

2021/22 TO 2024/25 MEDIUM TERM FINANCIAL PLAN (MTFP)

The council's Medium Term Financial Plan (MTFP) for the four financial years between 1 April 2020 and 31 March 2024 (2020/21 to 2023/24, or 2020/24) was presented to this Committee on 20 February 2020 and approved by Full Council on 9 March 2020.

This document seeks to update the MTFP's assumptions on expenditure, income and financing for the four years between 2021/22 and 2024/25 (2021/25).

The main aims of the MTFP are to:

- a) deliver the council's Community Plan objectives over the life of the relevant Community Plan;
- b) clearly present the council's current predictions of its financial position between 2021/22 and 2024/25; and
- c) enable members to make decisions which ensure the council's future financial sustainability.

The MTFP tries to do this by:

- a) bringing together in one place all known factors which will affect the council's financial position; and
- b) matching how the council plans to spend to deliver its Community Plan objectives with the expected resources available to fund that spend.

1.1 Financial Projections

The table below shows high level budget projections for the next four years, assuming annual increases of 1.94% in the rate of average band D council tax (excluding local precepts), together with annual increases in the council tax base based on forecast housing growth.

| | 2021/22 (£m) | 2022/23 (£m) | 2023/24 (£m) | 2024/25 (£m) |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Service Expenditure (less capital charges) | 14.802 | 13.425 | 13.668 | 14.138 |
| Total Other Expenditure | 1.079 | 1.513 | 2.256 | 2.526 |
| Total Expenditure | 15.881 | 14.938 | 15.924 | 16.664 |
| Business Rates: receivable annually | (6.744) | (5.742) | (5.840) | (5.938) |
| Business Rates: previous surpluses | (1.022) | 0.000 | 0.000 | 0.000 |
| Business Rates: other adjustments | 0.200 | 0.000 | 0.000 | 0.000 |
| Council Tax: receivable annually | (7.282) | (7.516) | (7.757) | (8.007) |
| Council Tax: previous surpluses | (0.475) | 0.000 | 0.000 | 0.000 |
| Council Tax: other adjustments | 0.063 | 0.000 | 0.000 | 0.000 |
| Other Grants | (1.117) | 0.000 | 0.000 | 0.000 |
| Contribution (to) or from Reserves | (0.496) | 1.680 | 2.327 | 2.719 |

1.2 Core Spending Power (CSP)

CSP is a measure of the resources made available to local authorities to fund service delivery, based on the government's annual Local Government Finance Settlement (LGFS).

The final LGFS for the 2021/22 financial year was approved by ministers on the 4th February 2021. The headline increase in CSP of 4.6% for local authorities is predicated on 87% of this increase being funded from council tax increases. The CSP assumes that authorities will increase Council Tax by the maximum amounts available to them (without triggering referenda), as well as tax base increases based on optimistic forecast housing growth.

The table below outlines the government's anticipated CSP for NSDC:

| 2020/21 (£m) | Funding Type | 2021/22 (£m) |
|---------------|-------------------------------|---------------|
| 3.909 | Settlement Funding Assessment | 3.954 |
| 7.018 | Council Tax | 7.305 |
| 1.741 | New Homes Bonus | 1.187 |
| 0.000 | Lower Tier Services Grant | 0.220 |
| 0.038 | Rural Services Delivery Grant | 0.040 |
| 12.706 | Total | 12.706 |

This shows that, using the government's assumptions regarding housing growth and increases in the average band D council tax amount, the council's CSP for 2021/22 is the same in cash terms as for 2020/21. Together with employee and other costs increasing due to inflation, the table above shows that the council's funding has actually reduced in real terms.

The above is based solely on the government's projections. The reality around Council Tax is somewhat different from this. The table in section 1.1 shows that the actual Council Tax the council expects to be able to generate during 2021/22 will be £7.282m; £23,000 less than the government's forecast. Factoring £7.282m into the table above, the council's total spending power for 2021/22 is £12.683m; a reduction of 0.2%.

The individual elements of the table are described within the sections below.

1.3 Financial Landscape

The government has had plans to reform the local government finance system for a number of years. The government initially intended for these reforms to take effect from 2020/21, but delayed these to 2021/22 in light of Brexit. It has now delayed these reforms further to 2022/23 at the earliest in light of COVID-19. Given the additional year's delay, the government plans to roll forward the 2020/21 settlement to 2021/22.

The reforms of the system are principally to increase the proportion of non-domestic rates (NDR) ('business rates') retained locally; and to make fairer the government's annual funding allocations for local authorities.

The impact of the government's decision to delay the reform to the system has been positive on the funding position of Newark and Sherwood District Council. The delay in re-setting the NDR baseline has meant that expected NDR income in 2020/21 and 2021/22 is around £3m more in

each year than was expected in the 2019/23 MTFP approved on 7 March 2019. This includes surpluses not forecasted for within the 2019/23 MTFP.

The government has not yet indicated when it plans to carry out a multi-year Spending Review to enable the reformed systems for business rates retention and annual funding allocations to be implemented. The Chancellor may set this out in his budget on 3 March 2021.

As it is not known how exactly the local government finance system will change or from when these changes will take effect from, the council's current modelling of funding projections for 2022/23 and future years are subject to high levels of volatility. The Council continues to liaise with external consultants to provide advice and technical support on the forecasting of future funding levels.

It is expected, however, that the government's changes to the local government finance system will incorporate transitional arrangements where appropriate, and that changes will be made manageable for individual authorities or classes of authorities.

Throughout the remainder of 2020/21 and in 2021/22, officers will closely monitor the government's announcements relating to the local government finance system and assess the implications of these on the council's funding for 2021/22 and future years.

1.4 Fair Funding Review

The government is reviewing how it assesses the relative needs and resources of English local authorities, so that it can distribute funding to councils based on a more robust and up-to-date approach. Its review (the Fair Funding Review) aims to address concerns that the current formula for determining each council's Baseline Funding Level (BFL) is unfair, out of date and overly complex.

The government now plans to use an updated approach to distributing funding to councils from 2023/24.

The review will broadly focus on three main areas:

- 1) relative needs;
- 2) relative resources, and
- 3) transitional arrangements.

Relative needs relates to the demand for particular council services, and relative resources to the ability for councils to raise their own income from sources such as council tax.

The assessment of relative needs for shire district councils is expected to be driven mainly by population. Put more simply, shire district councils with more people will be expected to receive more money from government, all other things being equal.

An Area Cost Adjustment (ACA) will be applied to the assessment of relative needs. Put more simply, the government's funding for councils will consider factors which affect how much councils must spend to deliver services, all other things being equal. The ACA is expected to include the following three factors:

- 1) Rates Cost Adjustment;
- 2) Labour Cost Adjustment; and
- 3) Remoteness Adjustment.

A Rates Cost Adjustment relates to how much councils spend on the premises they use to deliver services.

The Fair Funding Review is important because it will affect the amount of BFL the government will give the council in future years, and thus also the amount of business rates the council can retain. As per the table in section 1.1, business rates are expected to account for at least a third of the council's total expenditure (excluding capital charges) in each year of the council's MTFP.

1.5 Retained Business Rates

The introduction of the current 50% business rates retention system in 2013/14 has allowed councils which have increased their locally raised business rates income since this time to benefit from the additional income generated.

The government plans to implement a reformed business rates retention system, though for changes not to take place until 2022 at the earliest. The reforms aim to:

- give local authorities greater control over the money it raises;
- support local economic growth;
- update the balance of risk (of loss) and reward (for growth) in the system; and
- make the system simpler and income less volatile.

Two main changes have been proposed for the business rates retention system. These are:

- 1) to increase the proportion of business rates retained locally from 50% to 75%; and
- 2) to reset the Business Rates Baseline (BRB).

The BRB is the government's prediction of how much each council is able to raise locally in business rates.

As the government intends to reform the business rates retention system in a way which is fiscally neutral, councils currently benefitting from growth in locally raised business rates income could see some of this income transferred to councils with reduced Business Rates Baselines.

Nonetheless, the planned increase in proportion of NDR retained locally means that promoting economic growth and inward investment will become ever more crucial to ensuring the council's sustainability going forward.

The council's MTFP accounts for planned reforms to the NDR retention system, though amounts for 2022/23 and future years are subject to higher levels of volatility.

The government has proposed freezes to the proportions of businesses' rateable values (RVs) payable as business rates in 2021/22, though has not yet proposed the reliefs it will require councils to implement for 2021/22:

- a freeze in the provisional small business NDR multiplier at 49.9p;

- a freeze in the provisional NDR multiplier at 51.2p;

In accordance with section 31 (Power to pay grant) of the *Local Government Act 2003*, the government will fully fund local authorities for awarding these reliefs, and provide funding for the administrative and IT costs associated with implementing these new burdens.

The council expects to receive around £1.9m in section 31 grants in 2021/22 for its cost of administering statutory NDR reliefs.

Below are some of the key risks which could affect the amount of business rates income collected and thus retained in future years:

- slower than anticipated local economic growth, or local economic growth at a rate less than the change in Consumer Price Index (CPI) used to determine annual business rates payable;
- successful backdated appeals from businesses regarding the amounts of business rates payable in previous years;
- uncollectable debts which need to be written off; and
- unpredictable increases in the amounts of discretionary reliefs granted to businesses.

The total rateable value (RV) of all business premises within the district anticipated at the beginning of 2021/22 is £108.0m.

The council currently has 23 businesses with appeals outstanding regarding the RVs of their premises, and 56 businesses with challenges. The total reduction in RV being requested by businesses with appeals is £0.418m, and is estimated to be £1.717m for those with challenges (prospective appeals). If all of the appeals and challenges from these businesses are successful and backdated to the dates currently estimated, there would be an estimated total cost of £1.669m in settling these appeals (£0.668m) and challenges (£1.001m). These settlement payments would be a one-off, funded from a provision (£4.197m at 2019/20 year-end) which has been specifically set aside to pay for the cost of successful business rate appeals.

If appeals that the council has provided (set money aside) for are unsuccessful, or are successful but cost the council less than the amount set aside for these appeals, the council will be able to release its surplus provisions back into the Collection Fund. The surplus provisions would then be re-distributed back to council and its preceptors.

1.6 Council Tax

Chapter IVA (Limitation of Council Tax and Precepts) of the *Local Government Finance Act 1992* requires billing authorities to hold referenda if their relevant basic amount of council tax for a financial year is in excess of a set of principles determined by the Secretary of State.

An authority's relevant basic amount of council tax is its average band D council tax excluding local precepts. The relevant basic amount of council tax for Newark & Sherwood District Council includes the levy that Internal Drainage Boards charge the council. These are the Upper Witham Internal Drainage Board and the Trent Valley Internal Drainage Board.

Since 2016/17, shire district councils have been able to increase council tax by the greater of the core principle or £5.00 without holding referenda. For 2016/17, 2017/18 and 2020/21, the core principle was 2%; and for 2018/19 and 2019/20, the core principle was 3%.

The proposed core principle for 2021/22 is 2%. The government's proposed council tax referendum principle for shire district councils therefore permits increases in the council's 2021/22 relevant basic amount of council tax of up to (and including) the greater of 1.99% or £5.00 without holding a referendum.

For the years between 2016/17 and 2019/20, Members agreed annual average band D council tax increases of 1.94%, and for 2020/21, an increase of £5.00 (2.88%). The council's MTFP assumes annual increases of 1.94%.

The council calculates how much annual council tax income it can receive by multiplying the council tax base (CTB) by the average band D council tax rate. The council tax base is the total number of properties equivalent to band D which are liable for council tax after discounts, exemptions and premia.

The council's MTFP assumes that the 2021/22 CTB will be 1.79% higher than the 2020/21 CTB, and that there will be a 1.25% increase in CTB for 2022/23 and subsequent years.

The table below shows the additional income the council would expect to receive over the four years of the MTFP, based on council tax increases of 1.94% in 2021/22, compared to if council tax was kept at 2020/21 levels:

| Effect of council tax changes | 2021/22 (£m) | 2022/23 (£m) | 2023/24 (£m) | 2024/25 (£m) | MTFP (£m) |
|--|-------------------------|-------------------------|-------------------------|-------------------------|----------------------|
| Additional income from 1.94% increase in all years | 0.139 | 0.143 | 0.148 | 0.152 | 0.582 |

Local Tax Income Guarantee Scheme

The Government previously announced that in-year deficits on the Collection Fund (for both Business Rates and Council Tax separately) were to be spread over a three-year period. These losses have arisen based on the original assumptions of collectible rates for the 2020/21 financial year made during January 2020, some two months prior to the full impact of the pandemic emerging nationally, compared with current assumptions.

The three-year spreading of deficits was one mechanism that the Government utilised in order to support councils with the impact of the reduction in collectible rates. In the LGFS, the government also confirmed that it would compensate councils for 75% of irrecoverable losses in both 2020/21 Council Tax income and 2020/21 Business Rates income.

For Council Tax, losses in scope will be measured through a comparison of each authority's Council Tax Requirement and an adjusted Net Collectable Debit. For Business Rates, losses in scope will be measured through a comparison of income as calculated in the statistical collection forms NNDR1 (which sets out the proposed collection performance for the next financial year) and NNDR3 (which sets out the actual performance through the previous financial year). The NNDR1 is produced annually in January, with the NNDR3 annually in April. The NNDR1 produced in January 2020 will therefore be compared with the NNDR3 that will be created in April 2021.

The council's share of the impact of the in-year deficits, spreading and Local Income Tax Guarantee Schemes are in the table below:

| | Business Rates (£m) | Council Tax (£m) |
|--|--------------------------------|-----------------------------|
| In-year deficit | 1.022 | 0.141 |
| Amount to be charged to the General Fund each year | 0.341 | 0.047 |
| Local Income Tax Guarantee Scheme | 0.767 | 0.077 |

The table in section 1.1 includes not only a charge to the GF equal to one-third of the current in-year deficit which should be made during 2021/22, but also the proposed setting aside of funds equal to two-thirds of the 2021/22 in-year deficits to fund the charges to the GF in 2022/23 and 2023/24. This is to cushion the impact on funding the council's costs in the latter two financial years.

1.7 New Homes Bonus (NHB)

New Homes Bonus (NHB) is a government grant paid to councils to incentivise local housing growth, based on the extra council tax income raised from new homes. NHB is paid to councils with growth in their housing stock above 0.4% of their existing council tax base.

The government plans to consult on the future of NHB, with a view to implementing reform in 2022/23.

Details of the government's provisional NHB allocations for 2021/22 and future years are in the table below. This includes legacy payments for 2018/19 and 2019/20; no legacy payment in respect of 2020/21; and a new one-year allocation for 2021/22.

| Year | 2021/22 (£m) | 2022/23 (£m) | 2023/24 (£m) | 2024/25 (£m) |
|--------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2018/19 | 0.379 | | | |
| 2019/20 | 0.409 | 0.409 | | |
| 2020/21 | 0.000 | | | |
| 2021/22 | 0.399 | | | |
| Total | 1.187 | 0.409 | 0.000 | 0.000 |

NHB is not ring-fenced, and thus can be used to fund either revenue or capital expenditure. To-date, the council has not needed to budget to use NHB to fund its General Fund revenue expenditure, as budgeted funding from council tax, business rates and other sources has been sufficient.

In previous years, NHB has been used to fund key regeneration projects. This is expected to continue. As capital resources are scarce, the termination of multi-year payments on new NHB allocations will have significant impact on capital resources.

The 2019/20 to 2022/23 MTFP approved by Council on 9 March 2019 proposed to allocate 50% of NHB receipts to reserves and 50% for the capital financing of assets with lives of less than 10 years (short-life assets). It is intended that this policy will continue.

1.8 Income from Fees and Charges

The council's income from fees and charges for statutory and discretionary services is an essential part of the council's General Fund revenue budget. Section 93 (Power to charge for discretionary services) of the *Local Government Act 2003* requires charges to be set such that taking one financial year with another, the income from charges for a service does not exceed its costs of provision.

Discretionary services are those for which the council has the power, but not duty, to provide; though also include additions or enhancements to statutory services that the council provides above standards legislated for.

In accordance with the Commercial Strategy approved by Council on 10 October 2017 and the Fees and Charges Project report approved by Economic Development Committee on 20 November 2019, the council aims to set fees and charges for discretionary services at levels which balance commerciality and social impact. The council should ensure that fees and charges for discretionary services are set which:

- ensure the maximum revenues possible;
- are allowed by the council's Corporate Fees and Charges Policy; and
- are socially and politically acceptable.

The table below shows how much fees and charges income the council:

- received in 2019/20;
- initially budgeted for 2020/21, as part of last year's budget setting process;
- is currently budgeting to receive in 2020/21; and
- is proposing to budget for 2021/22.

| | 2019/20 actuals (£m) | 2020/21 initial budget (£m) | 2020/21 revised budget (£m) | 2021/22 base budget (£m) |
|----------------|-------------------------------------|--|--|---|
| Fees & Charges | 5.878 | 5.296 | 5.329 | 5.198 |

As mentioned in section 1.11, the fees and charges budgets proposed for 2021/22 are at levels considered achievable. Further details on the fees and charges budgets for 2021/22 can be found in the 2021/22 proposed General Fund revenue budget report.

The pandemic has severely impacted how much income councils receive in 2020/21 from sales, fees and charges (SFC). The government therefore introduced the Income Compensation Scheme in 2020/21 to compensate councils for expected losses in SFC income. This scheme compensated councils for 75% of their lost SFC income after deducting 5% as an acceptable tolerance of volatility.

The Income Compensation Scheme was originally due to end on 31 March 2021, though in light of the impacts of the pandemic, the LGFS determined that the scheme would continue until at least 30 June 2021. As the compensation that councils receive for the first quarter of 2021/22 will be based on their original 2020/21 budgets, it is not affected by the budgets that councils set for 2021/22 (based on current levels of anticipated activity).

COVID-19 emergency funding for local government: tranche 5

To date, the Government have distributed £4.607bn in COVID-19 emergency funding for local government. Of this, this council has received £1.821m over four tranches for the 2020/21 financial year. As the funding is not ring-fenced in nature, the council is not restricted in how it chooses to utilise it.

Within the LGFS, the government announced an allocation of £1.55bn (tranche five) to support councils with additional COVID-19 related costs in 2021/22. The council's allocation of £0.620m has been built into the overall budget to support additional expenditure.

1.9 Reserves and Balances

Section 25 (Budget calculations: report on robustness of estimates etc) of the *Local Government Act 2003* requires local authority chief finance officers (Section 151 officers) to report on the adequacy of financial reserves in the council's proposed budget and robustness of estimates made.

The council has reviewed the adequacy of its useable financial reserves to ensure that these are neither too low (imprudent) or too high (overprudent) based on their purpose and likely use.

Council's generally hold useable reserves for three purposes:

- as a working balance, to mitigate the impact of uneven cash flows;
- as a contingency, to mitigate the impact of unexpected events or emergencies; and
- as earmarked reserves, to pay for known or predicted future requirements.

The council's £1.500m General Fund balance has been set aside to pay for exceptional items. Officers consistently review the appropriateness (prudence) of this amount in light of internal and external risks identified. For the council to maintain this balance, it is intended that it will only be used to fund expenditure once other appropriate reserves have been fully utilised.

Appendix B shows the balances which comprised the council's total reserves at the end of 2019/20 and at the beginning of 2020/21. **Appendix B** also shows the balances expected to comprise the council's total reserves at the end of 2020/21 and 2021/22.

One of the most important principles used to prepare the MTFP is that council reserves and other one-off resources are not used to balance ongoing budget pressures: that all other mitigating actions are used before the use of one-off resources. Over the years, the council's reserves have been used, for reasons such as to: cover the cost of one-off events not budgeted for; support and improve service delivery; and offset declining levels of income. Whilst this principle still exists, the council has set up a Medium Term Financial Plan reserve over the last two financial years, in order to mitigate future pressures based on the uncertainty over local government funding. This reserve will be released over the medium-term in order to smooth the impact of anticipated funding reductions arising from changes in the local government funding formula.

Members and officers are required to ensure the council operates as a going concern: that the council will continue to fulfil its functions for the foreseeable future. If this were not the case, for example, because of an imprudent use of council reserves, the council's external auditors would

be required to express a going concern opinion (GCO). A GCO would be the external auditor's way of expressing significant doubt on the council's ability to operate longer-term.

One of the council's largest revenue reserves is its repairs and renewals fund. This is for the future cost of repairing, maintaining and renewing property and equipment. Services set aside an amount of their revenue budget annually, so that they can pay for the costs of relevant repairs and renewals when these arise. This helps smooth the uneven timing of costs: a few years of higher costs offsetting a greater number of years with lower (or no) costs.

ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

The *Local Government Act 2003* requires the Council's Chief Financial Officer (Section 151 Officer) to comment on the robustness of the estimates and also on the adequacy of the proposed reserves.

The council's total forecast reserves and general fund balance to 31 March 2022 is £25,864,828. This is 153% of the forecast Net Budget Requirement of £15,880,940. This compares with a national average for district councils of 150%. The s151 Officer of the Council is satisfied with the adequacy of the levels of reserves and balances.

The budget for 2021/22 has been prepared in accordance with the budget strategy approved by members of the Policy and Finance Committee on 25 June 2021. The same strategy has been adopted for the period of the MTFP. The draft Medium Term Financial Plan has been scrutinised and challenged by the council's senior management team, the Leader and Deputy Leader of the council, the council's functional committees and the Policy and Finance Committee. The draft budget (and Medium Term Financial Plan) has also been scrutinised informally by the ruling political group.

The Section 151 Officer also notes that in the future, all local authorities, and in particular district councils, will face a reduction in core funding from the Government once changes to the current funding regime (in particular New Homes Bonus and Business Rates) are introduced – particularly against the backdrop of recovering from the impact of COVID-19. The Section 151 Officer is closely monitoring the progress of the Fair Funding Review, the government's departmental multi-year Spending Review and the redesign of the national Business Rates Retention System. The council's current projections within the Medium Term Financial Plan (MTFP) make prudent and robust assumptions around the likely level of funding in light of these government-led reviews.

1.10 Assumptions made within the MTFP

Finance officers and budget holders have developed detailed budgets for 2021/22 and future years. Officers have used the information available to them (past, present and future), and have made appropriate assumptions where the relevant information has been unavailable to them.

A 1% annual increase in basic pay has been assumed for 2021/22, in line with the recommendation from a meeting of East Midlands Councils on 22/01/2021. A 3% increase has been assumed for each subsequent year of the council's MTFP.

The National Joint Council (NJC) for Local Government Services' pay award for 2021/22 has not yet been finalised. The costs of the 2021/22 pay award may exceed the pay increases currently budgeted for. If the 2021/22 pay award is agreed at a higher rate than the 1% increase in basic

pay, and if reductions in employee costs elsewhere cannot offset the increase in pay award costs, the additional costs unbudgeted for will need to be funded from council reserves. Section 1.11 examines this in more detail.

Most non-pay expenditure budgets have been uplifted by 3% in each year of the council's MTFP, higher than the Bank of England's 2% target rate for inflation. Some costs, such as insurance and utilities, are expected to increase by more than 2%; and others, such as fixed-price goods and services, are expected to increase by less than 2%.

The council's General Fund revenue budget is charged for the purchase or creation of fixed assets where capital resources are unavailable at the time. These charges will be in line with the council's Minimum Revenue Provision (MRP) policy for 2021/22, which was recommended for approval by Full Council on 9 March 2021 by the Audit and Accounts Committee on 3rd February 2021.

1.11 Proposed strategy for bridging the funding gap

The table below shows the contributions to and from reserves currently projected for each year of the council's MTFP, and the actions currently proposed to mitigate the annual contributions from reserves projected for 2022/23, 2023/24 and 2024/25:

| | 2021/22 (£m) | 2022/23 (£m) | 2023/24 (£m) | 2024/25 (£m) |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Contribution (to) or from reserves | (0.496) | 1.681 | 2.327 | 2.719 |
| Use of MTFP reserve to offset contributions from reserves in future years | 0.496 | (1.581) | (1.527) | (0.431) |
| Dividends from Arkwood Developments Ltd | - | - | (0.500) | (0.500) |
| Savings from service reviews | - | (0.100) | (0.100) | (0.200) |
| Savings/efficiencies from making business processes more efficient | - | - | (0.100) | (0.200) |
| Increased income from the council becoming more commercial | - | - | (0.100) | (0.200) |
| Rental income from town centre regeneration | - | - | - | (0.150) |
| Contribution (to) or from reserves, after proposed mitigations above | 0.000 | 0.000 | 0.000 | 1.038 |

The table shows a total anticipated shortfall of £1.038m in funding over the four-year period. Forecasts of anticipated efficiencies and additional income have been updated from the 2020/24 MTFP approved on 9th March 2020.

During the Budget Monitoring process for the 2020/21 financial year the council expects to receive NDR income from the Nottinghamshire Business Rates Pool. Due to the volatility of the economic environment, together with the fact that the pool spans a large geographical area with multiple different local authorities, a forecast outturn position is not currently known. Income received from the pool for 2020/21 will be transferred to the council's Medium Term Financial Position (MTFP) reserve, so that it can be used to contribute to future years' deficits, in the event that a deficit remains after all other mitigating actions taken to offset future year deficits.

Each update to this MTFP will therefore report on progress against each of the headings in the table above, to ensure that each years' budget is balanced.

Since 2010, the council has made significant savings in line with government grant reductions. Though further savings may become harder to identify and deliver, particularly from spend not on employees (as mentioned in section 1.11), it is essential that the council continues to identify areas where spend can be reduced and/or income increased. This is so that the council can continue to operate sustainably longer-term, and to minimise the council's use of one-off resources (as mentioned in section 1.8).

The council's total income will need to increase significantly, if it is to continue delivering and improving the services it currently provides and not use its reserves to cover the deficits currently anticipated for 2022/23 and future years.

Councils are severely restricted in how much funding they can raise from council tax increases without holding referenda. As mentioned in sections 1.6 and 1.12, the council can increase council tax in 2021/22 by the greater of 1.99% or £5.00 without holding a referendum. A 1% increase in council tax is equivalent to £72,820 of net expenditure.

The council's Commercial Strategy, approved by Policy & Finance Committee on 21 September 2017, aims to deliver positive financial returns to the General Fund. The council created a Commercial Projects Development Team (CPDT), now the Transformation team, to achieve this aim. The council's General Fund has begun to benefit from the projects the team has completed to date, and expects to increasingly do so over the years. The team's work across the district (externally) and with services council-wide (internally) will be crucial to enabling the council's future sustainability and growth. This is particularly as changes to the local government finance system increase the rewards for councils able to facilitate local economic growth, as mentioned in section 1.4.

The table below shows which areas have the biggest increases in expenditure budgets in each of the last three years of the council's MTFP, compared to the equivalent budget in the year before:

| Pressures | Increase in 2022/23 budget, compared to 2021/22 budget (£m) | Increase in 2023/24 budget, compared to 2022/23 budget (£m) | Increase in 2024/25 budget, compared to 2023/24 budget (£m) |
|--------------------------------------|--|--|--|
| Employees | 0.445 | 0.435 | 0.507 |
| Newark Town Council devolution grant | 0.040 | 0.045 | 0.048 |
| Internal Drainage Board Levies | 0.038 | 0.040 | 0.042 |

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1.12 Risks Associated with the Budget Process

Budgets are only as accurate as the data available at the time they are developed. There are therefore risks that the proposed budgets in the council's MTFP will differ significantly from reality (actual expenditure and income). Some of the factors which could cause adverse variances are:

- higher than expected inflation and/or interest rates;
- the council receiving lower than expected amounts of grant funding and/or other income;

- the future differing significantly from the initial budgets proposed at the time of developing the MTFP;
- volatility of certain budget lines between years;
- underachievement of expected savings and/or efficiencies;
- unforeseen events and emergencies;
- unforeseen insurance costs or legal claims;
- lower than expected business rates growth.

Section 25 (Budget calculations: report on robustness of estimates etc) of the *Local Government Act 2003* requires local authority chief finance officers (Section 151 officers) to report on the adequacy of financial reserves in the council's proposed budget and robustness of estimates made. This section fulfils that requirement.

In considering the council's proposed budget for 2021/22 and the sensitivity of expenditure and income to changes, it should be noted that:

- a) a 1% increase in Council Tax is equivalent to £72,820 of net expenditure; and
- b) a £1 increase in Council Tax is equivalent to £38,550 of net expenditure.

Various assumptions were required to be made when preparing the proposed MTFP budgets. The two areas where it seems that variations between the proposed budget and reality could be greatest are employee pay and income receivable. Further details on each of these are below.

Employee costs

Employee costs form a significant proportion of all district council budgets. Employee costs comprise 63% of the council's proposed controllable service expenditure budget for 2021/22 (total spend, excluding spend on capital costs, recharges and Housing Benefit payments).

This makes it less likely to achieve savings solely by reducing non-employee spend. It also means that the council would need to use a greater proportion of its reserves if the costs of future years' pay awards exceed the 1% pay award currently budgeted for 2021/22 and/or the 3% pay awards currently budgeted for subsequent years. For example, a 2% increase in basic pay for 2021/22 (1% more than currently budgeted for) would result in around £147,560 needing to be funded from reserves for 2021/22. Additional funding would also need to be found for subsequent years, as the higher than expected pay for 2021/22 would result in higher than expected pay in subsequent years.

Income

A significant part of the council's annual net budget is dependent on income from rents; sales, fees and charges; and other receipts. Officers have reviewed the income that services have achieved against the current and previous years' budgets, and have considered factors expected to affect future income levels, to ensure the 2021/22 income budgets for services have been set at levels considered achievable.

Significant underperformance against budgeted income would increase the council's annual net expenditure, and thus place unbudgeted demand on council reserves. A 1% reduction in council income from fees and charges would cost around £520,000 in 2021/22.

Interest rates

The proposed MTFP budgets include amounts for interest payable and interest receivable. This is because the council expects that it will both borrow money and lend money throughout the four years of the MTFP.

The council anticipates that it will use fixed interest rate loans when borrowing. This is so that the council knows exactly how much its loans will cost over their durations, and as this mitigates against the risk of interest rates and thus costs rising significantly over the loan period. As borrowing would be for longer than four years, the risk of the council being unable to borrow to repay existing debt (refinancing risk) does not apply.

The budgeted amounts have accounted for factors such as the amount of council funds expected to be available. The actual amounts of council interest payable and receivable for 2021/22 will likely differ from those budgeted.

The impact of a 1% change in interest rate would be insignificant on the council's overall budget.

Inflation

Most income budgets and non-pay expenditure budgets have been uplifted by 3%, higher than the Bank of England's 2% target rate for inflation. Some costs, such as insurance and utilities, are expected to increase by more than 2%; and others, such as fixed-price goods and services, are expected to increase by less than 2%.

The most recent month for which inflation data was available at the time of writing, December 2020, had a 0.6% increase in inflation (Consumer Prices Index (CPI)) over the 12 months of the 2020 calendar year.

The small differences anticipated between actual inflation rates and the 3% budgeted for are expected to have insignificant impact on the council's budget.

1.13 Capital Investment Programme and Funding

The overall approved General Fund Capital Programme for the period from 2021/22 to 2024/25 totals £56.639m. £14.429m is financed by external grant funding for the Southern Link Road (SLR), Stodman Street Regeneration, Newark Buttermarket, Disabled Facilities Grant (DFG's) and Flood Grants. The grants in relation to the SLR have already been received and are held on the Council's balance sheet as a conditional grant. The DFG funding is received via the Better Care Fund (BCF) and is subject to an annual bidding process.

Other external financing in the forms of contributions from external partners and S106 receipts amount to £3.750m. This relates to the Southwell Leisure Centre extension and improvement of facilities to increase the membership base and also an expectation of £3m of external financing towards the Castle Gatehouse project.

Council internal capital resources employed amount to £12.428m, which relates to the Southern Link Road, Yorke Drive Regeneration and Pavilion, the Council's contribution to the works at Southwell Leisure Centre and replacing parts of the Council's refuse fleet and other equipment.

In 2021/22 Community Infrastructure Levy receipts will be used to finance the cost of £5.600m to improve the A1 overbridge at Fernwood. This bridge is part of the highways mitigation work to deliver the expansion of Fernwood.

Borrowing is the balancing figure for the capital expenditure at £23.433m. This type of financing, attracts a charge to revenue called the Minimum Revenue Provision (MRP) calculated using the asset life method as approved by Council within the Treasury Management Strategy each year. The current method approved is the asset life method. This apportions notional borrowing incurred over the life of the asset, which is in line with the timeline for receiving economic benefits generated by the asset.

The current Capital resources available for allocation to Capital schemes (including an assumption of allocated New Homes Bonus (NHB) from 2021/22 as proposed in section 1.6) is detailed below:

| Capital Resources Available | Estimated balance as at 1 April 2021 | 2021/22 Commitments | 2022/23-2024/25 Commitments | Closing Balance as at 31 March 2025 |
|--|---|----------------------------|------------------------------------|--|
| Capital Financing Provision | 860,956 | (3,781) | (727,550) | 129,625 |
| General Fund Capital Receipts | 413,575 | (386,865) | 65,925 | 92,365 |
| Capital Grants & Contributions Unapplied * | 8,234,861 | (2,815,000) | (1,599,779) | 3,820,082 |
| Total resources available | 9,509,392 | (3,205,646) | (2,261,404) | 4,042,072 |

*£3.820m is the estimated balance at 2024/25 which relates to Community Infrastructure Levy (CIL) and is therefore ring fenced for schemes relating to infrastructure.

Borrowing Requirements within Current Approved Capital Programme

In order to fully finance the Capital Programme every year an element of borrowing is required where capital resources are not available. As above, the total borrowing over the life of this MTFP amounts to an estimated £23.433m within the current approved capital programme.