

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Cabinet
13 October 2021

Report Title: Medium Term Financial Strategy 2022/23 to 2026/27

Submitted by: Head of Finance (Section 151 Officer)

Portfolios: Finance, Town Centres and Growth

Ward(s) affected: All

Purpose of the Report

To present an update regarding the financial pressures facing the Council for the period 2022/23 to 2026/27.

Recommendation

1. The funding pressures of £1.596m in 2022/23 and £4.793m over the 5 year period covered by the Medium Term Financial Strategy (MTFS) be noted.
2. Agree the approach regarding the development of savings and income generation proposals in the medium term.
3. Note the continued uncertainty regarding the medium term impact of local government funding and COVID-19.

Reasons

To ensure that the Council meets its statutory duty to set a balanced budget in February 2022.

1. **Background**

- 1.1 Full Council agreed a Medium Term Financial Strategy (MTFS) for the period 2021/22 to 2025/26 in February 2021 as part of the budget setting process. This report updates the assumptions regarding financial pressures facing the Council from that time and sets out the strategy for development of the 2022/23 budget and MTFS for 2022/23 to 2026/27.

2. **Issues**

- 2.1 The MTFS provides an overarching framework for the allocation of resources to the Council's key priorities as set out in the Council Plan. A mid-term review of the Council Plan was undertaken during 2020/21 and confirmed that the priorities remain unchanged.
- 2.2 After a ten year period of austerity the financial strategy will focus on the need for the Council to become self-sustaining through developing a strong and growing tax base, making best use of its resources, promoting an "everyone's responsibility" culture in which there is widespread ownership of the Council's financial position, a robust financial position and a fair funding settlement for Newcastle-under-Lyme.

- 2.3 It is currently unclear when the Government will press ahead with plans for a business rates reset which would see the accumulated growth built up since 2013/14 being redistributed across the system. As a member of the Staffordshire Business Rates Pool the Council currently saves £0.590m per annum in levy payments which would be payable to the Treasury if the Council ceased to be part of a pooling arrangement. In addition to this, growth within the Borough has enabled a further £1.780m of business rates income to be retained by the Council (this has been recognised in previous savings) over and above the funding baseline set by Central Government. In the event that a business rates reset goes ahead strong lobbying will be required to ensure that appropriate transitional arrangements are in place to cushion the impact locally.
- 2.4 Depending on the funding system in place for the medium term, there will be a requirement for relevant up to date information to ensure its effectiveness. The Census will be key. Locally there was a 94% response in 2011 – whilst this matched the national average it was the lowest rate in Staffordshire; it is therefore important for the Council to promote the importance of the Census and ensure the maximum possible engagement across the Borough.
- 2.5 The Council has been successful in securing resources required to regenerate the Borough via Town Deals and Future High Street Fund funding. It is important that the Council continues to work closely with Staffordshire County Council and LEP to secure inward investment in the Borough to drive growth and employment opportunities for local people.
- 2.6 The COVID-19 pandemic has precipitated a worldwide recession which is the most severe in generations. This, together with demographic trends, may continue to have a significant impact on employment and demand for Council services over the next five years.
- 2.7 The current MTFs approved by Council as part of the budget setting process in February 2021 forecast a budget gap of £5.124m over the period 2021/22 to 2024/25 (including £1.501m for 2022/23). The MTFs is being rolled forward by a year and assumptions are constantly revisited. The current forecast around financial pressures facing the Council is for a gap in 2022/23 of £1.596m and over the 5 year period of the MTFs, £4.793m. Further details are shown in Appendix A.
- 2.8 The revised budget gap for 2022/23 includes provision for an increase in employers National Insurance contributions payable by the Council of 1.25% from April 2022, the planned increase amounts to a pressure of £0.153m and is to be used by Central Government to boost Health and Social Care funding levels.
- 2.9 The revised budget gap provides for a 2.5% pay award in relation to 2022/23. It also provides for a 1.75% pay award in relation to 2021/22 as per the latest employers offer, this was not budgeted for in 2021/22 in line with previous Central Government announcements regarding a public sector pay freeze (an allowance was made for employees earning below £24,000), this amounts to a further pressure of £0.172m.
- 2.10 A number of new pressures facing the Council in 2022/23 amounting to £0.350m have also been provided for, these include ICT maintenance and software licences (£0.110m), subsidy of the operation of Kidsgrove Sports Centre (£0.150m), card processing charges (£0.020m), occupational health contract (£0.021m) and other inflationary costs and pressures regarding service provision (£0.049m).
- 2.11 Work on the detail of the 2022/23 budget including investment and savings proposals is at an advanced stage and is being overseen by an Efficiency Board chaired by the Leader of the Council. Draft budget proposals will be presented to Finance, Assets and Performance Scrutiny Committee (FAPSC) in December.

- 2.12 Based on this work, key themes for further exploration are anticipated to include digital transformation, the One Council programme, commercial opportunities and asset management.
- 2.13 A full risk assessment is being carried out on the Council's reserves. A preliminary assessment suggests that a minimum General Fund reserve of £2.1m will be required to provide sufficient cover for potential risks.
- 2.14 The Council agreed a 10 year capital strategy in February 2021. The capital strategy sets out how the Council will invest capital resources to support service delivery and facilitate the achievement of key objectives. The strategy has been reviewed and updated including expected capital receipts from asset disposals.
- 2.15 The capital financing requirement is set to increase to £21.741m by 2030/31 and the revenue implications have been reflected in the revised MTFS. It is anticipated that the current revenue budget of £0.306m will be sufficient to provide for borrowing costs that may be incurred during 2022/23, this reflects adjusted timelines for a number of capital projects which in turn has resulted in borrowing pressures that were previously anticipated to be incurred in 2022/23 being moved on to 2023/24 (£0.427m).
- 2.16 The table below sets out the key dates of the events to take place before the budget for 2022/23 is finally approved:

Event	Committee	Date
Draft MTFS & draft savings proposals	Cabinet	1 December 2021
Budget consultation	Proposed to run during December	
Scrutiny of draft MTFS & draft savings proposals	FAPSC	13 December 2021
Approval of final MTFS & consideration of draft budget proposals	Cabinet	12 January 2022
Scrutiny of draft budget proposals	FAPSC	January - TBC
Final budget proposals recommended for approval by Full Council	Cabinet	2 February 2022
Full Council to approve budget	Full Council	23 February 2022

3. **Proposal**

- 3.1 That Cabinet note the funding gap of £1.596m in 2022/23 and £4.793m over the life of the MTFS.
- 3.2 That Cabinet agree the approach regarding the development of savings and income generation proposals in the medium term.
- 3.3 That Cabinet note the continued uncertainty regarding the medium term impact of local government funding and COVID-19.

4. **Reasons for Proposed Solution**

- 4.1 The Council has a statutory duty to set a balanced budget by February 2022. Best practice is for financial planning to take place over a 5 year period in the form of a Medium Term Financial Strategy that sets out how the Council plans to allocate resources to meet its objectives.

5. **Options Considered**

5.1 None.

6. **Legal and Statutory Implications**

6.1 The MTFS is not a statutory document but it is considered best practice.

7. **Equality Impact Assessment**

7.1 Local authorities have a responsibility to meet the Public Sector Duty of the Equality Act 2010. The Act gives people the right not to be treated less favourably due to protected characteristics. It is important to consider the potential impact on such groups and individuals when designing or delivering services and budgets. Budget proposals requiring changes or new services and policies will be subject to Equality Impact Assessments including consultation with affected people and organisations.

8. **Financial and Resource Implications**

8.1 These are addressed in the body of the report.

9. **Major Risks**

9.1 Section 25 of the Local Government Acts 2003 places a duty on the Section 151 officer to report on the robustness of the budget. The main risks to the budget include spending in excess of budget; income falling short of the budget (including capital receipts from disposal of assets); and unforeseen elements such as changes to Government funding. In the context of the COVID-19 pandemic and uncertainty regarding Government funding reforms there are significant budget risks that will need to be managed. It will be essential the Council has sufficient reserves to call on if required.

10. **UN Sustainable Development Goals (UNSDG)**

10.1 In shaping detailed budget proposals consideration will be given to the need for investment in order to deliver the Council's Sustainable Environment Action Plan.

11. **Key Decision Information**

11.1 Final approval of the MTFS as part of the budget setting process will be a key decision.

12. **Earlier Cabinet/Committee Resolutions**

12.1 None

13. **List of Appendices**

13.1 Appendix A – MTFS 'Gaps'

14. **Background Papers**

14.1 None

Appendix A – 2022/23 to 2026/27 MTFS ‘Gaps’

Detail	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Description
Employees:						
Increments	73	40	20	3	-	Employees due an increment
Pay awards	485	318	326	334	342	2.5% pay award assumed for all years plus 1.75% re. 2021/22
Superannuation increases	94	61	59	58	58	17.1% of increase in salaries
Superannuation lump sum increases	76	76	76	76	76	Contribution towards pension deficit
National Insurance	83	54	52	51	51	15.05% of increase in salaries
Health and Social Care Levy	153	-	-	-	-	1.25% increase in National Insurance contributions
Premises:						
Business Rates	14	15	15	16	16	Inflationary increase in business rates payable (per CPI)
Utilities	9	9	10	10	11	Inflationary increase in gas and electric (per CPI)
Transport:						
Fuel	8	8	8	9	9	Inflationary increase in fuel (per CPI)
Financing:						
Borrowing/leasing costs	-	453	600	18	18	Borrowing costs regarding the financing of capital expenditure
Elections reserve	-50	-	-	-	-	One off contribution made in 2021/22
Flexible use of capital receipts	200	-	-	-	-	Removal of the flexible use of capital receipts to fund revenue
New Pressures:						
ICT software and maintenance	110	20	20	20	20	ICT costs re. systems maintenance and software licences
Card processing charges	20	-	-	-	-	To reflect the increase in card payments received
Kidsgrove Sports Centre	150	-	-	-	-	Subsidy regarding the operation of Kidsgrove Sports Centre
Occupational health	21	-	-	-	-	Increase in contract costs
Waste Services	24	-	-	-	-	Including contract standardisation and inflationary increases
Licensing	15	-	-	-	-	Additional staffing resources
Audit fees	10	-	-	-	-	Potential increase in external audit fees
Income:						
Fees and charges	-158	-187	-192	-198	-204	3% increase in fees and charges
New Homes Bonus	158	192	5	-	-	Drop out of New Homes Bonus legacy payments
Government grant	12	12	12	12	12	Reduction in Housing Benefit /Council Tax Admin grant
Business Rates baseline funding level	-67	-69	-70	-71	-73	Inflationary increase in baseline funding level (per CPI)
Tax base – Council Tax support	-30	-30	-	-	-	Reduction in Council Tax support claimants
Income pressures	186	170	170	170	100	Green waste recycling credits and general income shortfalls
Collection Fund deficit re. 2020/21	1,056	1,056	-	-	-	Collection fund losses incurred re. COVID-19
Transfer from Business Rates reserve	-1,056	-1,056	-	-	-	Government funding set aside re. collection fund losses
TOTAL GAPS	1,596	1,142	1,111	508	436	