Appendix 1

Medium Term Financial Strategy 2023/24 – 2026/27

1 Introduction

1.1 The Medium Term Financial Strategy (MTFS) sets out the Council's strategic approach to the management of its finances and outlines the various factors and influences that may impact on us over the next few years.

1.2 The MTFS links our Council Ambition and priorities with forecasted resources and budgets. It is then used as a framework for the detailed budget setting process to ensure that resources are effectively managed and are able to deliver the Council's key objectives as set out in the Council's Ambition, over the medium term.

1.3 The Council's Ambition for 2020-2024 is:

"To become a dynamic, self-sufficient and flexible Council that delivers excellent services, whilst adapting to local aspirations and acting as the economic and environmental driver for Bolsover District."

1.4 Within the Council's Ambition one of the strategic themes is Economy. To support this theme is the priority of 'Ensuring financial sustainability and increasing revenue streams'. This is the overall purpose of this MTFS.

2 Key Objectives of the Medium Term Financial Strategy (MTFS)

2.1 There is a legal requirement for the Council to produce a balanced and robust budget for the forthcoming year. In preparation for the annual budget, officers will review the MTFS to update Members on changes to budget assumptions and service issues. The MTFS will be updated when items are further known, such as results of Government consultations or Government funding settlements.

2.2 The Medium Term Financial Plan (MTFP) will then be presented to Members in February based on the MTFS strategic assumptions. The MTFP will contain the detailed revenue budgets for the general fund and housing revenue account resulting from the annual budget process for the next 4 years at service level, along with the proposed Capital Programme.

2.3 The MTFS will ensure financial sustainability and increase revenue streams by:

- Ensuring that effective financial planning and management contributes to the Council achieving the priorities in the Council Ambition;
- Maximising the income from Council Tax and Business Rates;

- Maximising income from commercial and regeneration opportunities within the District;

- Ensuring the Council's financial standing is prudent, robust, stable and sustainable.

2.4 The Council has a number of agreed principles as a basis for financial management and budget planning as follows:

- Emerging pressures are managed within existing overall budgets in the first instance;

- Spending is aligned to key priorities as set out in the Council's Ambition;

- Income is only included in the budget where it is supported by robust proposals and is deliverable;

- Commercial income will be maximised where possible to ensure that fee charging services break-even over time and are provided with a nil cost subsidy from the tax payer, or return a surplus where appropriate;

- Where possible, future liabilities are anticipated;

- Budgets are sustainable;

- Savings proposals are supported by project plans and the impact on service delivery is clear;

- Capital and revenue planning are integrated to ensure implications are fully anticipated;

- Borrowing costs will be incurred (on capital projects) only where the cost is covered by new income as part of a business case;

- The Council's reserves and balances are not used as a primary method to balance the ongoing pressures in the budget. Earmarked reserves are used for specific one-off purposes to support the delivery of corporate objectives, to mitigate risks or to allow savings to be made as an invest-to-save.

3 <u>The Factors Effecting the Medium Term Financial Strategy (MTFS)</u>

3.1 In compiling the MTFS a number of factors which effect the resources and expenditure for the Council have been considered. These have been reviewed to ensure the MTFS reflects the most up-to-date financial position for the Council.

3.2 <u>Resources Available</u>
The anticipated resources to be received by the Council are included in the MTFS. The resources forecasts are based on a number of assumptions which

are detailed in the following sections. The table below shows the resources that were included in the MTFP in February 2022 as we do not yet have the actual figures for 2023/24 onwards until the Spending Review 2022 is announced.

Table 1 – Estimated resources receivable by the Council (excluding fees and charges)

	2022/23	2023/24	2024/25	2025/26
	£	£	£	£
Government Grants				
Revenue Support Grant	1,231,521	0	0	0
Business Rates S31 Grant	751,774	982,182	1,223,590	1,477,998
New Homes Bonus	703,263	0	0	0
Lower Tier Services Grant	131,270	0	0	0
2022/23 Services Grant	201,739	0	0	0
	3,019,567	982,182	1,223,590	1,477,998
Locally Generated Income				
Council Tax	7,969,064	7,994,630	8,163,209	8,275,372
Business Rates	4,573,740	2,643,818	2,671,010	2,602,402
	12,542,804	10,638,448	10,834,219	10,877,774
	15,562,371	11,620,630	12,057,809	12,355,772
% resources locally generated	81%	92%	90%	88%

3.3 The amount of income the Council receives from the Government has significantly reduced since 2009/10. The amount received for 2022/23 is estimated to be £5m lower than 2009/10 which is a reduction of 46%. The MTFP from February 2022, outlined the continued uncertainty surrounding local government funding and the significant assumptions that have to be made. These are given in more detail below.

Overdue Local Government Funding Reforms

3.4 There were multiple reforms scheduled for 2020/21 that were due to have a significant impact on local authority finances when complete. These were delayed understandably in 2020 due to the pandemic and it was expected some of these may not be implemented until 2023/24. Latest information is that these reforms are likely now to be delayed until at least 2024/25. As a reminder the areas being reformed are described below.

3.5 **The Fair Funding Review** will re-assess the relative needs and relative resources of local authorities. This will determine the methodology for the distribution of the funding allocated to local government to individual authorities.

3.6 **Baseline Reset** – the Business Rates retention system is due to be reset. The reset will establish new Baseline Funding Levels, Business Rates Baselines and Top-ups/Tariffs for each local authority.

Top-ups/Tariffs will be reset based on:

- The amount of funding to be distributed following the Spending Review.
- The new needs assessment resulting from the Fair Funding Review.
- Estimates of individual local authority’s Business Rates income.

3.7 **Business Rates Retention** – the Government announced in the Autumn Budget 2017 that local authorities would move to a system of 75% Business Rates Retention from 2020/21. This was delayed and due to be in place from April 2022. However, in early November 2021 the government announced that plans to allow councils to retain 75% of Business Rates from April 2022 had been abandoned as it was said the policy would conflict with the government's levelling up agenda and that the government would now 'proceed with caution' on the issue.

3.8 **Council Tax** – the Government's future strategy for Council Tax increases will also be a key issue. The Government's policy on referendum limits from 2023/24 onwards is not yet known.

Local Government Finance Settlement 2022/23

3.9 2019/20 was the final year of the four year Local Government Finance Settlement. The Spending Review 2019 was originally planned to cover the three year period 2020/21 – 2022/23 but was delayed. This effectively resulted in a one year extension to the four year settlement.

3.10 The Spending Review 2020, was due to cover the years 2021/22 – 2024/25 and it was anticipated it would provide clarity on the Government reforms but this was delayed due to the pandemic. The Spending Review 2020 was therefore, another one-year extension.

3.11 It was hoped the Spending Review 2021 would provide an update on the Government reforms and cover the years 2022/23 – 2024/25 but again, a one-year settlement was announced for 2022/23 and there were no projected or indicative numbers for the remainder of the spending review period. Therefore, the Spending Review 2021 was again effectively a roll-over settlement.

3.12 As previously discussed many times, the early indicative results of the above reforms were all detrimental to us as a district Council who has seen much growth in recent years, both in business rates and New Homes Bonus grant. The removal of these funding streams will have a major effect on our financial position.

3.13 In his letter of 16th December the Secretary of State for Levelling Up, Housing and Communities (DLUHC) wrote, "***Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013/14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes. As part of this, we will look at options to support local authorities through transitional protection."***

3.14 The Spending Review 2022 is due to be announced around October 2022. Early predictions from commentators are that there will be a roll-over for 2023/24 and potentially 2024/25, although the increase in funding seen last year is unlikely to be repeated in either of these years. Once the implications of the Spending Review are known for Bolsover, they will be included in our updated MTFP.

New Homes Bonus

3.15 A number of times it has been announced by the Government that the current year represents the final year of New Homes Bonus funding. In 2023/24 there are currently no amounts of grant payable, the last payments are in 2022/23. These consist of £0.095m in legacy payments from 2019/20 and a new allocation of £0.608m for 2022/23. The future of New Homes Bonus has been consulted on by Government and we await the result.

Lower Tier Services Grant

3.16 This grant was introduced in 2021/22 to provide damping to authorities with cash-terms reductions in Core Spending Power. It provided additional funding to district Councils who are losing the most from the reduction in New Homes Bonus and gain the least from new grant increases and council tax increases. Bolsover received an allocation in 2021/22 and a further one in 2022/23 of £0.131m. There is every chance this grant will be provided to us in some form again in 2023/24 as a proxy for the New Homes Bonus that we are likely to lose.

2022/23 Services Grant

3.17 This was a new, one-off grant to support all services delivered by councils. This was distributed to every authority using the 2013/14 SFA. An amount of £0.202m was allocated for 2022/23. It is felt unlikely this grant will be paid out again.

Revenue Support Grant

3.18 It is expected there will be no grant received from 2023/24 onwards but again, it is expected this will be confirmed in the Spending Review 2022. For 2022/23 an amount of £1.232m was allocated to us.

Baseline Funding Level

3.19 The baseline is the amount of money the Government has assessed that the Council needs to keep to fund its services, based on a needs formula. The Local Government Finance Settlement updates the baseline every year, usually in line with inflation. Bolsover is able to keep 50% of any business rates growth above the baseline set by the Government, with the remainder payable to the Government (but see Retained Business Rates section for pool implications). The table below summarises the estimated Baseline Funding Level for the MTFS period and shows the current assumptions change in 2023/24, which was the original date for the introduction of the Business Rates Reset.

	Baseline Funding Level			Change %		
	Business Rates Baseline	Business Rates Tariff	Total	Business Rates Baseline	Business Rates Tariff	Total
	£	£	£			
2019/20	8,481,995	(5,602,995)	**2,879,000**			
2020/21	8,620,695	(5,694,286)	**2,926,409**	1.6%	1.6%	1.6%
2021/22	8,620,695	(5,694,286)	**2,926,409**	0.0%	0.0%	0.0%
2022/23	8,620,695	(5,694,286)	**2,926,409**	0.0%	0.0%	0.0%
2023/24	12,094,000	(9,109,000)	**2,985,000**	40.3%	60%	2.0%
2024/25	12,331,000	(9,287,000)	**3,044,000**	1.96%	1.95%	1.98%
2025/26	12,568,000	(9,466,000)	**3,102,000**	1.92%	1.93%	1.91%

Retained Business Rates

3.20 Our Business Rates tax base represents the value of Business Rates income we estimate will be collected from businesses. Each Business Rates tax payer account has a rateable valuation provided by the Valuation Office Agency, multiplied by a business rates multiplier which increases each year and is set by the Government.

3.21 In total Bolsover retains 40% of Business Rates collected during the year, after deductions for mandatory and discretionary reliefs, the cost of income collections, including losses, and for the cost of changes to rateable values as a result of appeals. The remaining amounts are paid on the basis of: 50% to central government, 9% to Derbyshire County Council and 1% to Derbyshire Fire Authority.

3.22 Bolsover's Retained Business Rates income (the 40%) is then subject to a tariff, which is increased annually by the retail price index and is paid to central government. This tariff payment funds other authorities where their Business Rates are considered to be disproportionately low. The level of the tariff is unique to each local authority and is announced as part of the Spending Review.

3.23 Since 1st April 2015, the Derbyshire Business Rates pool has been in operation. This consists of all eight Derbyshire district or borough Councils, Derbyshire County, Derby City and Derbyshire Fire Authority. Instead of each district or borough Council paying 50% of their growth above the baseline over to Government, it is kept within the pool and distributed amongst all the members on an agreed basis.

3.24 There are a number of risks that could affect the level of Business Rate income collected, and as such, reduce the anticipated amount of Retained Business Rates. The most significant risks are as follows:

- Unpredictable increases in exemptions and reliefs due to different property usage.
- Successful business rate appeals dating back to earlier years.
- Slower than anticipated local economic growth.
- Retail price index increases on the tariff, being higher than local economic growth.
- Uncollectable debts as a result of worsening economic conditions.

3.25 One of the largest financial risks that the Council is facing is around how the Government will re-set the Business Rates Baseline for the Council. The growth being encouraged by the Council within the business sector means we have the highest level of growth in the Derbyshire Business Rates pool.

3.26 In 2021/22 we were again £3m above our Business Rates Baseline so contributed £1.5m into the pool and were able to transfer £1.8m into our Business Rates Growth Protection Reserve as we planned in the MTFP.

3.27 The Business Rates income in the current MTFP has the worst case scenario for 2023/24 to 2025/26 and includes no smoothing from the Government of significant losses. This will be updated as soon as more information is known.

Council Tax

3.28 Council Tax is charged by local authorities on residential properties. The Valuation Office Agency decides the correct band based on the value of property at 1 April 1991. Local authorities set the charge based on a Band D property each year.

3.29 Council Tax is the main source of funding for the provision of general fund services. It is determined locally but the Government indicate what upper limit they consider acceptable on a yearly basis. The legislative requirement to hold a referendum is triggered if this limit is exceeded. For 2022/23, District Councils were permitted to increase their share of the Council Tax by the greater of 2% or £5, which was the same limits as in 2021/22. It is predicted that this will remain the same for 2023/24.

3.30 In calculating our recent funding settlements the Government has assumed that we will increase Council Tax by the maximum level allowed.

3.31 For 2022/23 we increased our share of the bill for a Band D property by £5 per annum which was 2.68% and equated to 10p per week. This raised £112,163 in revenue income. This same increase has been assumed for all years of the MTFP for exemplifying the financial position only.

3.32 The breakdown of the 2022/23 Council Tax bill over all the preceptors is as follows:

Derbyshire County Council		£1,275.40
Derbyshire County Council – Adult Social Care element		£149.16
Derbyshire County Council Total	67.5%	£1,424.56
Bolsover District Council	9.06%	£191.28
Police + Crime Commissioner	11.92%	£251.60
Derbyshire Fire + Rescue Service	3.82%	£80.84
Town + Parish Councils (average)	7.70%	£162.45
The total charge for the average Band D bill 2022/23	**100%**	**£2,110.73**

Council Tax Base

3.33 The Council Tax base for 2022/23 of 22,443.26 was determined by the Chief Financial Officer under delegated powers in December 2021. This represents the number of Band D equivalent properties that we collect Council Tax from. This is an increase on the 2021/22 Tax Base which was reduced from previous levels as the Covid pandemic affected individuals financially. The Tax Base for 2022/23 looks to be back on track to where it perhaps would've been if the pandemic had not occurred. The Tax base for 2023/24 is currently being determined.

3.34 The more Band D equivalent properties the Council has, allows the local authority to generate more income for the Council from Council Tax. Properties valued at Band A generate less income for the Council as the charge is 70% of the charge for a Band D property. The Council Tax base for Bolsover District Council is very low and this is a disadvantage for us. If another Council with a much higher Tax base increased their Council tax by the same percentage as us, they would receive far more income than us. This needs to be remembered when Council Tax is becoming one of the main ways the Government is allowing us to generate income.

Reserves and Balances

3.35 The Local Government Act 2003 (Section 25) requires the Council's Section 151 Officer to report to Council on the Robustness of Budget Estimates and Adequacy of Reserves, for consideration immediately prior to setting the Budget and Council Tax. This is subject to external audit review to assess value for money and a going concern opinion.

3.36 The Section 151 Officer must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council time to ride any short-term situations before returning to normal. Therefore, reserves are mainly used to:

- Manage the impact of funding reductions over a longer period.
- Invest in projects that allow services to be delivered cheaper.
- Take one-off hits for the council without the need to further reduce service budgets.
- Provide capacity to absorb any non-achievement of planned budget reductions in each year.
- Provide capacity to absorb non-achievement of potential income, planned to be included in the MTFP in each year.
- To temporarily roll over unused portions of grants that can legally be used later.
- To insure against major unexpected events.
- To protect against general risk.
- To guard against emerging specific risks, such as business rate appeals, Council Tax support funding cuts and welfare reform.

3.37 Best practice guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA), states that the General Fund balance may be between 5% and 100% of net expenditure. The Council's £2m minimum working balance represents 18% of total net expenditure.

3.38 In addition to the General Fund balance, the Council retains a number of earmarked reserves on the balance sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans or potential liabilities.

3.39 The Council has continued to develop its prudent financial management arrangements through the development of earmarked reserves to mitigate against potential future risks. As issues arise, the potential requirement for an earmarked reserve is considered. New earmarked reserves are formally considered as part of the detailed budget process to ensure that any new risks identified are adequately mitigated, and throughout the annual budget monitoring process as risks arise or become clearer.

3.40 The detailed budget process includes an assessment of risk, the adequacy of General Fund Reserves and a review of earmarked reserves, to both create and change earmarked reserve levels and to also release reserves which are no longer required.

The table below shows the level of general fund usable reserves and balances as at 1 April 2022.

General Fund	**Balance at 01-Apr-22 £'000**
Balances:	
General Fund Balance	**(2,101)**
Usable Reserves:	
Area Based Grant	**(45)**
Covid-19 - S31 Business Rate Relief Compensation Grant Reserve	**(2,298)**
General	**(1,089)**
NDR Growth Protection	**(8,284)**
Insurance - GF	**(501)**
IT and Office Equipment	**(839)**
Legal Costs	**(811)**
Local Development Scheme	**(180)**
Planning Fees	**(169)**
Transformation Reserve	**(5,321)**
Vehicle Repair and Renewal - GF	**(1,271)**
Total Reserves and Balances	**(22,909)**

4 <u>Budget Pressures</u>

4.1 The table below is from the quarter 1 Budget Monitoring report. It is the latest position of all years in the current MTFP before we have started the revised budget and MTFP process. These will be updated and presented to Council in December and February.

4.2 The table shows that the Council is currently not forecasting any budget shortfall in any year due to us including estimates of potential new income from current projects and plans known about by the Council. These income projections will be thoroughly reviewed over the next few months to ensure they are still achievable as any reductions in this income could create a budget shortfall.

	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000	2025/26 Budget £000
Budget Shortfall – MTFP Feb 2022	82	18	0	1,212
Pension costs to be funded by GF balance	(82)	(18)	0	0
Efficiencies identified to date (removed from budget)	(112)	(112)	(112)	(112)
Current Budget Shortfall	**(112)**	**(112)**	**(112)**	**1,100**
Efficiencies identified <u>not yet realised</u>	0	(110)	(220)	(330)
Potential New Income	(443)	(1,097)	(1,682)	(2,141)
Closing Budget Surplus	**(555)**	**(1,319)**	**(2,014)**	**(1,371)**

4.3 Once the details of the Spending Review are known the implications for Bolsover will be included in our updated MTFP and the figures for 2026/27 will be included in the plan for the first time.

4.4 Since 2011/12, Bolsover has delivered savings of over £5m. We have a good track record of finding efficiencies and new ways of working but new budget savings are becoming increasingly more difficult to identify and deliver now we have reduced service budgets to minimum levels. For this reason it is essential that the Council continues to identify areas where costs can be reduced or income increased to close any budget gaps.

4.5 A number of areas have already been identified around additional income as follows:

- Potential Council Tax increases and growth in the tax base from new properties or bringing empty properties back into use;

- Potential extra business rates from new units we are constructing;

- Rental income from new units;

- Income from a proposed crematorium;

- Income from providing funding for our own Development Company;

- Rental Income from properties in the Development Company;

- Income from a new 3G football pitch which has recently been constructed;

- Income from a new toning suite within the Go Active Leisure Centre.

Whilst some of this income is already being received, this was after the MTFP was produced so the income is not yet reflected in the current MTFP. All income known about at the time will be included in the refresh process.

5 CIPFA Financial Management Code

5.1 CIPFA has developed a Financial Management Code (FM Code) which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to a small number of high-profile failures across local government which threaten stakeholder's confidence in the sector as a whole.

5.2 Although the FM Code does not have legislative backing, it applies to all local authorities and it must be demonstrated that the requirements of the FM Code are being met. Demonstrating this compliance with the Code is a collective responsibility of Elected Members, the Section 151 Officer and the Corporate Leadership Team.

5.3 As a first step towards ensuring that this Council meets the FM Code, the Council's Internal Audit Consortium carried out an audit during September 2020. The audit concluded that the Council complied with the majority of the FM Code already. Three recommendations were raised which have been implemented during 2021/22 and continue into 2022/23.

5.4 To satisfy one of the recommendations, the Section 151 Officer subscribed to a benchmarking service for 2021/22. The service used our levels of reserves and balances for 2020/21 and compared us to other Local Authorities using their published accounts information. The resulting comment was that '*Bolsover has a healthy level of reserves and a positive direction of travel.*'

5.5 When the renewal notice for this benchmarking service arrived the price had increased considerably and it was felt we would not be getting good value for our money if we had continued the subscription. It has therefore been decided to look for other means by which we could meet this recommendation and part of the FM Code. This is currently ongoing but all recommendations are expected to be met by the end of the current year.