

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Finance Assets and Performance Scrutiny Committee
08 September 2022

Report Title: Medium Term Financial Strategy 2023/24 to 2027/28

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 2023/24 to 2027/28.

Recommendation

1. The funding pressures of £2.249m in 2022/23 and £4.770m over the 5 year period covered by the Medium Term Financial Strategy (MTFS) be noted.
2. Note 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, COVID-19 and the Cost of Living crisis.

Reasons

To ensure that the Council meets its statutory duty to set a balanced budget in February 2023.

1. **Background**

- 1.1 Full Council agreed a Medium Term Financial Strategy (MTFS) for the period 2022/23 to 2026/27 in February 2022 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 2023/24 budget and MTFS for 2023/24 to 2027/28.

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. The Council Plan is currently being reviewed therefore any changes will be reflected with the MTFS.
- 2.2 After a ten year period of austerity together with the recent cost of living pressures, 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 £0.755m 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 £1.699m 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 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.
- 2.5 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.
- 2.6 The current MTFS approved by Council as part of the budget setting process in February 2022 forecast a budget gap of £4.366m over the period 2022/23 to 2026/27 (including £1.277m for 2023/24). 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 2023/24 of £2.249m and over the 5 year period of the MTFS, £4.770m. Further details are shown in Appendix A.
- 2.7 The revised budget gap provides for a 4% pay award in relation to 2023/24. It also provides for a £1,925 per FTE pay award in relation to 2022/23 as per the latest employers offer, this was not budgeted for in full for 2022/23, the MTFS originally allowed for a 2.5% pay award, however due to the Cost of Living crisis, increasing inflation and interest rates, a pay offer of £1,925 per FTE has been put forward. This pay offer is an average increase of 6.25% compared to the 2.5% previously built into the MTFS.
- 2.8 Considerable pressure will continue to be placed on the Council's finances in the medium term as a result of a number of national issues. These include the proposed Local Government pay award offer and the additional pressure that rising inflation and interest rates are or will be placing on the Council in terms of fuel and utilities, contractor costs, supplies and services and borrowing costs. Since the award of a number of regeneration grants, inflation costs have considerably increased which in turn has resulted in increases in contract prices for projects.
- 2.9 Work on the detail of the 2023/24 budget including investment and savings proposals is underway 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.
- 2.10 Based on this work, key themes for further exploration are anticipated to include digital transformation, the One Council programme, commercial opportunities and asset management.
- 2.11 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.

2.12 The Council agreed a 10 year capital strategy in February 2022. 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.

2.13 The capital financing requirement is set to increase to £18.612m by 2031/32 and the revenue implications have been reflected in the revised MTFS. It is anticipated that the current revenue budget of £0.166m will need to be increased to £0.387m to provide for borrowing costs that may be incurred during 2023/24.

2.14 The table below sets out the key dates of the events to take place before the budget for 2023/24 is finally approved:

Event	Committee	Date
MTFS update	Cabinet	8 November 2022
First draft savings proposals	Cabinet	7 December 2022
Budget consultation	Proposed to run during December	
Scrutiny of first draft savings proposals	FAPSC	8 December 2022
Approval of final MTFS & consideration of draft budget proposals	Cabinet	10 January 2023
Scrutiny of draft budget proposals	FAPSC	19 January 2023
Final budget proposals recommended for approval by Full Council	Cabinet	7 February 2023
Full Council to approve budget	Full Council	15 February 2023

3. **Proposal**

3.1 That the Finance Assets and Performance Scrutiny Committee note the funding gap of £2.249m in 2023/24 and £4.770m over the life of the MTFS.

3.2 That the Finance Assets and Performance Scrutiny Committee note the approach regarding the development of savings and income generation proposals in the medium term.

3.3 That the Finance Assets and Performance Scrutiny Committee note the continued uncertainty regarding the medium term impact of local government funding, COVID-19 and the Cost of Living crisis.

4. **Reasons for Proposed Solution**

4.1 The Council has a statutory duty to set a balanced budget by February 2023. 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 – 2023/24 to 2027/28 MTFS ‘Gaps’

Detail	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Description
Employees:						
Increments	61	40	10	2	-	Employees due an increment
Pay awards	955	330	339	347	356	4% pay award assumed for 2023/24 followed by 2.5% for the remaining years plus £1,925 per FTE re. 2022/23
Superannuation increases	224	82	77	77	78	22% of increase in salaries
Superannuation lump sum increases	57	39	41	43	45	Net increase of lump sum and change in contribution rate from 17.1% to 22%
National Insurance	153	56	52	53	54	National insurance on increase in salaries (increments and pay awards)
Premises:						
Business Rates	30	16	16	16	16	Inflationary increase in business rates payable (per CPI)
Utilities	113	11	11	11	12	Inflationary increase in gas and electric (per CPI)
Transport:						
Fuel	193	12	12	13	13	Inflationary increase in fuel (per CPI)
Financing:						
Borrowing costs	387	410	20	20	335	Borrowing costs regarding the financing of capital expenditure
Flexible use of capital receipts	100	-	-	-	-	Removal of the flexible use of capital receipts to fund revenue
New Pressures:						
ICT software and maintenance	26	20	20	20	20	ICT costs re. systems maintenance and software licences
Internal Audit fees	8	-	-	-	-	6% increase in internal audit fees
Income:						
Fees and charges	-253	-197	-203	-209	-216	4% increase in fees and charges
New Homes Bonus	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	-149	-78	-79	-81	-81	Inflationary increase in baseline funding level (per CPI)
Tax base – Council Tax support	-30	-	-	-	-	Reduction in Council Tax support claimants
Income pressures	170	170	100	100	100	Green waste recycling credits and general income shortfalls
TOTAL GAPS	2,249	928	428	424	742	