APPENDIX A

2022/23 TO 2025/26 MEDIUM TERM FINANCIAL PLAN (MTFP)

The council's Medium Term Financial Plan (MTFP) for the four financial years between 1 April 2021 and 31 March 2025 (2021/22 to 2024/25, or 2021/25) was presented to this Committee on 21 February 2021 and approved by Full Council on 9 March 2021.

This document seeks to update the MTFP's assumptions on expenditure, income and financing for the four years between 2022/23 and 2025/26 (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 2022/23 and 2025/26; 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.

	2022/23 (£m)	**2023/24 (£m)**	**2024/25 (£m)**	**2025/26 (£m)**
Net Service Expenditure (less capital charges)	14.388	14.517	14.900	15.343
Total Other Expenditure	1.172	1.877	1.874	1.898
Total Expenditure	**15.560**	**16.394**	**16.774**	**17.241**
Business Rates: receivable annually	(6.744)	(4.413)	(5.082)	(5.639)
Business Rates: other adjustments	0.341	0.000	0.000	0.000
Council Tax: receivable annually	(7.646)	(7.966)	(8.299)	(8.646)
Council Tax: surpluses/(deficits)	(0.333)	0.000	0.000	0.000
Council Tax: other adjustments	0.047	0.000	0.000	0.000
Other Grants	(0.568)	(0.568)	(0.464)	(0.475)
Contribution (to) or from Reserves	**0.657**	**3.447**	**2.929**	**2.481**

1.2 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. It has now delayed these reforms further to 2023/24 at the earliest. Given the additional year's delay, the government plans to roll forward the 2021/22 settlement to 2022/23.

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 each year between 2020/21 and 2022/23 has been at least £2m more 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 23 March 2022.

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 2023/24 and future years are subject to high levels of volatility. It is however anticipated that the changes to the local government funding formula will be implemented in 2023/24. A consultation paper on potential reform has been promised for the Spring and it is expected that there will be further consultation over the Summer.

The scope of reforms is still uncertain which would include the Fair Funding Review, a reset in the baseline for Business Rates Funding and changes to New Homes Bonus, albeit time is already limited and therefore this may mean only a cut-down version of the reforms are implemented.

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 2021/22 and in 2022/23, 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 2022/23 and future years.

1.3 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. Much of the data that Government hold in relation to the current formula relates to 2013/14 and before hence significant work is necessary in order to recalibrate the formulae. As stated above, consultation is expected in the Spring where the scope will hopefully be outlined. As timescales are limited a compromise may be to make simple reforms or largely leave formulae alone and create a headroom pot to redistribute.

The Fair Funding Review will have an enormous effect on the Council’s budget 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 a large proportion of the council's total expenditure (excluding capital charges) in each year of the council's MTFP.

1.4 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 2023/24 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 2023/24 and future years are subject to higher levels of volatility. These have been modelled with the assistance of Pixel, the Council's external advisors who assist many authorities on national funding.

The government has proposed freezes to the proportions of businesses' rateable values (RVs) payable as business rates in 2022/23, though has not yet proposed the reliefs it will require councils to implement for 2022/23:

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

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 2022/23 is £106.2m. If NDR payers believe that the RV of their premises is incorrect, they can appeal the RV of the premises. If appeals by NDR payers are successful, the council makes one-off refunds to NDR payers and backdates these as appropriate.

The table below analyses the forecasted provision (money set aside) by the council at 2021/22 year-end if all appeals, challenges (prospective appeals) and threats (appeals and challenges yet to be received) regarding NDR payers' RVs are successful:

Forecasted provision by council at 2021/22 year-end if all NDR appeals, challenges and threats successful	**Number of businesses**	**Reduction in RV (£m)**	**Cost (£m)**
Appeals	8	0.108	0.127
Challenges (prospective appeals)	10	0.342	0.301
Threats (appeals and challenges yet to be received)	249	1.965	3.601
Forecasted provision by council at 2021/22 year-end	**267**	**2.415**	**4.029**

If appeals that the council has provided for (set money aside) are unsuccessful, or are successful but cost the council less than the amount set aside for these appeals, the council can release the surplus provisions back into the Collection Fund, in order that this may then be re-distributed back to the council and its preceptors. Similarly, where appeals are settled higher than funds set aside, an additional charge would need to be levied from the council and its preceptors in order to fund the deficit arising.

1.5 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 2018/19 and 2019/20, the core principle was 3%; and for all other years, the core principle was 2%.

The proposed core principle for 2022/23 is 2%. The government's proposed council tax referendum principle for shire district councils therefore permits increases in the council's 2022/23 relevant basic amount of council tax of up to (and including) the greater of 1.99% or £5.00 without holding a referendum.

For all years since 2016/17 except 2020/21, Members have approved annual average band D council tax increases of 1.94%. For 2020/21, Members agreed 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 2022/23 CTB will be 3.01% higher than the 2021/22 CTB, and that there will be a 2.20% increase in CTB for 2023/24 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 2022/23, compared to if council tax was frozen at the 2021/22 level during 2022/23 but increased by 1.94% annually thereafter:

Effect of council tax changes	**2022/23 (£m)**	**2023/24 (£m)**	**2024/25 (£m)**	**2025/26 (£m)**	**MTFP (£m)**
Additional income from 1.94% increase in all years	0.146	0.152	0.158	0.165	**0.621**

1.6 <u>New Homes Bonus (NHB)</u>

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 2023/24.

Details of the government's final NHB allocations for 2022/23 and the three years previous are in the table below. This includes a legacy payment for 2019/20 and a new one-year allocation for 2022/23.

Year	**2019/20 (£m)**	**2020/21 (£m)**	**2021/22 (£m)**	**2022/23 (£m)**
Total	1.580	1.741	1.187	1.573

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.

As per section 1.2, NHB is within scope of the proposed reforms to the local government finance system. As such, councils are not expected to receive NHB in 2023/24 or future years.

1.7 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.

The Action Plan to the Commercial Strategy approved at Policy and Finance Committee on 27 January 2022 set the expectation that new areas for charging and understanding price elasticity of demand on existing charges would be reviewed to ensure that discretionary charges are set at the right levels and for the right activities. 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.

As mentioned in section 1.11, the fees and charges budgets proposed for 2022/23 are at levels considered achievable. Further details on the fees and charges budgets for 2022/23 can be found in the 2022/23 proposed General Fund revenue budget report.

The table in section 1.10 identifies further fees and charges income as key to bridging the council's funding gap. It is anticipated that new annual income of £0.200m will be generated by delivering the Commercial Strategy. This may be by stretching existing fees and charges income targets, new income streams, and/or a combination of both.

1.8 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 2020/21 and at the beginning of 2021/22. It also shows the balances expected to comprise the council's total reserves at the end of 2021/22 and 2022/23.

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.

<u>ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES</u>

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 fund balance to 31 March 2023 is £30,944,392. This is 199% of the forecast Net Budget Requirement of £15,560,910. The s151 Officer of the Council is satisfied with the adequacy of the levels of reserves and balances.

The budget has been prepared in accordance with the budget strategy approved by this Committee on 24 June 2021. The same strategy has been adopted for the period of the MTFP.

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.

1.9 Assumptions made within the MTFP

Finance officers and budget holders have developed detailed budgets for 2022/23 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 2% annual increase in basic pay has been assumed for 2022/23, and a 3% increase for each subsequent year of the council's MTFP.

The National Joint Council (NJC) for Local Government Services' pay award for 2022/23 has not yet been finalised. The costs of the 2022/23 pay award may exceed the pay increases currently budgeted for. If the 2022/23 pay award is agreed at a higher rate than the 2% increase in basic pay assumed, 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. 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 2022/23, which was recommended for approval by Full Council on 8 March 2022 by the Audit and Accounts Committee on 2 February 2021.

1.10 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 (as described at the table in paragraph 1.1), and the actions currently proposed to mitigate the annual contributions from reserves projected for 2023/24, 2024/25 and 2025/26:

	2022/23 (£m)	**2023/24 (£m)**	**2024/25 (£m)**	**2025/26 (£m)**
Contribution (to) or from reserves	**0.657**	**3.447**	**2.929**	**2.481**
Contribution (to) or from reserves other than MTFP reserve	(0.096)	0.200	0.200	0.200
Contribution (to) or from MTFP reserve, before proposed mitigations below	**0.561**	**3.647**	**3.129**	**2.681**
Use of MTFP reserve to offset contributions from reserves in future years	0.039	(2.947)	(1.979)	(0.635)
Contribution from Nottinghamshire Business Rates Pool	(0.600)	-	-	-
Dividends from Arkwood Developments Ltd	-	(0.500)	(0.500)	(0.500)
Savings from service reviews	-	-	(0.100)	(0.100)
Savings/efficiencies from making business processes more efficient	-	(0.100)	(0.200)	(0.200)

Increased income from the council becoming more commercial	-	(0.100)	(0.200)	(0.200)
Rental income from town centre regeneration	-	-	(0.150)	(0.150)
Contribution (to) or from MTFP reserve, after proposed mitigations above	**0.000**	**0.000**	**0.000**	**0.896**

The table shows a total anticipated shortfall of £0.896m in funding over the four-year period. Forecasts of anticipated efficiencies and additional income have been updated from the 2021/25 MTFP approved on 9 March 2021.

The equivalent table above was presented in the MTFP approved at Council on 9 March 2021, which identified that for the production of the 2022/23 budget £0.100m was due to be generated in savings from service reviews. This has been completed with the deletion of the Business Manager – Legal Services post and the flexible retirement of the Business Manager – Revenues and Benefits. The table above has therefore removed £0.100m of the requirement in the future years.

As the Council has received, for a number of years, return funding from the Nottinghamshire Business Rates Pool in relation to the local growth retained (split with Nottinghamshire County Council), a forecast of the additional funding to be generated next financial year has been made of £0.600m. This is expected to be the final year that this will occur as the changes to the system of funding described at 1.2, 1.3 and 1.4 above are likely to remove this funding. Forecasts for the current year's year-end of £0.490m have been included the balance of the MTFP reserve together with the £0.453m favourable variance on the General Fund.

Each update to this MTFP will therefore report on progress against each of the headings in the table above, to ensure that each year's 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.

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 2023/24 and future years.

Councils are severely restricted in how much funding they can raise from council tax increases without holding referenda. As mentioned in section 1.5, the council can increase council tax in 2022/23 by the greater of 1.99% or £5.00 without holding a referendum. A 1% increase in council tax is equivalent to £76,460 of net expenditure.

The council's Commercial Strategy and Action Plan, approved by Policy and Finance Committee on 27 January 2022, aims to make Newark and Sherwood an *"innovative and entrepreneurial Council that continually achieves positive annual financial contributions; by generating new revenue and delivering cost reductions, through trading and business improvements"*. The council has begun to benefit from the projects which have been completed to date since the Commercial Plan 2017-18 to 2020-21 was approved in October 2017, and expects to increasingly benefit in future years from the implementation of the current strategy. The council'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 2023/24 budget, compared to 2022/23 budget (£m)**	**Increase in 2024/25 budget, compared to 2023/24 budget (£m)**	**Increase in 2025/26 budget, compared to 2024/25 budget (£m)**
Employees	0.401	0.497	0.511
Internal Drainage Board Levies	0.040	0.029	0.023
Electricity and gas costs	0.021	0.022	0.023

1.11 <u>Risks Associated with the Budget Process</u>

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 2022/23 and the sensitivity of expenditure and income to changes, it should be noted that:

a) a 1% increase in Council Tax is equivalent to £76,460 of net expenditure; and
b) a £1 increase in Council Tax is equivalent to £41,210 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 65% of the council's proposed controllable service expenditure budget for 2022/23 (total spend, excluding spend on capital costs, internal 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 2% pay award currently budgeted for 2022/23 and/or the 3% pay awards currently budgeted for subsequent years. For example, a 3% increase in basic pay for 2022/23 (1% more than currently budgeted for) would result in around £162,210 needing to be funded from reserves for 2022/23. Additional funding would also need to be found for subsequent years, as the higher than expected pay for 2022/23 would result in higher than expected pay in subsequent years.

Currently vacancies are expected to amount to around 5.6% of total employee spend to the year end of 2021/22. With this in mind a forecast of 4% in 2022/23 and 3.5% has been used in all future 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 2022/23 income budgets for services have been set at levels considered achievable. As COVID-19 has had a major effect on the way that consumers use services, this has impacted the expected amount of income which may be generated in future years. Officers will monitor this closely over the coming year and revised forecasts over the medium term will be updated for the MTFP to be developed for the period between 2023/24 and 2026/27.

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 £57,190 in 2022/23.

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 2022/23 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%. Some costs, such as insurance and utilities, are expected to increase by more than 3%; and others, such as fixed-price goods and services, are expected to increase by less than 3%.

The most recent month for which inflation data was available at the time of writing, December 2020, had a 5.4% 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.

1.12 <u>Capital Investment Programme and Funding</u>

The overall proposed General Fund Capital Programme for the period from 2022/23 and 2025/26 totals £75.289m. £36.280m is financed by external grant funding for the Southern Link Road (SLR), Stodman Street Regeneration, Castle Gatehouse, Disabled Facilities Grant (DFG's) and flood grants. One of the grants in relation to the SLR have already been received and are held on the Council's balance sheet as a conditional grant, albeit further funding has been approved from the Levelling up fund which will ensure the delivery of the scheme. This levelling up funding has yet to be received by the Council. The DFG funding is received via the Better Care Fund (BCF) and is subject to an annual bidding process.

Other external financing in the form of contributions from external partners amounts to £0.225m. This relates to an expectation of £0.225m of S106 funding towards the works to be identified at Southwell Leisure Centre.

Council internal capital resources employed amount to £8.815m, which relates to the Council's contribution to the funding gap in the Southern Link Road, Yorke Drive Pavilion, the Council's contribution to the works at Southwell Leisure Centre as described above and replacing parts of the Council's refuse fleet and other equipment.

In 2022/23 Community Infrastructure Levy receipts will be used to finance the cost of £5.540m 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 £24.429m. 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.