

Report of the Deputy Chief Executive

**MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2024/25 AND
BUSINESS STRATEGY 2021/22 TO 2022/23****1. Purpose of report**

To present an update on the Council's Medium Term Financial Strategy (MTFS) and to highlight progress with the delivery of the Business Strategy.

2. Background

As reported to this Committee on 9 July 2020, there was an underspend of £362,388 on the General Fund revenue budget in 2019/20 resulting in a General Fund balance of £5.452million at 31 March 2020. This was predominantly due to various staffing and non-staffing underspends, additional income across departments, carry-forwards and effective financial management across the Council.

There are a number of significant issues concerning local government finances that will have a major impact upon the financial position of both this Council and other local authorities, including the significant financial impact of Covid-19 which was reported to the July Finance and Resources Committee. Further details of these and how they may impact upon the General Fund revenue budget, the Housing Revenue Account and the capital programme are set out in appendix 1.

Given that Central Government's Spending Review and Fair Funding Review has only just commenced, it is difficult at this stage to determine exactly how many of these issues will impact upon the Council's financial position. A further uncertainty is the current economic and financial environment, so it is important to note that the net financial impact of Covid-19, is difficult to assess accurately, and will be subject to revision, as more information becomes available over the next few months. However, as the situation becomes clearer then further details will be provided to Members at the earliest opportunity.

The 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 challenge 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 account of in the production of the 2020/21 budget. Further details of the Business Strategy 2021/22 to 2022/23 are set out in appendix 3 for consideration.

Recommendations

The Committee is asked to:

- 1. RESOLVE that the updated Medium Term Financial Strategy in appendix 2 be approved.**
- 2. APPROVE the Business Strategy 2021/22 to 2022/23 as set out in appendix 3.**

Background papers - Nil

1. General Fund Revenue Budget

Financial impact of Covid-19

Near the end of the 2019/20 financial year the Covid-19 Pandemic had a significant impact on Broxtowe Borough Council, and on its residents and businesses across the borough. In line with CIPFA guidance, the following impacts need to be highlighted;

- Provision of services – during the Covid-19 Pandemic, the Council continued to provide the vast majority of its services, with a significant majority of its staff working remotely. Committee and Council meetings also continued remotely using Microsoft Teams software. Senior officers were engaged with a number of Local Resilience Forum cells set up to manage the impact of the Pandemic (e.g. Finance, Excess deaths, Recovery, Strategic Co-ordination Group etc.)
- Council's workforce – During the Pandemic, a significant majority of staff are working from home utilising Microsoft Teams to communicate, and front-line services continue to be delivered, in line with Government guidance.
- Supply chains – Wherever possible, the Council continued to utilise existing suppliers and process payments in line with stipulated terms.
- Reserves and financial performance – The pandemic has resulted in significant loss of income (leisure, car parks, rental income) and additional costs (shielding staff, top-up furlough costs), which have been reported to central government (MHCLG), on a monthly basis, and was reported to the Finance and Resources Committee on the 9 July 2020. The overall quantification of the financial impact is difficult to ascertain, but will result in reduced general reserves. The MTFS assumes a net financial impact of approximately £269,000 reduction in reserves, after taking account of government support. Given the very uncertain economic and financial environment, it is important to note that the net financial impact of Covid, is difficult to assess accurately, and will be subject to revision, as more information becomes available over the next six months. The refreshed Business Strategy identifies measures to mitigate and manage the financial impact of Covid-19.
- Cash-flow management – No issues with cash-flow have been identified.
- Major risks to the Council – The main risks relate to the significant loss of income at Liberty Leisure Limited, commercial rents, and car parking. Also the major distress in the food and beverage market, which has resulted in difficulties in securing tenants for the Beeston Phase 2 development.
- Recovery plan – The Council's strategic approach to the Covid 19 pandemic and its Recovery Strategy was presented to the Policy and Performance Committee on the 1 July 2020.

Spending Review 2020

The Chancellor had previously confirmed that the 2020 Spending Review will be finalised this autumn, covering years from 2021/22 to 2023/24 for revenue spending and years from 2021/22 to 2024/25 for capital spending. However, the Chancellor has recently announced a postponement to the Autumn budget and due to the current economic uncertainty the comprehensive spending review will only cover one year.

The Spending Review allocates central government funding to its priority areas over the medium term, e.g. health, housing, environment, defence, local government, welfare spending etc. The Spending Review 2020 has commenced and it is expected to be completed by the end of this calendar year. 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.

National Non Domestic Rates

National non-domestic rates (NNDR) is more commonly referred to as "business rates". The removal of RSG and the reduction in NHB, in association with the rules limiting increases in council tax mean that business rates will become an increasingly significant funding stream for the Council. The need to develop the business rates base across the borough will become more 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 and provides a safety net for 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 continued in 2020/21. It is not yet clear whether the Nottinghamshire pool will continue in 2021/22.

Fair Funding / Business Rates Review

The Government is undertaking a "fair funding" / business rates 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 current business rates retention scheme continued in 2020/21.

New Homes Bonus

As reported to this committee on 13 February 2020, the Council's income from New Homes Bonus (NHB) has reduced considerably in recent years as set out below:

	£
2011/12	190,273
2012/13	402,385
2013/14	632,584
2014/15	661,309
2015/16	742,166
2016/17	828,562
2017/18	465,071
2018/19	210,348
2019/20	146,750
2020/21	109,722

No further allocations of new NHB are expected in the 2021/22 settlement in December 2020. The Government intend to explore incentives to encourage housing growth more effectively by, for example, using the 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 Base

The council tax base for 2021/22 will be presented to the Finance and Resources Committee on 7 January 2021. In recent years the council tax base has increased by approximately 1.0% over that in the previous year.

2. Housing Revenue Account (HRA)

The Government have announced that rents can be increased by CPI plus 1 per cent 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 order to maintain a sufficient balance on the HRA it is necessary to reduce costs or increase income and 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 re-phasing planned capital expenditure over the lifetime of the plan.

The previous borrowing cap has now been removed, allowing new-build housing to be funded, subject to viability and business case. There are numerous variables which will affect the financial model, including the level of Right to Buy properties and new builds achieved over the next 30 years as well as changes in the level of interests rates and inflation.

The financial model makes assumptions about the levels of housing stock but these have tended to assume a level of Right to Buys in single figures. The numbers of RTB sales increased to 26 in 2014/15 and 27 in 2015/16 before falling back to 20 in 2016/17 and then increasing to 39 in 2017/18, 37 in 2018/19, and falling to 17 in 2019/20.

The Council recruited an interim Housing Delivery Manager to accelerate the delivery of the approved housing delivery plan, which includes new-build, acquisitions and re-modelling of existing housing stock.

3. Capital Programme

An update on the 2020/21 capital programme is on the agenda for this meeting. As set out in this report, the lack of capital resources in terms of receipts or grants is limiting progress with schemes totalling £2.664million in the General Fund 2020/21 capital programme that are unable to proceed at present due to the lack of a source of funds.

With the exception of the funding from the Better Care Fund for disabled facilities grants and related activities, the Council no longer receives capital grants to the extent that it once did. However, further NET compensation (in addition to the previously received sums) is anticipated, and these resources will assist with the financing of future capital expenditure.

There are also two sources of capital resources which will assist the financing of the Beeston Town Centre phase 2 re-development. These are the receipt from the sale of the Beeston Square site for residential development which is expected to result in a significant capital receipt and £750,000 from the D2N2 Local Enterprise Partnership towards meeting costs associated with the development of Beeston Town Centre re-development which is progressing well and is due to be complete by the end of December 2020, allowing the Arc cinema fit-out to commence.

APPENDIX 2

GENERAL FUND FINANCIAL PROJECTIONS TO 2024/25

	REVISED ESTIMATE 2020/21 £'000	ESTIMATE 2021/22 £'000	ESTIMATE 2022/23 £'000	ESTIMATE 2023/24 £'000	ESTIMATE 2024/25 £'000
BASE EXPENDITURE (Base already includes vacancy factor of £300k)	10,610	10,879	11,696	11,784	11,999
Changes to the base					
* One off changes within prior year not required going forward	Reflected in the Base Budget	(48)	(74)	0	(100)
* Revenue effects of capital programme		0	20	0	0
* Estimated change in New Homes Bonus		90	2	17	0
* Increased fees and charges		(40)	(190)	(90)	(90)
* Liberty Leisure repayment		(75)	(75)	(75)	(75)
* Inflation allowance: Pay including pensions back-funding		226	231	236	240
* Inflation allowance: Prices		43	63	69	74
* Interim delivery vehicle, year end support and efficiency reviews		174	0	0	0
* Minimum Revenue Provision (Borrowing) and Interest		447	111	58	(8)
BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES	10,610	11,696	11,784	11,999	12,040
Beeston Special Expenses net requirement	25	25	25	25	25
GROSS BUDGET REQUIREMENT	10,635	11,721	11,809	12,024	12,065
FINANCED BY:					
Beeston Special Expenses precept (council tax)	25	25	25	25	25
Non Domestic Rates (NDR - Business Rates)	3,259	3,324	3,390	3,458	3,527
NDR - Share of Previous Years					
Collection Fund Deficit	(215)	0	0	0	0
NDR - Section 31 Grants	1,217	1,241	1,266	1,291	1,317
Returned Levy from Nottinghamshire Business Rates Pool	20	20	20	20	20
Growth Levy/(Safety Net to/(from) Notts NNDR Pool	(648)	(661)	(674)	(687)	(701)
Council Tax	5,679	5,852	6,029	6,212	6,400
Council Tax Share of Previous Years					
Collection Fund Surplus	65	0	0	0	0
TOTAL RESOURCES	9,402	9,801	10,056	10,319	10,588
SURPLUS (DEFICIT) TO BE MET BEFORE MOVEMENT IN RESERVES	(1,233)	(1,920)	(1,753)	(1,705)	(1,477)

NET ESTIMATED IMPACT OF COVID-19	(269)	0	0	0	0
MOVEMENT IN RESERVES					
Planned Movement into Earmarked Reserves	(40)	(40)	(40)	0	(40)
Planned Movement (from) Earmarked Reserves	161	0	15	120	0
PLANNED SURPLUS/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE	(1,381)	(1,960)	(1,778)	(1,585)	(1,517)
FORECAST BALANCES AS AT 31ST MARCH					
-General Fund Opening Balance	5,452	4,071	2,111	333	(1,252)
-In-year net movement in reserves	(1,381)	(1,960)	(1,778)	(1,585)	(1,517)
- General Fund Closing Balance	4,071	2,111	333	(1,252)	(2,769)
Balance of Reserves					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves (Figures in bold - below minimum balance)	2,571	611	(1,167)	(2,752)	(4,269)
-Earmarked Reserves Opening Balance	302	181	221	246	126
-In year net movement in reserve	(121)	40	25	(120)	40
Earmarked Reserves Closing Balance	181	221	246	126	166
Council Tax Base	34,039.20	34,379.59	34,723.39	35,070.62	35,421.33
Basic council tax	167.58	170.93	174.35	177.84	181.39
% change on previous year	3.08	2.00	2.00	2.00	2.00

Business Strategy

In 2015 the Council 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 approved by Policy and Performance Committee on 3 October 2017. This seeks to implement a more business-like approach to service analysis and delivery.

A number of initiatives within both the Business and Commercial Strategies 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 2021/22 are set out in appendix 3, and have been incorporated within the Medium Term Financial Strategy. A number of these proposals will arise from discussions with officers and will require further detailed engagement and development.

APPENDIX 3

Business Strategy 2021/22 and 2022/23 proposals

PROPOSAL	BUSINESS IMPACT	Financial impact- additional income/reduced expenditure
2021/22 Proposals		
Sale of Crematorium land	Negotiations currently on-going with a developer to sell land adjacent to the Crematorium, any proceeds would be shared 50/50 with Erewash Council.	Subject to on-going commercial negotiations
Leasing of Council offices	Lease Council office space to public or private sector organisations.	c£30,000 income
Staffing efficiencies	Leverage technology, take advantage of vacancies to restructure to save money, manage vacancies. Where possible, bring together and consolidate services under fewer senior managers where turnover allows and services can be improved.	c£170,000 savings
Transfer of community buildings to community groups	Work with community groups to examine whether there currently are surplus community buildings or whether new ones need to be provided Link to the review of grants to voluntary organisations.	To be confirmed
CCTV	Rationalise and ensure CCTV cameras are targeted effectively – possibly greater use of mobile cameras	c£50,000 savings
Procurement	Re-tendering contracts will bring efficiencies and savings, which will be predominantly capital savings.	Predominantly capital savings, revenue savings to be confirmed
Beeston Phase 2 development	Delayed construction will result in lower financing costs (MRP commences 22/23)	c£110,000 savings
HRA and the General fund cost allocations	A detailed review of staff costs and services between the HRA and General Fund. New Head of Asset Management position with costs shared between HRA and capital	To be confirmed – report before Personnel Committee on 29 Sept 2020.
Council Tax increase above the referendum limit e.g. for climate change	Council Tax increase above referendum limit (previously £5 or 2%) Our current MTFS already includes a 2% rise for 2021/22	£60,000 income for each 1% above referendum level

Car parking income	Abolish the free hour, and charge 50p for the first hour. Link to reduced carbon emissions and improved air quality. Savings from phone payments to be confirmed	c£80,000 income
Planning Income	Following the approval of the Local Plan Part 2, additional income expected. Dependent on speed of development post-covid	c£20,000 income
Garden Waste Income	Price and volume increases. Increase in subscriptions during 2020/21.	c£30,000 income
Bramcote Crematorium	Potentially additional income during covid pandemic, however the 2021/22 surplus is budgeted at an increase of £100k to £400k. Looking into potential additional income from pet cemetery, natural burials or retail opportunities (food and flowers)	To be confirmed
Housing - Lifeline income	Potential income from the additional marketing of lifeline	To be confirmed
Homelessness – Reduce bed and breakfast	Increased use of existing empty properties to reduce use of bed and breakfast accommodation	To be confirmed
Environment – Tenants garden Maintenance	Review garden maintenance service provided to tenants	To be confirmed
Environment - volunteers	Use of community group / volunteers to assist in street cleansing and grounds maintenance as new open spaces are created and as the maintenance of Green Futures project outcomes become more complex and potentially resource intensive	To be confirmed
Grants to voluntary organisations	Review the existing grants to voluntary organisations policy (more targeted)	To be confirmed
Business support unit	Use of new software, reduced post (hybrid mail) and manual invoices, resulting in reduced administration	To be confirmed
Total Revenue Savings and Income 2021/22		£490,000 (excludes potential income from the sale of crematorium land and any council tax rises above 2%)

Capital Receipt 2021/22	Tram compensation negotiations are on-going with Nottingham City Council, and will provide a capital receipt	Subject to on-going commercial negotiations
2022/23 Proposals		
Business rates income growth	Business rates income from three new large industrial units near A610 (fully tenanted) and utilising a property inspector to identify additional business rates income	Identify reasonable targets (caveat- there will be a business rates hit to the pool). Income growth is impacted by Covid-19, the pace of the economic recovery, and the Governments delayed Funding Review.
Reshape our leisure offer	Outcome of strategic reviews of leisure facilities and leisure services.	Current costs of leisure c£845k p.a. Potential savings and additional income greatly impacted by Covid-19.