Report of the Portfolio Holder for Resources and Personnel Policy

MEDIUM TERM FINANCIAL STRATEGY 2022/23 TO 2026/27 AND BUSINESS STRATEGY 2023/24

1. Purpose of report

This report presents an update on the Council's Medium Term Financial Strategy and highlights progress with the delivery of the Business Strategy.

2. Recommendation

Cabinet is asked to RESOLVE that the updated Medium Term Financial Strategy and the Business Strategy 2023/24 in the appendices be approved.

3. Detail

As reported to Cabinet on 19 July 2022, there was an underspend of £1.899m on the General Fund revenue budget in 2021/22 resulting in a General Fund balance of £7.425m as at 31 March 2022. This was predominantly due to a variety of underspends, additional income, budget carry forwards, changes in provisions, government 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. These include the current and ongoing economic and financial impact of inflation on pay and prices; uncertainty on the outcome of the financial settlement from central government; and the delayed Fair Funding Review that intends to review the level of business rates retention. 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 significant budget pressures impacting on the Council's 2022/23 and 2023/24 budgets, namely the impact of pay awards (the 2022/23 pay award has not yet agreed by the unions) and the significant inflationary cost of energy, fuel, construction and property services.

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 into account in the production of the 2022/23 budget. Further details of the Business Strategy 2023/24 are set out in appendix 3 for consideration.

4. Financial Implications

The comments from the Head of Finance Services were as follows:

The financial implications are included in the report narrative and appendices.

5. Legal Implications

The comments from the Head of Legal Services and Deputy Monitoring Officer were as follows:

There are no direct legal implications that arise from this report.

6. Human Resources Implications

There were no comments from the Human Resources Manager.

7. Union Comments

There were no Union comments in relation to this report.

8. Data Protection Compliance Implications

There are no Data Protection issues in relation to this report.

9. Equality Impact Assessment

As there is no change to policy an equality impact assessment is not required.

10. Background Papers

Nil.

APPENDIX 1

1. General Fund Revenue Budget

Introduction

There was an underspend of £1.899m on the General Fund revenue budget in 2021/22 resulting in a General Fund balance of £7.425m as at 31 March 2022. This was predominantly due to a variety of underspends, additional income, budget carry forwards, changes in provisions, government 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, especially the significant impact of inflation on pay, energy, fuel, construction, property and other commodities. The rate of inflation (CPI), currently around 10%, is forecast to continue to remain high into 2023.

The new Chancellor has not yet announced any details on local government funding. 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, although some growth allowance for the current inflationary pressures has been made in the short-term. 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 high level of inflation, impacting on the current economic and financial environment. It is difficult to assess accurately financial forecasts and will be subject to revision as more information becomes available.

There are two major budget pressures highlighted that will impact on the Council's 2023/24 budget. Firstly, the cost of the forecast pay awards in both 2022/23 and 2023/24, and secondly the financial impact of inflation on energy, fuel, construction and property prices.

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 2023/24 are set out below in appendix 3.

Financial impact of COVID-19

The COVID-19 pandemic had a significant impact on the Council, its residents and local businesses. Thankfully the period of restrictions is over as the community learn to adapts to a post-pandemic era. In line with CIPFA guidance, the following impacts need to be highlighted:

- Provision of services – The Council continued to provide the vast majority of its services during the pandemic, with front-line services delivered in line with government guidance. The Council utilised existing suppliers, wherever possible, and processed payments in line with stipulated terms. The challenges of the pandemic resulted in a number of changes to working practices including:

    - An acceleration and extension of agile working for employees;
    - An acceleration in the take up of online payment options by customers with fewer face-to-face visits in the offices;
    - A substantial number of additional responsibilities administered on behalf of central government, including residual grant funding by way of COVID-19 support and household support payments

- Reserves and financial performance – The pandemic resulted in significant loss of income (including leisure, car parking, rental income) and additional costs (shielding staff, top-up furlough costs). This was regularly reported to central government and internally to management and the Finance and Resources Committee. There were no issues cash-flow management identified that were not satisfactorily resolved.

- Financial Risks – The main financial risks during the pandemic included the significant loss of income for Liberty Leisure Limited and from commercial rents and car parking. Market conditions have since improved as it recovers from the pandemic. The Council has been successful in securing businesses to the new food and beverage units in the Beeston Square Phase 2 development and the Stapleford Business Hubs are fully let. There has also been a recovery in Liberty Leisure Limited's financial position with swimming income returning to pre-pandemic levels, leisure memberships improving to around 70% and the company posting a pre-tax surplus in 2021/22. There is the risk that the current economic condition may impact upon the company's financial performance in the short/medium-term.

<u>Financial Settlement 2023/24</u>

The new Chancellor of the Exchequer is expected to announce details of the local government financial settlement for 2023/24 in December 2022. As such, the most reasonable planning assumptions have been made the when refreshing the MTFS.

Central government's financial settlement allocates 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.

The MTFS, at this stage, does not assume the receipt of any additional government grant funding relating to the cost of living inflationary pressures.

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 reductions in New Homes Bonus (NHB), along with the rules limiting increases in Council Tax, mean that business rates have become an increasingly significant funding stream for the Council. The need to develop the business rates base across the Borough is 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. It also 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 has continued in 2022/23. It is expected that the Nottinghamshire Pool will continue into 2023/24 and beyond.

Membership in the Nottinghamshire Business Rates Pool has allowed the Council to maximise the benefits of public and private capital investment in the Borough which, in turn, has generated significant business rate growth. Furthermore, the Council continues to benefit from investing more resources to ensure that business premises are identified and properly rated.

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 Business Rates Retention Scheme has continued into 2022/23.

New Homes Bonus

The Council's income from New Homes Bonus (NHB) has reduced considerably in recent years from a peak of £829k in 2016/17 to just £19k in 2021/22. The NHB allocation to Broxtowe for 2022/23 increased to £352k due to growth in domestic properties.

No further new allocations of NHB have been assumed for the 2023/24 settlement in December 2022, although the MTFS does assume that NHB funding will remain at 2022/23 levels across the period (the only variation being legacy payments falling out).

The government intends to explore incentives to encourage housing growth more effectively by, for example, using 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 and the Tax Base

For the purposes of the MTFS, the Council Tax increases have been calculated based upon a 2% price increase. Any potential for further increases in Council Tax charges are considered further in the attached Business Strategy.

The Council Tax Base for 2023/24 will be presented to the Cabinet on 20 December 2022. In recent years the Council Tax Base has increased by around 1% over the previous year and this has been assumed again for the MTFS.

Other Funding Opportunities

The Council will continue to strive to make the most of new funding opportunities available for both capital investment projects and ongoing revenue costs.

The Council was successful in its bid for the Government’s Towns Deal funding to regenerate Stapleford, with over £21m being received for development projects in Stapleford over the next five years.

The Council has recently submitted significant Levelling Up fund bids to central government for investment in Eastwood and Kimberley and for an allocation from the UK Shared Prosperity Fund.

There will also be further funding opportunities across the region, following the government’s support of a devolution deal for Nottinghamshire and Derbyshire. The £1.14bn devolution deal will provide the region with a guaranteed income stream of £38m per annum for the D2N2 area over a 30-year period.

The Council is also a key partner of the East Midlands Development Corporation, alongside other local authorities, as its seeks to secure funds for the development of life-changing plans to transform the Borough for the future. The EMDC has attracted positive investment from the government, namely £1m with another £1m to support work in connection with the EMDC propositions and a further £1m promised the following year if provided good progress is made.

The above demonstrates that the Council is striving to make the most of these funding opportunities for capital investment; working successfully in partnership to attract funding; and is at the forefront of some of the most strategic economic development opportunities in the East Midlands.

2. Housing Revenue Account (HRA)

The Government previously 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 view of current economic conditions with rising inflation, the Government has recently commenced a consultation on capping the increase in rents to 3%, 5% or 7% for 2023/24 and 2024/25. Following the outcome of this consultation, the Government will provide guidance on the rent increase cap and the duration of the cap.

In order to maintain a sufficient balance on the HRA it has been necessary to reduce costs or increase income. 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 the re-phasing of planned capital expenditure over the lifetime of the plan.

The removal of the capital borrowing cap has allowed for new-build housing projects to be funded, subject to viability and business case. There are numerous variables which affect the financial model, including the level of property sales (Right to Buy) and new builds achieved over the next 30 years as well as changes in the level of interest rates and inflation. There is also significant extra pressure on the HRA budget caused by increased emphasis on regulatory compliance and higher legislative standards for buildings.

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; 16 and 34 in 2021/22.

The Council appointed an Interim Housing Delivery Manager (and is looking to recruit permanently to the role) to accelerate the delivery of the approved housing delivery plan, which includes new-build, housing 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 to Members. This will occasionally include capital budget variation reports to Cabinet as and when required.

There has been pressure on delivering the Capital Programme, with delays on individual schemes being attributed to a number of factors including a lack of internal resources to deliver (both financial and non-financial); a shortage of available contractors; supply chain issues; and the impact of rising price inflation in the construction industry.

There has also been a lack of capital resources, in terms of capital receipts and/or unrestricted grants that can be applied to General Fund schemes. This is limiting progress with delivering some reserve schemes in the Capital Programme which have been unable to proceed at present due to the lack of a source of funds. The final payment of the NET tram compensation is anticipated and these resources will assist with the financing of future capital expenditure.

Whilst general funding resources may not have been readily available, the Capital Programme for the General Fund has been boosted by the receipt of the Stapleford Town Fund, with these funds earmarked towards the schemes included in the bid.

APPENDIX 2

GENERAL FUND FINANCIAL PROJECTIONS 2022/23 TO 2026/27

	Revised Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
BASE BUDGET	12,347	13,513	14,194	14,398	14,735
CHANGES TO BASE					
Revenue Developments – Net changes in year not required going forward	384	(199)	(306)	-	-
Inflation – Pay award/Pension back-funding	621	628	269	275	280
Inflation – Energy and Fuel Prices	161	85	24	15	16
Inflation – Price Others	-	57	56	70	70
Increased Fees and Charges	-	(55)	(55)	(55)	(59)
Revenue effects of Capital Programme	-	-	-	-	-
Borrowing Costs – MRP and Interest	-	148	216	32	31
Reduction in New Homes Bonus	-	17	-	-	-
BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES	**13,513**	**14,194**	**14,398**	**14,735**	**15,073**
Beeston & Stapleford Special Expenses	25	25	25	25	25
BUDGET REQUIREMENT	**13,538**	**14,219**	**14,423**	**14,760**	**15,098**
FINANCED BY:					
NNDR Business Rates	1,847	4,729	4,824	4,920	5,018
NNDR Share of Previous Years Collection Fund Deficit	13	-	-	-	-
NNDR Section 31 Grants	4,265	1,441	1,470	1,499	1,529
NNDR Growth Levy/Safety Net to/from Pool	(886)	(1,232)	(1,257)	(1,281)	(1,307)
NNDR Returned Levy from Notts Business Rates Pool	300	700	700	700	700
Council Tax	6,107	6,291	6,481	6,677	6,878
CT Share of Previous Years Collection Fund Surplus	21	(43)	-	-	-
Government Grants - Lower Tier Grant	130	133	135	138	141
Government Grants - Services Grant	200	-	-	-	-
Beeston & Stapleford Special Expenses	25	25	25	25	25
TOTAL RESOURCES	**12,022**	**12,044**	**12,378**	**12,678**	**12,984**
DEFICIT/(SURPLUS) TO BE MET BEFORE MOVEMENT IN RESERVES	**1,516**	**2,175**	**2,045**	**2,082**	**2,114**
MOVEMENT IN RESERVES					
Movement into Earmarked Reserves	30	30	-	30	30
Movement from Earmarked Reserves	-	(36)	(162)	-	-
PLANNED (SURPLUS)/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE	**1,546**	**2,169**	**1,883**	**2,112**	**2,144**

	Revised Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
FORECAST BALANCES - 31 MARCH					
General Fund Opening Balances	7,425	5,879	3,710	1,827	(285)
In-year Net Movement in Reserves	(1,546)	(2,169)	(1,883)	(2,112)	(2,144)
General Fund Closing Balances	**5,879**	**3,710**	**1,827**	**(285)**	**(2,429)**
BALANCE OF RESERVES					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves	4,379	2,210	327	**(1,785)**	**(3,929)**
(Figures in **bold** - below minimum balance)					
Earmarked Reserves Opening Balance	3,584	572	566	404	434
In-year Net Movement in Reserves	(3,012)	(6)	(162)	30	30
Earmarked Reserves Closing Balance	**572**	**566**	**404**	**434**	**464**

Council Tax Base	**34,530**	**34,875**	**35,224**	**35,576**	**35,932**
Basic Council Tax	**£176.85**	**£180.39**	**£183.99**	**£187.67**	**£191.43**
Change on previous year	**2.91%**	**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 2023/24 are set out below and will be incorporated within the Medium Term Financial Strategy once agreed. A number of these proposals will arise from discussions with officers and will require further detailed engagement and development.

BUSINESS STRATEGY 2023/24 AND 2024/25 PROPOSALS

Proposal	Business Impact	Financial Impact – Additional Income/ Reduced Expenditure
2023/24 Proposals		
Business Rates Growth	Utilising a property inspector to identify additional business rates income (having recently identified significant additional business rates income from IKEA). This also assumes that the Business Rates Retention will continue in 2022/23. Additional business rates income from three new large industrial units near the A610 (fully tenanted), Beeston Business Park and the Beeston cinema development have already been included in previous years. Identification of a reasonable target based on the information to date. Income growth is impacted by the pace of the economic growth, and therefore will be reduced if there is a recession next year. Current projections, suggest additional income in 2023/24, assuming the same funding regime remains (Business Rates Retention).	£170,000 additional income
Garden Waste Income	Expected increase in subscriptions (volume and price) during 2022/23 and 2023/24.	£30,000 additional income
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. Currently no commercial offers and consideration of voluntary sector use on the ground floor.	No further 2023/24 target recommended.

Proposal	Business Impact	Financial Impact – Additional Income/ Reduced Expenditure
Council Tax increase	Assuming that the Government's Council Tax increase referendum limits are retained at the same level as last year, then a Council Tax increase at £5 for a Band D equivalent equates to an increase of around 3% compared to the current MTFS which included a 2% rise for 2023/24.	£60,000 additional income (MTFS assumes 2%, whilst £5 increase Band D provides to an additional 1% rise).
Staffing efficiencies	Leverage technology and the use of new software, taking advantage of vacancies to restructure to save money, manage vacancies and reduce administration. Where possible, the Council will aim to bring together and consolidate services under fewer senior managers where turnover allows and services can be improved. The staffing budget currently includes a turnover savings target of £360,000. In view of the inflationary increases in the overall salaries budget it is recommended to increase this target to £500,000.	£140,000 increase in the savings target
Homelessness – Reduce bed and breakfast.	Increased use of existing empty properties to reduce use of bed and breakfast accommodation.	No further 2023/24 target recommended.
Beeston Phase 2 development income	Rental income to include new operators. The total additional income will be confirmed as part of the forthcoming budget setting process.	£100,000 additional income
Car Parking Income	Abolish the free hour, instead charging 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. Net cost of Parking Services is subsidised by the tax payer, approx. £100k.	Nil – to be considered

Proposal	Business Impact	Financial Impact – Additional Income/ Reduced Expenditure
Planning Income	Following the approval of the Local Plan Part 2, additional income expected dependent on speed of development .	£50,000 additional income
Housing - Lifeline Income	Potential income from the additional marketing of lifeline. Commercial manager will pursue this opportunity	£5,000 additional income
Section 106 Administration Fees	Potential additional income from 5% administration fee charge to developers	Potential additional income
Bramcote Crematorium	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.	Potential additional income
Lower Mileage Costs	Remote working has resulted in lower employee mileage claims. Individual budget lines will be scrutinised and adjusted accordingly as part of the budget setting process – approximately 35% reductions	£10,000 savings
Reduced Overtime	Remote working has impacted on overtime and this needs to be investigated further.	Any potential savings may be offset by challenges in recruiting to vacant posts.
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 potential revenue cost savings of not replacing equipment will be determined following the review. Any savings will be re-invested in mobile technology.	£10,000 income from shared service arrangements (one-year)
Procurement	Re-tendering contracts will bring efficiencies and savings, which will be predominantly capital savings.	Capital budget savings

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 the leisure management fee at £845,000 per annum, will be reduced in 2023/24 to £485,000 due to the transfer and events back in-house. Efficiency review of Liberty Leisure will be carried out by 'Active for today', the savings identified will be impacted by the pay award and energy inflation. The outturn surplus for Liberty Leisure Limited in 2021/22 (a part COVID-19 year) was around £160k.	£100,000 – Further reduction in the management fee
	Total 2023/24 savings and additional income identified	**£675,000**
2023/24 – 2024/25 Proposals subject to commercial negotiations		
Sale of Crematorium Land (capital receipt)	Commercial negotiations with a developer, 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 (Currently classified as a capital receipt, checking with external audit and advisors whether we can classify part of the compensation as revenue)	Tram compensation negotiations with Nottingham City Council have been completed, with final balance of settlement anticipated in 2022/23.	Provide resources for the capital programme (potentially support the Eastwood LUF bid which requires circa £5m capital)