

**Joint Report of the Treasurer and the Crematorium Manager**

**MEDIUM TERM FINANCIAL STRATEGY TO 2021/22**

1. Purpose of report

To seek approval of a medium term financial strategy for the Bramcote Crematorium through to 2021/22 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 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 appendix sets out the proposed Strategy for the next three years, including the basis of any broad assumptions used to produce the forecast.

Figures and assumptions used in this strategy are based upon the estimates reported elsewhere on this agenda. No allowance has been made in any of the figures for the effects of the sale of memorials scheme.

3. Summary

Schedule 2 to the appendix summarises the financial forecast through to 2021/22. It demonstrates that all anticipated expenditure can continue to be met whilst maintaining a level of distribution greater than £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

Budget working papers

**APPENDIX****BRAMCOTE CREMATORIUM FINANCIAL STRATEGY 2018/19 TO 2021/22****1. Purpose**

The purpose of this strategy is to:

- provide indicative financial projections through to 2021/22 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.

**2. Background**

Strategies of this nature are by definition indicative and subject to change, particularly in the later years. The strategy starts with a base year of 2018/19, and schedule 1 provides a commentary on the robustness of the assumptions and calculations made in preparing the budgets for 2019/20, 2020/21 and 2021/22.

**3. Detailed Projections**

The figures for the period 2018/19 through to 2021/22 are summarised in schedule 2. In formulating the projections a number of assumptions have been made and these are described in more detail below. In essence, the strategy essentially takes forward budget plans proposed for 2019/20 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. The memorialisation scheme is regarded as a separate activity, which will operate at break-even. As such it is not reflected in the detailed projections.

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 strategy.

**4. Assumptions Made****4.1 Base Expenditure Levels**

Base levels are built up from the budget for 2018/19 and assume a similar level of service as used when formulating the budget.

**4.2 Developments**

The proposed development programme for 2019/20 to 2021/22, as presented within the budget report elsewhere on this agenda, has been included.

**4.3 Inflation**

The national pay award for 2019/20 has been agreed at 2% following the national employers offer. No amount has been confirmed for 2020/2021 onwards so an amount of 2% has been included within the salary projections for those years.

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

**4.4 Contingency**

A contingency of £10,000 for unexpected expenditure has been incorporated into the figures for 2019/20 through to 2021/22.

**4.5 Increases in Fees**

The budgets for 2019/20 to 2021/22 include provision for further fee increases of 5% year on year.

**4.6 Borrowing**

Repayment of borrowing from Erewash Borough Council to part fund the capital investment programme concluded in 2017/18. Therefore no further provision is necessary.

**5. 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 2018/19 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 period of the strategy.

#### 6. Sensitivity to change

Local government 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 strategy, 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 beyond April 2020 are still to be negotiated. Each 1% increase from the 2% built into the strategy would add approximately £3,500 per annum to annual spending levels, which would become cumulative depending on when or if they occurred.
- Cremation numbers. This strategy has assumed that demand for the crematorium will remain at 2,600 cremations in future years. A variation of 50 cremations from this level would change gross income by £35,600.
- Increase in cremation fees. The net expenditure figures for 2020/21 and 2021/22 include an increase in cremation fees of 5% each year. Each 1% variance from this level equates to £18,500 per annum, which would become cumulative if it occurred in the earlier years of the strategy.

**RISK ASSESSMENT - APPROVED REVENUE BUDGET 2019/20****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 award for 2019/20 has been agreed at 2% as per the national employers offer. Salaries figures for 2020/21 onwards have also had a 2% annual pay award assumption built in.

Risk assessment – MEDIUM RISK

**2. Other Running Expenses**

Nearly half of the Joint Committee's gross expenditure is in this area which includes 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 in 2019/20 to 2021/22 for the effects of price inflation on unavoidable items of expenditure, such as business rates, cremator repairs, trade refuse collection and telephone bills. An allowance of 5% per annum has been included for electricity and gas prices. No other price inflation has been included.

Additional budget has been built in to the strategy 2018/19 onwards to pay for an increasing number of repairs to the ageing 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.

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 – LOW RISK

**3. Income - Fees and Charges**

The majority of the Joint Committee's income is derived from cremation fees. At present only a small proportion of revenue is received other income such as entries into the book of remembrance. Therefore the setting of cremation fees remains the key risk area.

The assumption is for cremation numbers to remain at 2,600 throughout the remaining period of this strategy. 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 £35,600 with very little impact on associated costs.

Risk assessment – HIGH RISK

This strategy has assumed an increase of 5% in the level of fee increases proposed for 2019/20 onwards. Each additional 1% increase above those allowed for would generate an additional £18,500 for distribution, but any significant increase could have an impact on demand for services.

Risk assessment – MEDIUM RISK

**4. Memorialisation scheme**

The scheme for the sale of memorials is fully operational and is planned to break-even. The levels of expenditure and income involved are significant and will require careful monitoring to ensure that they do not impinge upon the crematorium's main activities.

Risk assessment – MEDIUM RISK

**5. Reserves**

Based on the budget proposals, the level of revenue balances is estimated at around £179,000 by the end of 2021/22. The balance on the repairs and renewals reserve, which is earmarked for specific schemes, is expected to be in the region of £237,000 by the end of this strategy period.

Advice produced by the Chartered Institute of Public Finance and Accountancy 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.

The Joint Committee currently has one material earmarked reserve, namely that relating to repairs and renewals. The Repairs and Renewals Reserve 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

**BRAMCOTE BEREAVEMENT SERVICES JOINT COMMITTEE  
REVENUE RESERVE FINANCIAL PROJECTIONS TO 2021/22**

	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>
	<u>£ 000's</u>	<u>£ 000's</u>	<u>£ 000's</u>	<u>£ 000's</u>
Base Expenditure (Net)	(608)	(659)	(653)	(798)
Salary Increase	0	7	7	8
Inflation Allowance	0	9	11	11
Increase in Fees and Charges	0	(90)	(94)	(98)
(Surplus) / Deficit in Year	<u>(608)</u>	<u>(732)</u>	<u>(729)</u>	<u>(878)</u>
<b>Balance brought forward</b>	<b>(403)</b>	<b>(348)</b>	<b>(132)</b>	<b>(106)</b>
Distribution to Constituent Authorities	800	1,000	800	800
Interest & Interest Income	(7)	(5)	(5)	(5)
Development Programme	9	12	45	45
Depreciation	(82)	(86)	(86)	(86)
(Drawdown)/Transfer to R&R reserve	(58)	26	0	50
<b>Revenue Account Balance</b>	<b><u>(348)</u></b>	<b><u>(132)</u></b>	<b><u>(106)</u></b>	<b><u>(179)</u></b>