

## APPENDIX 8

**GENERAL FUND – MEDIUM TERM FINANCIAL STRATEGY TO 2025/26**1. Summary

This report is aligned with financial reports elsewhere on this agenda covering the Council's revenue and capital budgets, prudential framework indicators, the treasury management strategy and the investment strategy. Figures and assumptions within these other financial reports have been applied to produce this medium term financial strategy. The key changes around proposed savings and additional income, identified within the Business Strategy, and Covid related government financial support have all been taken into account.

A key element of the Code of Corporate Governance is the existence of a periodically-reviewed medium term financial strategy. The proposed strategy for the next four years including the basis of any broad assumptions used to produce the medium term forecasts is set out below.

It is the opinion of the Deputy Chief Executive that the estimates for 2022/23 and future years that have been used to produce the budget and Medium Term Financial Strategy (MTFS) are robust and that, if further initiatives to reduce expenditure or increase income are implemented, there are sufficient retained reserves to meet the Council's needs over the lifetime of the Strategy. Members will be aware that some savings or income proposals are still being developed and finalised and may carry some implementation risk which could have an impact on the savings or income profile. It is therefore essential to maintain a rigorous approach to financial management which will enable the Council to continue to set a balanced budget over time without further depletion of reserves.

2. Revised 2021/22 position and 2022/23 assumptions

The purpose of the MTFS is to:

- provide indicative financial projections through to 2025/26 which can be used to inform the Council's decision making and budget setting process
- provide a document for use by the Council which can assist in the development of policies and planning future initiatives and which integrates with the Council's performance management system and corporate plan priorities
- enable the Council to have a wider appreciation of its overall financial standing
- post Covid, provide a solid basis for the stabilisation of the Council's financial position such that it is not dependent upon using reserves to achieve a balanced budget or to restrict council tax increases to at or below government guidelines.

The strategy is based on the revised budget assumptions for 2021/22. In 2022/23 there were three areas of major potential risk to estimates which need to be taken account of in future financial years:

- The financial impact on Covid, especially the loss of commercial income (not compensated) and the significant loss of income at leisure centres.
- Localisation of business rates
- Efficiencies, employee savings and income proposals.

#### Financial impact of Covid

Like all local authorities, Broxtowe Borough Council, has suffered from the significant financial impact of Covid, and the various Government Covid support schemes to date has been highlighted in Appendix 3 (section 2). The main financial risks in 2022/23 and ahead are related to the lack of compensation for the loss of commercial income and inadequate financial support for the loss of income at leisure centres. There is also a risk, that an economic downturn will result in lower income from council tax, business rates, planning, car parking and other fees and charges.

#### Localisation of business rates

The largest area of uncertainty over the previous years has been the transition to locally retained business rates. Reductions in rates caused by economic downturn or growth in successful valuation appeals (some of which go back to 2010) can increase significantly uncertainty of income. Various government initiatives to help businesses with their non-domestic rates increase this uncertainty. Furthermore, the operation of the Nottinghamshire Business Rates Pool adds a layer of complexity to the calculation of likely cash flows in each accounting period.

There is an inherent risk in estimating business rates income because of the time lag of 18-months between budgeted and actual income received and the operation of the funding system and the business rates pool. The final outturn will be known after 31 March 2022.

The need to develop the business rates base across the Borough has become more important for the Council. The Nottinghamshire authorities are part of a business rates pool that 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 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 did not take place. The Fair Funding Review has not yet been completed and is expected in Spring 2022. It

has been confirmed that that the current business rates pool will continue in 2022/23.

The government will be 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 Fair Funding Review has not been completed, and the current business rates retention will continue in 2022/23. It is expected that any new proposals arising from the fair funding review are expected to be issued and consulted upon during spring 2022.

### Efficiencies and employee savings and income proposals

In order to mitigate the effect of the shortfall of resources, the Business Strategy was refreshed and presented to the Finance and Resources Committee on 7 October 2021. The Business Strategy identified a range of efficiencies and additional sources of income.

The refresh of the Business Strategy was undertaken during the budget process, with the aim of identifying sufficient efficiencies and additional income to produce a balanced budget over the lifetime of the strategy.

It is essential for the financial health of the Council over the medium term that these efficiencies and additional income are achieved.

It is important to note that if any future proposed employee savings are developed, this will attract potential redundancy and pension strain costs, and that there will be a lead-in time period for the implementation of service reviews and associated employee savings.

### 3. Financial projections to 2025/26

The projections for the financial years 2021/22 through to 2025/26 are summarised at Schedule 1. In formulating the projections, a number of assumptions have been made. Those assumptions which have a material impact on the MTFS are described in more detail below.

#### Assumptions

As with the Council's normal budget-setting process the basic underlying assumption within the MTFS is that current levels of service will be maintained wherever possible. However, any proposed budget changes will be set out in the detailed budget papers to the Cabinet, and have taken due regard of the Council's priorities, the overarching need for cost effectiveness and the expected level of government funding in years to come.

In summary, the assumptions contained in the MTFS are that:

- Council tax levels will increase by £5 (Band D) in 2022/23 and thereafter will increase at a rate of 2.0% per annum
- Estimated income from business rates will be in line with current data about the operation of the Business Rates Pool and allowing for only marginal growth in future years. Business Rates forecast beyond 2022/23 are very tentative and will be dependent upon the outcome of the Fair Funding Review.
- New Homes Bonus will be paid for only legacy payments relating to previous years.
- A pay award of 2% in 2022/23 and onwards is assumed for all employees.
- The efficiency schemes and income set out in the Business Strategy will be realised during 2022/23.
- Further ongoing efficiencies will need to be realised in each subsequent year to 2025/26.

### New Homes Bonus

The amount to be received in 2022/23 in respect of New Homes Bonus (NHB) has been confirmed as £351,944 which represents a significant increase on the £19,395 received in 2021/22. The sum received is heavily influenced by the imposition of a threshold of 0.4% on the Council Tax Base, under which amount no NHB will be paid for properties brought onto the list, except for the Affordable Homes Premium.

The current projection is based upon the level of NHB received in recent years. This may be considered a prudent assumption based upon the targets set out in the Core Strategy and the Part 2 Local Plan.

### Reserves

The Council has been undertaking a planned use of reserves when setting the budget. However, when expenditure levels are finalised the actual use of reserves has often been less than anticipated.

The latest projected level of general reserves (excluding the Collection Fund Equalisation Reserve) at the end of 2021/22 is £5.314m. The Chartered Institute of Public Finance and Accountancy (CIPFA) has published guidance on factors to be taken into account when assessing the adequacy of reserves. Such factors include:

- pressures arising from inflation and movements in interest rates
- estimates of the level and timing of capital receipts
- potential demand led pressures
- any planned efficiency savings/productivity gains
- financial risks arising from any major partnership arrangements

- availability of other funds to deal with major contingencies and the adequacy of provisions.

After taking into account this advice and reviewing the various factors as they relate to this authority, the advice from the Deputy Chief Executive is that general reserves of at least £1.5 million should be maintained at the present time. This is to reflect the continued risk and uncertainty that the Council now faces with the transition from direct Government funding to locally raised sources of finance. If all the assumptions as set out in this strategy arise then overall reserve levels will have reduced to around £2.236m by the end of 2025/26.

## SCHEDULE 1

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

	Revised Estimate <u>2021/22</u> £'000	Estimate <u>2022/23</u> £'000	Estimate <u>2023/24</u> £'000	Estimate <u>2024/25</u> £'000	Estimate <u>2025/26</u> £'000
<b>BASE EXPENDITURE (NET)</b>	<b>12,162</b>	<b>12,347</b>	12,372	13,089	13,025
<b>CHANGES TO BASE</b>					
One-off changes within prior year not required going forward	Included	Included	123	(305)	-
Reduction in New Homes Bonus	-	Included	320	-	30
Increased Fees and Charges	-	Included	(65)	(70)	(70)
Pay Inflation: Pay Award	Included	Included	251	255	260
Pay Inflation: Employers NI increase	-	Included	-	-	-
Pay Inflation: Market Supplements	Included	Included	-	-	-
Price Inflation	-	Included	48	38	33
Revenue effects of capital programme	-	Included	-	-	-
Borrowing Costs - MRP and Interest	-	Included	15	(7)	(89)
<b>BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES</b>	<b>12,162</b>	<b>12,347</b>	<b>13,064</b>	<b>13,000</b>	<b>13,189</b>
Beeston Special Expenses	25	25	25	25	25
<b>BUDGET REQUIREMENT</b>	<b>12,187</b>	<b>12,372</b>	<b>13,089</b>	<b>13,025</b>	<b>13,214</b>
<b>FINANCED BY:</b>					
Government Grants (Lower Tier Grant)	124	130	133	136	139
Government Grants (Services Grant)	-	199	-	-	-
NNDR Business Rates	3,755	1,847	4,729	4,729	4,729
NNDR Share of Collection Fund Deficit	(25)	13	-	-	-
NNDR Section 31 Grants	1,118	4,265	1,413	1,413	1,413
NNDR Growth Levy/Safety Net to/from Pool	(813)	(886)	(886)	(886)	(886)
NNDR Returned Funding from Pool	180	300	300	300	300
Council Tax Precept	5,880	6,107	6,291	6,481	6,677
CT Share of Collection Fund Surplus/(Deficit)	(43)	21	-	-	-
Beeston Special Expenses	25	25	25	25	25
<b>TOTAL RESOURCES</b>	<b>10,201</b>	<b>12,021</b>	<b>12,005</b>	<b>12,198</b>	<b>12,397</b>
<b>DEFICIT/(SURPLUS) TO BE MET BEFORE MOVEMENT IN RESERVES</b>	<b>1,986</b>	<b>351</b>	<b>1,084</b>	<b>827</b>	<b>817</b>

	Revised Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000
<b>MOVEMENT IN RESERVES</b>					
Movement into Earmarked Reserves	30	30	-	30	30
Movement from Earmarked Reserves	-	-	(130)	(40)	(40)
<b>PLANNED (SURPLUS)/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE</b>	<b>2,016</b>	<b>381</b>	<b>954</b>	<b>817</b>	<b>807</b>
<b>FORECAST BALANCES - 31 MARCH</b>					
General Fund Opening Balances	6,873	4,857	4,476	3,522	2,705
In-year Net Movement in Reserves	(2,016)	(381)	(954)	(817)	(807)
<b>General Fund Closing Balances</b>	<b>4,857</b>	<b>4,476</b>	<b>3,522</b>	<b>2,705</b>	<b>1,898</b>
<b>BALANCE OF RESERVES</b>					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves	3,357	2,976	2,022	1,205	398
Earmarked Reserves Opening Balance	7,839	3,434	488	358	348
In-year Net Movement in Reserves	(4,405)	(2,946)	(130)	(10)	(10)
Earmarked Reserves Closing Balance	<b>3,434</b>	<b>488</b>	<b>358</b>	<b>348</b>	<b>338</b>

<b>Council Tax Base</b>	<b>34,218</b>	<b>34,530</b>	<b>34,875</b>	<b>35,224</b>	<b>35,576</b>
<b>Basic Council Tax</b>	<b>£171.85</b>	<b>£176.85</b>	<b>£180.39</b>	<b>£183.99</b>	<b>£187.67</b>
<b>Change on previous year</b>	<b>3.0%</b>	<b>2.9%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>

## SCHEDULE 2

## RISK ASSESSMENT - REVENUE BUDGET 2022/23

1. Employee Expenses

Around a quarter of the Council's gross expenditure relates to employees, including pay, national insurance and pensions. The Council operates within an approved establishment and the respective budget headings are based on this establishment. Provision has been included within the budget figures based on an expected pay award of 2% in 2022/23 for all staff, going forward from 2022/23 a 2% pay award has been assumed. Provision has also been made for the increase in employers' National Insurance contributions of 1.25% and market supplements relating to recruitment challenges for particular roles.

The actuarial valuation of the pension fund as at March 2019 set out fixed increases in employer's pension contribution rates for 2020/21 to 2022/23. The fund is well funded at 93%, and the employer's contributions has increased from 14.4% to 18% of salary per annum, with lump sum contributions of £263,512; £273,119 and £283,076 over the next three years. A provision has been made in the budget plans on this basis.

Provision has been made within the base budgets for the costs associated with the approved establishment after taking account of submissions by services.

Progress towards employee savings is dependent on suitable applications for voluntary redundancy, flexible retirement and changes to working hours coming forward from employees or from posts being deleted as a result of changes to services. First year costs from redundancy payments or pension strain may limit the benefit in year one from these sources. Moreover, the extent to which establishment reductions can be accommodated without significant impact on services reduces as this strategy is continued. The General Management Team will need to regularly monitor the situation and members will also be kept regularly informed of progress through the Cabinet

**Risk assessment reduced: MEDIUM RISK**

2. Capital Financing

Borrowing costs on the Council's current debt are largely known in advance since the Council's long-term borrowing is generally at fixed rates. For 2022/23 new prudential borrowing of £1,144,400 is proposed to help finance the General Fund capital programme. The Council will seek low cost borrowing from other sources including the Public Works Loan Board (PWLB), Municipal Bonds Agency and/or other local authorities. However, financing of capital schemes will also be dependent upon the availability of capital receipts.

Compensation from the NET Consortium/Nottingham City Council arising from the tram works has still to be resolved. No allowance has been made for any



such compensation within the detailed figures, since the timing and size of any such receipts cannot be predicted.

Should capital receipts or tram compensation not arise the Council will need to fund its infrastructure, including the maintenance and development of ICT systems and key assets, from other sources. This may have a significant impact on the viability of the MTFs.

**Risk assessment: HIGH RISK**

### 3. Reserves

Based on the budget proposals, the overall level of available reserves as at 31 March 2022 (excluding the Collection Fund Equalisation Reserve) is estimated at around £5.314m. There is no historical evidence of overspending against service budgets.

Advice produced by 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 - this forms part of general reserves
- as a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves
- as a means of building up funds to meet known or predicted liabilities - referred to as earmarked reserves

Previous guidance from the former Audit Commission indicated that, as part of the comprehensive performance assessment, it would expect to see general reserves at least equal to 5% of a Council's net operating expenditure in a 'good' council. In Broxtowe this would equate to £500,000. The Deputy Chief Executive advises that for district councils, which have relatively 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 Deputy Chief Executive advises that, in his opinion, general reserves should remain at or above £1.5 million.

This does not pose an immediate problem but this medium term financial strategy highlights the pressure that will be on reserve levels in future years as the public sector spending squeeze continues. Careful monitoring of the situation, advance planning and responding quickly to any changes will be of particular importance moving forward.

Members should also be aware that the level of reserves held also reflects on the investment interest received. Each £100,000 change in reserves has the effect of increasing or decreasing net expenditure by around £1,000 per annum.

**Risk assessment: MEDIUM RISK**

#### 4. Government Support

Going forward there is uncertainty around Government support to mitigate the financial impact of Covid, on the Council, residents and businesses.

The award of New Homes Bonus for 2022/23 has only been confirmed for one year. Whilst indicative support from non-domestic rates is shown as part of the Settlement Funding Assessment, in reality this is mainly to produce indicative positions which can then be used to monitor 'spending power' as defined by the government. The business rates retention scheme has highlighted the considerable risk and vulnerability that local authorities face for reasons which are outside of their control. Increased understanding of the operation of the pool and the use of local data to monitor expected income during the year has reduced the risks relating to business rates income but this remains significant.

The lack of control and lengthy delays experienced in dealing with rates appeals by the Valuation Office remains a source of uncertainty. Whilst the authority has a list of outstanding appeals, including appeals from businesses impacted by Covid, it is not possible to come up with a meaningful estimate as to the level of rate reductions that may arise from such appeals and therefore predictions as to rates yield are also subject to significant change.

**Risk assessment increased: HIGH RISK**

#### 5. Fees and Charges

Over 10% of the Council's income arises from fees and charges, of which the largest service areas are planning fees, car parking, garden waste, trade waste, licensing and land charges. Take up for garden waste collection has exceeded original expectations and continues to grow.

The establishment of Liberty Leisure Limited in October 2016 was designed to implement a new delivery model for leisure services. The aim is to create stronger ownership of the function with an increased focus on business management. The Leisure Client Officer within the Deputy Chief Executive's Department will provide a client-side focus for managing the Council's relationship with the company, and explore commercial opportunities. Further challenges exist, however, as the leisure facilities through which leisure service operates are reaching the end-of-life stage and are placing increasing pressures on capital budgets. The Council has embarked upon a Leisure Facilities Strategy review, in order develop a way forward for leisure services provision across Broxtowe. The significant loss of leisure income due to Covid restrictions and closures, and the inadequate financial support from the previous National Leisure Relief Fund, means that the Council will need to monitor very closely the trading position of the Company, and consider appropriate financial support to avoid the company becoming insolvency.

Most of the other service areas are customer led and close monitoring of these budgets has taken place for several years

Given the economic impact of Covid, a significant number of fees and charges across various functions largely assume similar demand levels to 2021/22.

**Risk assessment: MEDIUM RISK**

6. Insurance

The Council's insurance cover is generally provided through external insurers with varying excess levels, depending upon the nature of any claim. The current insurance policies were retendered and new contracts entered into from April 2017 for a period of up to seven years.

The cost of premiums is only one element of the overall insurance cost with a significant part also relating to policy excesses which the Council meets itself. Budget performance in terms of the nature and value of any successful claims against the Council is also of direct relevance. The Strategic Risk Management Group meets regularly to appraise and monitor strategic issues, some of which can have direct influence on insurance cover and the levels of claims received. No adverse trends have become apparent in the past financial year.

**Risk assessment: LOW RISK**

7. Other running costs

Almost a quarter of the Council's gross expenditure is in this area, which includes energy, repairs and maintenance, vehicle operating costs, purchase of supplies and services, printing, postages and telephones. The cost areas are tightly controlled and where possible central contracts are put in place. Very limited inflation provision has been made in recent years.

An additional risk relates to the higher inflationary pressures for energy and fuel costs are expected in 2022/23.

As regards other running costs, no excessive cost pressures are known of and, given the general rules about virement, it is anticipated that running costs can be contained within overall available budgets. The continuing progress of central and joint procurement contracts, coupled with efforts to increase on-line transactions and correspondence and reduce the volume of printing and postage that takes place (as promoted through the Digital Strategy) will also help to alleviate any cost increase pressures in this area.

**Risk assessment: LOW RISK**

8. Housing Benefit Expenditure

Housing benefit expenditure accounts for around 40% of the Council's gross expenditure. The expenditure is demand led and the housing benefit aspects are mainly governed by national benefit schemes. The number of claimants has been reducing in recent years as the economic situation improves, although the amounts claimed have remained stable.

The 2022/23 housing benefit budgets have been prepared assuming a small reduction to claimant numbers compared to those for 2021/22. Given that effectively the value of housing benefit payments is almost 100% reimbursed through government grant, the overall effect of any changes in caseload is felt not to be significant at this stage.

The rollout of Universal Credit took place from June 2018 for Broxtowe residents who use the Heanor Job Centre and November 2018 for those who use the Beeston Job Centre. A reduction in benefits administration subsidy has been assumed in the MTFS to reflect this.

**Risk assessment: LOW RISK**

9. Investment income

Investment levels have remained at steady levels in 2021/22 as a result of continuing good cash flow performance, due to the impact of significant Government Covid business grants, and broadly collection rates being maintained. Wherever reasonable to do so investment levels have been reduced rather than taking out any new borrowing to meet capital financing requirements. The position with regard to the low interest rates and the economy generally, minimal movement in interest rates has been assumed in 2022/23 or future years.

**Risk assessment: LOW RISK**