

APPENDIX 8

GENERAL FUND – MEDIUM TERM FINANCIAL STRATEGY1. 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 (MTFS). The key changes around proposed savings and additional income identified within the Business Strategy have all been taken into account.

A key element of the Code of Corporate Governance is the existence of a periodically-reviewed MTFS. 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 and Section 151 Officer that the estimates for 2023/24 and future years that have been used to produce the budget and 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 2022/23 position and 2023/24 assumptions

The purpose of the MTFS is to:

- provide indicative financial projections through to 2026/27 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
- provide a solid basis for the stabilisation of the Council's financial position such that it is not overly dependent upon using reserves to achieve a balanced budget or to restrict Council Tax increases at or below government guidelines.

The MTFS is based on the revised budget assumptions for 2022/23. In 2023/24 there were three areas of major potential risk to estimates which need to be taken account of in future financial years:

- The impact of the economic environment, with rising inflation and supply issues resulting in higher costs pressures and an impact on income.
- Localisation of business rates
- Efficiencies, employee savings and income proposals.

Economic Environment

In view of the current economic climate with high inflation, with pay awards and fuel and energy prices, and supply chain issues, particularly with construction, suitable allowances have been made in the budgets and medium term forecasts of cost pressures. These are considered further below.

The financial risks associated with an economic downturn could also impact upon potential impact on income growth, with lower receipts from Council Tax, Business Rates, planning fees, car parking and other fees and charges.

Localisation of Business Rates

The largest area of uncertainty over 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 date back a number of years) 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 2023.

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 Business Rates Pool will continue in 2023/24.

The current business rates retention scheme sees 50% of the business rates collected retained by the precepting bodies with the remainder 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.

In terms of local government funding reform, the Fair Funding Review has not yet been completed. The latest government policy statement indicated that the Review of Relative Needs and Resources (the 'Fair Funding Review') and a reset of Business Rates growth will not be implemented in the next two years and is now expected in 2025/26.

The Fair Funding Review will consider a potential 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 2023/24.

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 Cabinet on 4 October 2022. 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 2026/27

The projections for the financial years 2022/23 through to 2026/27 are summarised at Schedule 1. In formulating the projections, a number of assumptions have been made. The risks and assumptions which have a material impact on the MTFs are described in more detail below and at Schedule 2.

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 2.94% in 2023/24 and thereafter will increase at a rate of 2% 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 2024/25 are very tentative and will be dependent upon the outcome of the Fair Funding Review.
- Continuation of the New Homes Bonus scheme but as a single year retrospective allocation without any prior year legacy payments.
- Continuation of the Revenue Support Grant, the Services Grant and the new Funding Guarantee Grant allocations into the medium-term.
- A pay award of 5% is included for all employees in 2023/24, which reverts back to an assumed 2% for 2024/25 onwards.
- An allowance for price inflation relating to the cost of fuel and energy is included in the base budget for 2023/24 and further allocations have been added at up to 3% for 2024/25 and beyond.
- Efficiency schemes and income set out in the Business Strategy will be realised during 2023/24.
- Further ongoing efficiencies will need to be realised in each subsequent year to 2026/27.

Government Grants including New Homes Bonus

The amount of New Homes Bonus (NHB) to be received in 2023/24 is £132k which represents a significant reduction on the £352k received in 2022/23. The sum received is heavily influenced by the imposition of a baseline 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 a similar level of NHB being received in future years. This may be considered a prudent assumption based upon the targets set out in the Core Strategy and the Part 2 Local Plan.

Other government grants within the local government financial settlement, include Revenue Support Grant (£121k); Services Grant (£113k); and the new Funding Guarantee Grant allocation (£367k) which are all assumed to continue into the medium-term, albeit with limited or no growth.

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 Fund reserves (excluding earmarked reserves) at 31 March 2023 is £6.640m. 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 the Council, the advice from the Deputy Chief Executive and Section 151 Officer 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 MTFS arise then overall reserve levels will have reduced to £2.408m by the end of 2026/27.

SCHEDULE 1

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 (NET EXPENDITURE)	13,103	14,329	14,329	14,536	14,929
CHANGES TO BASE					
Revenue Developments (One-off changes within prior year not required going forward)	Included	Included	(357)	-	-
Pay Inflation: Pay Award	Included	Included	259	265	270
Pay Inflation: Pensions/NI Contributions	Included	Included	-	-	-
Other Pay Factors (Supplements/Efficiency)	Included	Included	-	-	-
Price Inflation (including fuel and energy)	Included	Included	74	84	86
Increased Fees and Charges	Included	Included	(55)	(55)	(59)
Revenue Effects of Capital Programme	Included	Included	-	-	-
Borrowing Costs - MRP and Interest	Included	Included	286	98	186
BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES	13,103	14,329	14,536	14,929	15,411
Beeston Special Expenses	25	25	25	25	25
BUDGET REQUIREMENT	13,128	14,354	14,561	14,954	15,436
FINANCED BY:					
Government Grants (Revenue Support Grant)	-	121	127	127	127
Government Grants (Lower Tier Grant)	130	-	-	-	-
Government Grants (Services Grant)	200	113	113	113	113
Government Grants (New Homes Bonus)	352	131	131	131	131
Government Grants (Funding Guarantee)	-	367	374	382	389
NNDR Business Rates	1,847	3,796	3,957	3,997	4,037
NNDR Share of Collection Fund Deficit	12	-	-	-	-
NNDR Section 31 Grants	4,265	2,815	2,960	2,990	3,019
NNDR Growth Levy/Safety Net to/from Pool	(886)	(1,303)	(1,373)	(1,387)	(1,401)
NNDR Returned Funding from Pool	300	800	800	800	800
Council Tax Precept	6,107	6,347	6,539	6,736	6,940
CT Share of Collection Fund Surplus/(Deficit)	21	(49)	-	-	-
Beeston Special Expenses	25	25	25	25	25
TOTAL RESOURCES	12,373	13,163	13,653	13,913	14,181
DEFICIT/(SURPLUS) TO BE MET BEFORE MOVEMENT IN RESERVES	755	1,191	908	1,040	1,255

	Revised Estimate <u>2022/23</u> £'000	Estimate <u>2023/24</u> £'000	Estimate <u>2024/25</u> £'000	Estimate <u>2025/26</u> £'000	Estimate <u>2026/27</u> £'000
MOVEMENT IN RESERVES					
Movement into Earmarked Reserves	30	-	30	30	30
Movement from Earmarked Reserves	-	(253)	-	-	-
PLANNED (SURPLUS)/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE	785	938	938	1,070	1,285
FORECAST BALANCES - 31 MARCH					
General Fund Opening Balances	7,425	6,640	5,702	4,764	3,693
In-year Net Movement in Reserves	(785)	(938)	(938)	(1,070)	(1,285)
General Fund Closing Balances	6,640	5,702	4,764	3,693	2,408
BALANCE OF RESERVES					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves	5,140	4,202	3,264	2,193	908
Earmarked Reserves Opening Balance	3,573	2,677	2,424	2,454	2,484
In-year Net Movement in Reserves	(896)	(253)	30	30	30
Earmarked Reserves Closing Balance	2,677	2,424	2,454	2,484	2,514
Council Tax Base	34,530	34,862	35,210	35,563	35,918
Basic Council Tax	£176.85	£182.06	£185.70	£189.42	£193.2
Change on previous year	2.9%	2.9%	2.0%	2.0%	2.0%

SCHEDULE 2

RISK ASSESSMENT – REVENUE BUDGET 2023/24

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 anticipated pay award of 5% in 2023/24 for all employees, with a 2% pay award assumed thereafter.

A suitable provision has also been made for Pension Fund contributions. The actuarial valuation of the pension fund as at March 2022 set out fixed increases in employer's pension contribution rates for 2023/24 to 2025/26. The fund is performing well and the Broxtowe element now fully funded at 105%. The employer's primary contributions will increase from 18.0% to 19.0% of salary per annum. There is no back-funding element, with the Broxtowe element being fully funded, so secondary contributions fall to £nil, a saving of £283k per annum over the next three years.

The base budget also takes account of the reversal of the earlier 1.25% increase in employers' National Insurance contributions.

Provision has also been made within base budgets for the approved establishment after taking account of any market supplements applied relating to recruitment challenges for particular roles.

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 MTFS is continued. General Management Team (GMT) will regularly monitor the situation and Members will also be kept regularly informed of progress through the Cabinet and the Members Matters bulletin.

Risk assessment: 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 2023/24 new prudential borrowing of £1.669m 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.

Should anticipated capital receipts not materialise, the Council will need to fund its infrastructure, including the maintenance and development of ICT systems and key assets, from other resources. This may have a significant impact on the viability of the MTFS.

Risk assessment: Reduced to MEDIUM RISK

3. Reserves

Based upon the budget proposals, the overall level of available General Fund reserves as at 31 March 2024 (excluding Earmarked Reserves) is estimated at £5.702m. There is no historical evidence of overspending against service budgets.

Professional advice from CIPFA indicates that reserves should be held for three main purposes, as a:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- A means of building up funds to meet known or predicted liabilities – referred to as earmarked reserves.

Earlier 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. For Broxtowe this would equate to £500k. The Deputy Chief Executive and Section 151 Officer 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 and Section 151 Officer advises that, in his opinion, general reserves should remain at or above £1.5 million.

This does not pose an immediate problem but the MTFS highlights the pressure 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 £100k change in reserves has the effect of increasing or decreasing net expenditure by around £4k per annum.

Risk assessment: MEDIUM RISK

4. Government Support

Going forward there is uncertainty around Government grant related support on the Council, residents and businesses.

There is clearly a risk associated with single year funding settlements. The award of New Homes Bonus for 2023/24 has only been confirmed for one year. Whilst indicative support from Business 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.

Delays experienced in dealing with rates appeals by the Valuation Office remains a source of uncertainty. Whilst the Council has a list of outstanding appeals, including appeals from businesses, it is difficult 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 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 provides a client-side focus for managing the Council's relationship with the company and exploring 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 its Leisure Facilities Strategy, in order develop a way forward for leisure services provision across Broxtowe.

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, a number of fees and charges across various services have been increased although projections assume similar demand levels to 2022/23.

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 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 fuel and energy, repairs and maintenance, vehicle operating costs, purchase of supplies and services, printing, postages and ICT. These cost areas are tightly controlled and where possible central contracts are put in place. Limited inflation provision has been made in previous years.

This has changed in 2022/23 and there are additional risks relating to high inflationary pressures for energy and fuel, materials and supply costs relating to construction costs which are expected to continue into 2023/24.

As regards to other running costs, although there are clearly cost pressures, it is anticipated that costs can be contained within overall available budgets given the general rules about virement.

Risk assessment: Increased to MEDIUM RISK

8. Housing Benefit Expenditure

Housing Benefit expenditure accounts for around 40% of the Council's gross expenditure. Spending is demand led and the housing benefit aspects are mainly governed by national benefit schemes.

The 2023/24 Housing Benefit budgets have been prepared assuming a small reduction to claimant numbers compared to those for the current year. 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.

Risk assessment: LOW RISK

9. Investment income

Investment levels have remained healthy in 2022/23 as a result of continuing good cash flow performance, with grant funding linked to the Government's energy rebate scheme and significant capital funding being received in advance of application. 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 rising interest rates has been reflected in the base budget for 2023/24, but is anticipated to remain relatively stable in future years.

Risk assessment: LOW RISK