current usage, trends and anticipated need for the coming years, applying inflation where necessary.

3.4 Contingency

A contingency of £10,000 for unexpected expenditure has been incorporated into the figures for 2022/23 through to 2025/26.

3.5 Increases in Fees and Charges

The proposed budget for 2022/23 provides for a general increase in fees of around 2.5%. The strategy assumes a similar fee increase of 2.5% through to 2025/26 and that this has no impact upon the number of cremations each year. In practice, this will be influenced by factors such as the demand for cremations and the fees charged by other crematoria in the local area.

4. Distribution Levels and Balances

The advice of the Treasurer is that balances of at least £100,000 should be retained on the Crematorium's revenue reserve to provide available funds to deal with major contingencies and the potential impact on cremation numbers of new crematoria in the local area. The projected reserves in Schedule 2 show that, after allowing for the distribution to Constituent Authorities, the balances are forecast to be maintained above this level for the period of this strategy.

The approved distribution to each constituent authority in 2021/22 is £400,000. Schedule 2 shows that, after taking into account all the factors described above, the total distribution can be maintained at or above £400,000 during the remaining years of the strategy.

6. Sensitivity to Change

The public sector and local government finance are subject to an almost ever-changing environment and pressure for improvements in services. As such the figures, particularly for later years in the MTFs, can be vulnerable to significant change. Apart from new initiatives and service developments that are as yet unknown, the most vulnerable areas are felt to be:

- Inflation allowances – Pay awards from April 2021 are still to be negotiated, although allowances have been made in the budgets for both 2021/22 and 2022/23. Each 1% increase from the 2% built into the strategy would add approximately £4,000 per annum to annual spending levels, which would become cumulative depending when or if they occurred.
- Inflation allowances – Given the current price inflation pressures on fuel, energy and supplies an allowance for inflation on utilities has been proposed at £10,000 in 2022/23. Whilst this has not been continued throughout the strategy period at this stage, any further price increases will impact on the forecast.

- Cremation numbers – The MTFS has assumed that demand for the crematorium will remain at 2,450 cremations in future years. A variation of 50 cremations from this level would change gross income by £38,000.
- Increase in cremation fees – Should cremation numbers rise each 1% increase or decrease in numbers equates to around £18,000 per annum. This would become cumulative if it occurred in the earlier years of the strategy.

SCHEDULE 1**RISK ASSESSMENT – APPROVED REVENUE BUDGET****1. Employee Expenses**

Around a third of the Crematorium's gross expenditure relates to employees, including pay, national insurance and pensions. The crematorium operates within an approved establishment and the respective budget heading is based on this establishment.

The pay awards for both 2020/21 and 2021/22 are still awaiting confirmation. However, the salaries figure for 2021/22 onwards have a 2% annual pay award assumption built in.

Risk assessment – MEDIUM RISK

2. Other Running Expenses

Nearly half of the Crematorium's gross expenditure is in this area, including repairs and maintenance, rates and utilities, purchase of supplies and services, printing, postages and telephones. These cost areas are tightly controlled and where possible central contracts are put in place (e.g. purchase of gas and electricity).

For the purposes of this strategy, an allowance of 2% has been made added to base expenditure for 2022/23 to 2025/26 for the effects of price inflation on unavoidable items of spend, such as business rates, cremator repairs, trade refuse collection and telephone bills.

Given the current price pressures on fuel, energy and supplies an allowance for inflation on utilities of £10,000 has been proposed in 2022/23. Whilst this has not been continued throughout the strategy period at this stage, any further price increases will impact on the forecast. No other price inflation has been included.

The proposed development budget for 2022/23 includes cremator repairs. An additional budget was built into the strategy from 2020/21 onwards to pay for an increasing number of repairs to the ageing cremators.

No further unforeseen excessive cost pressures are known of at this stage and it is anticipated that running costs can be contained within overall available budgets.

Risk assessment – MEDIUM RISK

3. Capital Development – New Cremators

There will be a requirement to replace the cremators at a future date and this will be incorporated within the strategy once the life of the present cremators is known and the cost of replacement cremators has been determined.

It is anticipated that a separate report will be brought to the Joint Committee during 2022/23 presenting a suitable business case and seeking funds towards new cremators. The cost of this significant investment has not been included within the MTFS at this stage. It is clear though that any significant investment may require a call on the distribution to constituent authorities and/or recourse to any available capital receipts and/or prudential borrowing.

Risk assessment – HIGH RISK

4. Income - Fees and Charges

The majority of the Crematorium's income is derived from cremation fees. Only a small proportion of revenue is received from other income such as memorials and the Book of Remembrance. As such, the setting of cremation fees remains the key risk area.

The assumption is for cremation numbers to remain at 2,450 adult cremations throughout the remaining period of the MTFS. There is a risk that if cremation numbers fall below the budgeted amount this could impact distribution levels, with a variation of 50 cremations from the budget resulting in a change in income of up to £38,000 with very little impact on associated costs.

Risk assessment – HIGH RISK

This strategy has assumed an increase of 2.5% per annum throughout the strategy period. Each additional 1% increase above those allowed for would generate an additional £18,000 for investment and/or distribution, but any significant increase could have an impact on demand for services.

Risk assessment – MEDIUM RISK

5. Memorialisation Scheme

Memorialisation expenditure and income was no longer ring fenced from 1 April 2020 and is now included in the Crematorium's revenue account. However, there will still be a requirement to monitor memorialisation expenditure and income to ensure that this does not reduce crematorium balances.

Risk assessment – MEDIUM RISK

6. Reserves

Based on the budget proposals, the level of revenue balances is estimated at around £217,000 by the end of 2025/26. The balance on the Repairs and Renewals Reserve, which is earmarked for specific schemes, is expected to be in the region of £316,000 by the end of this strategy period.

Advice produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) indicates that reserves should be held for three main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - part of the revenue reserve.
- As a contingency to cushion the impact of unexpected events or emergencies – revenue reserves.
- As a means of building up funds to meet known or predicted liabilities - referred to as earmarked reserves – repairs and renewals.

There is currently one material earmarked reserve. The Repairs and Renewals Reserve which covers equipment such as cremators and cremulators, as well as major building repairs such as flat roof replacement. As far as possible this reserve is used to meet significant repair demands without recourse to the two constituent authorities. An examination of the likely demands on this reserve in future years has been made and indications are that the current level of the reserve is adequate for future foreseeable demands.

Given that the Repairs and Renewals Reserve is effectively earmarked for future provision, there is an increased emphasis on ensuring that an adequate level of general reserves is maintained to meet unforeseen circumstances.

Guidance from the former Audit Commission indicated that, it would expect to see general reserves at least equal to 5% of an authority's net operating expenditure in a 'good' council. The Treasurer advises that for such as this Joint Committee, which has a very high levels of income compared to other classes of authority, the reference to net operating expenditure is not appropriate since any "target" should reflect the risk to income and expenditure levels separately. In the light of this risk assessment and the medium term financial strategy as proposed, the Treasurer advises that, in his opinion, revenue balances should remain at or above £100,000.

Risk assessment – MEDIUM RISK

SCHEDULE 2

MEDIUM TERM FINANCIAL FORECAST 2021/22 TO 2025/26

	<u>2021/22</u> £	<u>2022/23</u> £	<u>2023/24</u> £	<u>2024/25</u> £	<u>2025/26</u> £
Base Expenditure (including growth)	1,198	1,303	1,329	1,356	1,383
Development Programme	60	140	-	-	-
Inflation Allowance	-	18	8	8	8
Contingency	-	-	10	10	10
Base Income	(1,909)	(1,942)	(1,989)	(2,037)	(2,086)
Increase in Fees and Charges	-	(47)	(48)	(49)	(50)
(Surplus) / Deficit in Year	(651)	(528)	(690)	(712)	(735)
Balance brought forward	(591)	(481)	(363)	(292)	(243)
Distribution to Constituent Authorities	800	800	800	800	800
Interest Expenditure / (Income)	(4)	(4)	(4)	(4)	(4)
Depreciation	(85)	(85)	(85)	(85)	(85)
(Drawdown)/Transfer to R&R reserve	50	(65)	50	50	50
Revenue Account Balance	(481)	(363)	(292)	(243)	(217)