

## Joint Report of the Treasurer and the Bereavement Services Manager

**MEDIUM TERM FINANCIAL STRATEGY 2023/24 TO 2027/28**1. Purpose of Report

To seek approval of a Medium Term Financial Strategy for Bramcote Crematorium through to 2027/28 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. Recommendation

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

3. Detail

A periodically reviewed Medium Term Financial Strategy (MTFS) is regarded as a key component of sound corporate governance in the public sector. The proposed MTFS for the next four years is set out in the appendix to this report and includes 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.

Schedule 2 to the appendix summarises the financial forecast through to 2027/28. 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 in 2024/25 through to 2027/28 (although the proposed reduction to £350,000 in 2023/24 is noted) with general balances set to be maintained above the minimum recommended level of £100,000 throughout the period.

4. Financial Implications

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

A production of a Medium Term Financial Strategy is a key component of sound financial management and good governance. The MTFS can be used to inform decision making and budget setting process; assist in the development of policies and planning future initiatives; and enable Members to have a wider appreciation of the overall financial standing of the business.

Further financial comment is included in the report narrative and appendices.

5. Legal Implications

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

The Local Government Act 2003 places a duty on a local authority's Chief Finance Officer to advise on the robustness of the proposed budget and the adequacy of reserves. The Medium Term Financial Strategy is a policy framework document that is required by law to be adopted by Council.

6. Human Resources Implications

There are no direct human resources implications for this report.

7. Union Comments

Not applicable.

8. Climate Change Implications

There are no climate change implications in relation to this report.

9. Data Protection Compliance Implications

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

10. Equality Impact Assessment

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

11. Background Papers

Nil

**APPENDIX****BRAMCOTE CREMATORIUM FINANCIAL STRATEGY 2023/24 TO 2027/28****1. Purpose and Background**

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

- provide indicative financial projections through to 2027/28 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 2023/24 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 2027/28.

**2. Detailed Projections**

The figures for the period 2023/24 to 2027/28 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 2024/25 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 whilst the level of distribution can be maintained at £400,000 to both Broxtowe and Erewash Borough Councils from 2024/25 to 2027/28 (although the proposed reduction to £350,000 in 2023/24 is noted) with general balances set to be maintained above the minimum recommended level throughout the strategy period. The risk to any potential reduction in distribution can be mitigated by business growth and/or cost reductions.

### 3. Assumptions Made

#### 3.1 Base Expenditure Levels

Base levels are built up from the budgets for 2023/24 and 2024/25 and assume a similar level of service as used when formulating the budget.

#### 3.2 Developments

The proposed development programme for 2024/25 to 2026/27, as presented within the budget report on this agenda, has been included.

The installation of new cremators at Bramcote Crematorium has been included in 2024/25. The overall cost will be subject to tender, but is expected to be a significant capital investment of £1.8 million. The new cremators will be jointly and equally funded by Broxtowe and Erewash Borough Councils. Some of the capital cost will be offset by ongoing efficiency savings on energy consumption and maintenance budgets.

#### 3.3 Inflation

The agreed pay award effective from 1 April 2023 has been incorporated into the revised estimates for 2023/24. An estimated uplift of 4% has been included for the salaries budget for 2024/25. A reduced allowance of 2% has been provided for 2025/26 and the following years throughout the strategy.

Given the current price inflation pressures on fuel and energy, an allowance for inflation on utilities has been included in the 2023/24 and 2024/25 base budgets. Other small allowances for inflation have been built into the base budget for unavoidable increases in certain items. This higher level of inflation has not been continued throughout the strategy period at this stage, with a standard 2% price inflation assumed.

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 2023/24 and 2024/25, which has been increased to £20,000 from 2025/26 through to 2027/28.

### 3.5 Increases in Fees and Charges

The proposed budget for 2024/25 provides for a general increase in cremation fees of around 3.4% compared to previously agreed prices from 1 January 2024. The strategy then assumes a fee increase of 3% through to 2027/28 and that this will not have an adverse impact upon the number of cremations each year. In practice, the level of fees charged will be influenced by factors such as the demand for cremations (linked to prevailing death rates) 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.

It has been proposed that the distribution to each constituent authority in 2023/24 has been reduced to £350,000. Schedule 2 shows that, after taking into account all the factors described above, the distribution can be reinstated to £400,000 for 2024/25 and then maintained at this level until at least 2027/28. This should see general balances remaining above the minimum recommended level throughout the strategy period. The risk to any potential reduction in distribution can be mitigated by business growth and/or cost reductions.

### 5. 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:

- Pay inflation allowances – An allowance of 4% has been built into the 2024/25 budgets, reduced to 2% for 2025/26 and beyond. Each 1% increase from the allowance built into the strategy would add around £5,500 per annum to annual spending levels, which would become cumulative depending upon when or if they occurred.
- Price inflation allowances – Given the ongoing inflationary pressures on fuel, energy and supplies an allowance for inflation on utilities has been included in the 2023/24 and 2024/25 base budgets. This has not been specifically

continued throughout the strategy period at this stage, so any further price increases will impact on the forecast.

- Cremation numbers – The strategy assumes that demand for the services will remain at 2,450 cremations in 2023/24 and 2024/25 but will see some growth of around 2% (50 cremations) thereafter in future years. There will also be similar growth for memorialisation sales. A variation of 50 cremations would change gross income by around £45,000.
- Increase in cremation fees – The strategy assumes fees and charges increases of 3% per annum across the period. A variation of 1% on the cremation fees charged would result in an increase/decrease of around £20,000 in the cremation fee income budget. This would become cumulative if it occurred in the earlier years of the strategy.

## SCHEDULE 1

## RISK ASSESSMENT – APPROVED REVENUE BUDGET

1. Employee Expenses Risk assessment – MEDIUM RISK

Around a third of the Crematorium's spend 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 agreed pay award effective from 1 April 2023 has been incorporated into the revised estimates for 2023/24. The pay award for 2024/25 is estimated at 4% and has been included for the pay budget. A reduced allowance of 2% has been provided for 2025/26 and the following years throughout the strategy.

2. Other Running Expenses Risk assessment – MEDIUM RISK

Nearly half of the Crematorium's spend 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).

Given the current price pressures on fuel, energy and supplies an inflation allowance has been included in the 2023/24 and 2024/25 base budget. This additional increase has not been continued throughout the strategy period at this stage, so any further price increases will impact on the forecast.

For the purposes of the strategy, a 2% allowance has been added to base budgets for 2025/26 to 2027/28 for the effects of price inflation on unavoidable items of spend, such as business rates, cremator repairs, trade refuse and supplies.

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.

3. Capital Development Programme Risk assessment – MEDIUM RISK

Two capital development schemes are proposed in 2024/25. Firstly, for the upgrade to the Media and Audio System at £29,000 which will be fully financed from the Revenue balances.

Also included in the capital programme for 2024/25 is the major capital project for the Installation of New Replacement Cremators and Associated Works at a cost of £1.8m (subject to tender). The new cremators will be jointly and equally funded by Broxtowe and Erewash Borough Councils. The capital costs will be offset by efficiency savings on energy consumption and maintenance budgets.

No further capital development assumptions have been made in the strategy, but this will be updated once suitable business cases are presented to Members seeking approval.

4. Income – Fees and Charges Risk assessment – HIGH RISK

The majority of income is derived from cremation fees. Other revenue is received from other income such as memorial sales 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 in 2023/24 and 2024/25 but to include growth of around 2% (50 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 over £45,000 with very little impact on associated costs.

This strategy also assumes a fee increase of 3% per annum throughout the strategy period. Each additional 1% increase above those allowed for would generate an additional £20,000 for investment and/or distribution, but any significant increase could have an impact on demand for services.

5. Memorialisation Scheme Risk assessment – MEDIUM RISK

Memorialisation expenditure and income is not ring fenced 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.

6. Reserves Risk assessment – MEDIUM RISK

Based on the budget proposals, the level of revenue balances is estimated at around £295,000 by the end of 2027/28. With an increased contribution from Revenue balances from 2025/26, the balance on the Repairs and Renewals Reserve, which is earmarked for specific schemes, is expected to be in the region of £325,000 by the end of the strategy period.

Advice from 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, car park/drainage repairs and major building repairs. 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 an increased contribution of £100,000 per annum should be made from 2025/26 in order for the level of the reserves to remain 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 strategy as proposed, the Treasurer advises that, in his opinion, revenue balances should remain at or above £100,000.

## SCHEDULE 2

## MEDIUM TERM FINANCIAL FORECAST 2023/24 TO 2027/28

	<u>2023/24</u> £	<u>2024/25</u> £	<u>2025/26</u> £	<u>2026/27</u> £	<u>2027/28</u> £
Base Expenditure (including growth)	1,585	1,575	1,607	1,639	1,671
Development Programme	270	29	-	-	-
Inflation Allowance – Pay	Included	Included	12	12	12
Inflation Allowance – Prices	Included	Included	12	12	12
Contingency	10	10	20	20	20
Base Income	(2,058)	(2,358)	(2,405)	(2,453)	(2,502)
Increase in Fees and Charges	Included	included	(72)	(74)	(75)
(Surplus) / Deficit in Year	(193)	(744)	(827)	(844)	(862)
Balance brought forward	(376)	(150)	(158)	(178)	(215)
Distribution to Constituent Authorities	700	800	800	800	800
Interest Expenditure / (Income)	(8)	(8)	(10)	(10)	(10)
Depreciation	(83)	(81)	(83)	(83)	(83)
(Drawdown)/Transfer to R&R Reserve	(190)	25	100	100	100
<b>Revenue Account Balance</b>	<b>(150)</b>	<b>(158)</b>	<b>(178)</b>	<b>(215)</b>	<b>(270)</b>