Appendix 8

General Fund – Medium Term Financial Strategy

1. Summary

This report is aligned with financial reports covering the Council's revenue and capital budgets, prudential framework indicators, the treasury management strategy and the investment strategy. The 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 considered.

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 2025/26 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 2024/25 position and 2025/26 assumptions

The purpose of the MTFS is to:

- provide indicative financial projections through to 2028/29 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 2024/25. In 2025/26 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 inflationary pressures and supply issues resulting in higher prices and an impact on income. It has also seen a slower than anticipated reduction in interest rates.
- 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 recent years has been the transition to locally retained business rates. Reductions in business rates caused by economic downturn or growth in successful valuation appeals (some of which date back several years) can significantly increase uncertainty of income. Various government initiatives to help businesses with their business rates has increased this uncertainty. The operation of the Nottinghamshire Business Rates Pool adds a further 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 2025.

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. It also provides a safety net for authorities whose income falls below a defined level. The Nottinghamshire Business Rates Pool will continue in 2025/26.

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 previous 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. It is now being planned during 2025/26 by the new government. The latest government policy statement did not provide any indication as to when the Review of Relative Needs and Resources and a reset of Business Rates growth will be implemented, although this is not anticipated now until at least 2026/27.

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, 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 2025/26.

Efficiencies and employee savings and income proposals

In order to mitigate the effect of the shortfall of resources, an updated Business Strategy was approved by Cabinet on 5 November 2024. 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 2028/29

The projections for the financial years 2024/25 to 2028/29 are summarised at Schedule 1. A number of assumptions have been made in formulating the projections. The risks and 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 2.94% in 2025/26 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 2026/27 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. This will be reviewed as part of the government's Fair Funding Review in 2025/26.
- Continuation of Revenue Support Grant and Funding Floor grant allocations into the medium-term. This will be reviewed as part of the government's Fair Funding Review in 2025/26.
- A pay award of 3% is included for all employees in 2025/26, which reverts back to an assumed 2% for 2026/27 onwards.
- An allowance for price inflation relating to the cost of fuel and energy is included in the base budget for 2025/26 and further allocations have been added at up to 3% for 2026/27 and beyond.
- Efficiency schemes and income set out in the Business Strategy will be realised during 2025/26.
- Further ongoing efficiencies will need to be realised in each subsequent year.

Government Grants including New Homes Bonus

The amount of New Homes Bonus (NHB) to be received in 2025/26 is £360k which represents an increase on the £255k in 2024/25 but is still only at a similar level to 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 the Revenue Support Grant (£167k) and the Funding Floor grant allocation (£8k) which are both assumed to continue into the medium-term, albeit with limited or no growth. The new Recovery Grant (£55k) to be received in 2025/26 is a one-off grant and it has not been assumed to continue into the medium-term.

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 2025 is £4.347m. 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, and no further action is taken with regards to Business Strategy proposals, then overall reserve levels will reduce to just £1.374m by the end of 2026/27 and the fall into a negative position during 2027/28 and beyond. An anticipated budget underspend in the current financial year will directly improve this position.

General Fund Financial Projections 2024/25 to 2028/29

	Revised Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000
BASE BUDGET (NET EXPENDITURE)	**15,535**	**15,403**	15,404	16,112	16,931
CHANGES TO BASE					
Revenue Developments (One-off changes within prior year not required going forward)	Included	Included	41	200	-
Inflation – Pay Award/Other Pay Factors	Included	Included	305	311	317
Inflation – Energy/Fuel Prices	Included	Included	33	29	30
Inflation – Prices Other	Included	Included	95	98	100
Increased Fees and Charges	Included	Included	(76)	(77)	(80)
Capital Borrowing Costs – MRP and Interest	Included	Included	309	257	71
BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES	**15,535**	**15,403**	**16,111**	**16,930**	**17,369**
Beeston Special Expenses	25	26	26	26	26
BUDGET REQUIREMENT	**15,560**	**15,429**	**16,137**	**16,956**	**17,395**
FINANCED BY:					
NNDR Business Rates	3,793	4,610	4,702	4,796	4,892
NNDR Share of Collection Fund Deficit	-	(35)	-	-	-
NNDR Section 31 Grants	3,068	2,754	2,809	2,865	2,923
NNDR Growth Levy/Safety Net to/from Pool	(1,311)	(1,491)	(1,521)	(1,551)	(1,582)
NNDR Returned Funding from Pool	800	850	850	850	850
Council Tax Precept	6,602	6,862	7,069	7,283	7,503
CT Share of Collection Fund Surplus/(Deficit)	6	16	-	-	-
Gov. Grants (Revenue Support Grant)	129	167	167	167	167
Gov. Grants (Recovery and Services Grants)	20	55	-	-	-
Gov. Grants (New Homes Bonus)	255	360	360	360	360
Gov. Grants (Funding Floor/Guarantee)	471	8	8	8	8
Beeston Special Expenses	25	26	26	26	26
TOTAL RESOURCES	**13,858**	**14,182**	**14,471**	**14,805**	**15,147**
DEFICIT/(SURPLUS) TO BE MET BEFORE MOVEMENT IN RESERVES	1,702	1,247	1,666	2,151	2,248
MOVEMENT IN RESERVES					
Movement into Earmarked Reserves	30	30	30	-	30
Movement from Earmarked Reserves	-	-	-	(200)	-
PLANNED (SURPLUS)/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE	**1,732**	**1,277**	**1,696**	**1,951**	**2,278**

	Revised Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000
FORECAST BALANCES - 31 MARCH					
General Fund Opening Balances	6,079	4,347	3,070	1,374	(577)
In-year Net Movement in Reserves	(1,732)	(1,277)	(1,696)	(1,951)	(2,278)
General Fund Closing Balances	**4,347**	**3,070**	**1,374**	**(577)**	**(2,856)**
BALANCE OF RESERVES					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves	2,847	1,570	(126)	(2,077)	(4,356)
Earmarked Reserves Opening Balance	2,777	1,613	1,557	1,587	1,387
In-year Net Movement in Reserves	(1,164)	(56)	30	(200)	30
Earmarked Reserves Closing Balance	**1,613**	**1,557**	**1,587**	**1,387**	**1,417**

COUNCIL TAX BASE	**35,224**	**35,568**	**35,924**	**36,283**	**36,646**
BASIC COUNCIL TAX	**£187.42**	**£192.93**	**£196.79**	**£200.72**	**£204.74**
CHANGE ON PREVIOUS YEAR	**2.94%**	**2.94%**	**2.0%**	**2.0%**	**2.0%**

Risk Assessment – Revenue Budget 2025/26

1. Employee Expenses – Risk Assessment: Medium Risk

The pay budget is a significant area of spend for the Council and includes salaries, National Insurance and pension contributions. 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 3% in 2025/26 for all employees, with a 2% pay award assumed thereafter.

There is a risk that not all the additional costs relating to the increase in the rate of employer's National Insurance Contributions will not be fully funded by the government.

A suitable provision has 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 continues to perform well, with the Broxtowe element now fully funded at 105%. The employer's primary contributions increased from 18% to 19% of salary per annum. There is no back-funding element, with the Broxtowe element being fully funded, so secondary contributions have been removed generating a saving of £283k per annum. This may change again at the next actuarial valuation in March 2025 which will identify the employer's pension contributions required from 2026/27 to 2028/29.

Provision has been made within base budgets for the approved establishment after taking account of any market supplements applied relating to recruitment challenges for particular roles. Pay budgets have been increased appropriately to take account of the outcome of job evaluation.

Progress towards employee savings is dependent on turnover and 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 based on a robust business case. 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 across the duration of this MTFS. General Management Team (GMT) will regularly monitor the situation and Members will also be kept regularly informed of progress through Cabinet and Members Matters bulletins.

2. Capital Financing – Risk Assessment: Medium Risk

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 2025/26 new prudential borrowing of £1.750m 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 and/or other local authorities. However, financing of capital schemes will also be dependent upon the availability of capital receipts and government grants.

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.

There is also another potential risk linked to the impact of interest rates not reducing as much as originally expected.

3. Reserves – Risk Assessment: Medium Risk

Based upon the proposals, the overall level of available General Fund reserves as at 31 March 2026 (excluding Earmarked Reserves) is estimated at £3.070m. There is no historical evidence of overspending against service budgets.

Professional advice from CIPFA indicates that reserves should be held for three main purposes, being 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; and

- 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 MTFS 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.

Whilst this does not pose an immediate problem, the MTFS highlights pressures on reserve levels in future years as the public sector may face spending reductions through the next government spending review. Careful monitoring of the situation, advance planning and responding quickly to 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 £500k change in reserves has the effect of increasing or decreasing net expenditure by around £15k per annum.

4. Government Support – Risk Assessment: High Risk

Going forward there is uncertainty around Government grant related support to the Council, residents and businesses. An example of this for the Council would be the availability of future government support for the cost of food waste collections through New Burdens funding.

There is clearly a risk associated with single year funding settlements. The award of New Homes Bonus for 2025/26 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 Business Rates 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 from businesses by the Valuation Office remains a source of uncertainty. Whilst the Council has a list of outstanding appeals it is a challenge 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.

5. Fees and Charges – Risk Assessment: Medium Risk

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 commercial rents. 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 as the facilities through which leisure service operates are reaching the end-of-life stage and are placing increasing pressures on capital budgets. The Council is reviewing 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, several fees and charges across various services have been increased although projections assume similar demand levels to 2024/25.

6. Insurance – Risk Assessment: Low Risk

The Council’s insurance cover is generally provided through external insurers with varying excess levels, depending upon the nature of any claim. The insurance policies were retendered with new contracts awarded from April 2024 for a period of up to seven years. The Council was prudent in increasing its budgets to anticipate any potential uplift in premiums.

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.

7. Other running costs – Risk Assessment: Medium Risk

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 was made in previous years but this changed from 2022/23 with additional risks relating to high inflationary pressures for energy and fuel, materials and supply costs relating to construction costs which may continue into 2025/26.

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.

8. Housing Benefit Expenditure – Risk Assessment: Low Risk

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 2025/26 Housing Benefit budgets have been prepared assuming a reduction to claimant compared to those for the current year, due to the continued rollout of the Universal Credit migration. 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.

9. Investment income – Risk Assessment: Low Risk

Investment levels have remained healthy in 2024/25 as a result of continuing good cash flow performance, with significant government grants and 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 regarding interest rates has been reflected in the base budget for 2025/26 and is anticipated to remain relatively stable in future years.