

## SCRUTINY OF THE ADMINISTRATION'S BUDGET PROPOSALS

### Invitation and Agenda to all Members

Cllr. Geoff Welsh (Chairman)  
Cllr. Lee Breckon (Scrutiny Vice-Chairman)

Cllr. Mark Jackson  
Cllr. Shabbir Aslam  
Cllr. Cheryl Cashmore  
Cllr. Stuart Coar  
Cllr. Sam Maxwell  
Cllr. Antony Moseley  
Cllr. Louise Richardson  
Cllr. Deanne Freer  
Cllr. David Clements  
Cllr. Adrian Clifford  
Cllr. Roy Denney

Cllr. Alex DeWinter  
Cllr. David Findlay  
Cllr. Chris Frost  
Cllr. Christine Merrill  
Cllr. Phil Moitt  
Cllr. Ben Taylor  
Cllr. Bev Welsh  
Cllr. Trevor Matthews  
Cllr. Shane Blackwell  
Cllr. Nick Chapman  
Cllr. Michael O'Hare

Cllr. Kirsteen Thomson  
Cllr. Jane Wolfe  
Cllr. Sharon Coe  
Cllr. Les Phillimore  
Cllr. Janet Forey  
Cllr. Nigel Grundy  
Cllr. Paul Hartshorn  
Cllr. Iain Hewson  
Cllr. Mat Mortel  
Cllr. Tracey Shepherd

Dear Members,

A meeting of the **SCRUTINY OF THE ADMINISTRATION'S BUDGET PROPOSALS** will be held in the Council Chamber - Council Offices, Narborough on **WEDNESDAY, 15 JANUARY 2020 at 5.30 p.m.**

Yours faithfully



**Colin Jones**  
Corporate Services Group Manager

### AGENDA



1. Apologies for Absence
2. 2020-21 Budget - Context and Overview (Pages 3 - 24)

To consider the report of the Strategic Director (Section 151 Officer).

3. 2020-21 Draft Portfolio Budget Proposals

- a) To consider the proposed 2020-21 budget and spending plans for each Portfolio area.
- b) Prepare lines of questioning for a written response from Portfolio Holders in advance of the next Scrutiny Budget meeting on Wednesday 21 January 2020.

**Blaby District Council**  
**Scrutiny Commission**

**Date of Meeting** 15 January 2020  
**Title of Report** **Budget Context Setting and Overview**  
**Report Author** Strategic Director (Section 151 Officer)

**1. What is this report about?**

- 1.1 This is an information report which gives Members and overview of the budget proposals for 2020/21 Financial year. This includes an update on significant points arising from the Settlement of December 2019 and recent Consultation papers released by the Ministry of Housing, Communities & Local Government (MHCLG).

**2. Recommendation(s) to Scrutiny Commission**

- 2.1 That Scrutiny Commission considers the information contained within the reports and comments on the budget process and arrangements for the scrutiny of the budget proposals.

**3. Reason for Decision(s) Recommended**

- 3.1 To inform and seek Scrutiny Commissions comments on the proposals.

**4. Matters to consider**

4.1 Background

The purpose of this first budget session is to give Members a view of the following:

- Impact of the Settlement Dec 2019
- Total Budget Requirement for the Authority 2020/21 financial year
- Funding the Budget
- Budget Gap
- Options open to the Council to meet the future funding gaps
- General Budget Assumptions
- Draft revised Medium Term Financial Strategy (MTFS) financial summary
- Future Business Rates and Fairer Funding position

#### 4.2 Proposal(s)

This information is presented in documents within the appendices and are provided to inform Scrutiny in order to understand and scrutinise the budget prior to Council considering the budget proposals at February Council. It is important to note that this budget is in draft format and may change prior to the February meeting should additional information becoming available.

#### 4.3 Relevant Consultations

Officers from Finance and all services have worked closely together to compile the draft budget proposals.

#### 4.4 Significant Issues None

### 5. What will it cost and are there opportunities for savings?

5.1 Detailed budgets for each portfolio are included within the appendices, as are the overall budget costs and funding levels.

### 6. What are the risks and how can they be reduced?

#### 6.1

Current Risk	Actions to reduce the risks
Reductions in the Government Grant Settlement over and above that which had been built in to the MTFS.	The Council has taken a prudent approach in forecasting its core grant funding for the MTFS and have modelled scenarios based on information currently available. General fund balances remain healthy and can be used in the short to medium term.
Withdrawal of external funding.	External funding has only been built into the base budget where it has been confirmed by external partners. Officers continue to work with partners to minimise the impact of funding cuts on services.
Change to the Business Rate Retention Scheme and the Fair Funding Review.	Changes to Business Rate Retention and funding levels are expected to be implemented in 21/22. As further technical consultation papers are released officers will attempt to understand how the changes may impact Blaby. Officers will respond any consultation papers and if required, lobby the MHCLG should there be concern regarding the changes.

## **7. Other options considered**

- 7.1 None. It is necessary for Members to understand the financial context in which the budget is set and the detail of the budget.

## **8. Other significant issues**

- 8.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

## **9. Appendix**

- 9.1 Appendix A – 2019/20 Budget Overview 15<sup>th</sup> January
- 9.2 Appendix B – Analysis of Reserves
- 9.3 Appendix C – Schedule of External Funding (to follow)
- 9.4 Appendix D – Establishment Trend information (to follow)
- 9.5 Appendix E – Draft MTFFS Financial Summary
- 9.6 Appendix F – Leaders Portfolio Budget (to follow)
- 9.7 Appendix G – Finance, Efficiency & Assets Portfolio Budget (to follow)
- 9.8 Appendix H – Community Services Portfolio Budget (to follow)
- 9.9 Appendix I – Corporate & Neighbourhood Services Portfolio Budget (to follow)
- 9.10 Appendix J – Health Improvement, Leisure & Regulatory Services Portfolio Budget (to follow)
- 9.11 Appendix K – Planning, Housing Strategy, Economic & Community Development Portfolio Budget (to follow)

## **10. Background paper(s)**

None

## **11. Report author's contact details**

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### 2020/21 Budget Overview 15<sup>th</sup> January 2020

#### Impact of the Settlement December 2019

Councillors will be aware that the Settlement figures are normally distributed to the Council in mid December and at the same time the Secretary of State makes his statement on local government funding for 2020/21. (referred to as 'the Statement' in this paper).

Key elements of the Statement that impact on the budget position for 2020/21 are:

- Confirmation of settlement figures for 2020/21 which were expected to be based on the 2019/20 figures 'rolled forward'.
- Whether there were any changes to how the New Homes Bonus was to be distributed.
- Council Tax increase thresholds

Alongside the Settlement the government also published a technical consultation paper on:

- The provisional local government finance settlement 2020/21.

It was also announced that the government will consult on the future of New Homes Bonus in the Spring.

There is still substantial uncertainty surrounding how changes to Business Rate Retention and the Fair Funding Review will impact on Blaby. Members will recall that these changes were originally proposed to be put in place for 2020/21. In the Autumn it was announced that there would be a delay to the implementation of these changes which are now planned to come into being in 2021/22.

These changes will not therefore directly impact on the budget for 2020/21 but need to be considered within the Councils Medium Term Financial Strategy (MTFS).

Throughout this document reference is made to the Settlement Statement within the relevant section to provide information to Members.

#### Total Budget Requirement

The proposed General Fund Revenue Account net budget requirement for 2020/21 is **£12.6m**. The comparable net budget requirement for 2019/20 was **£11.96m**.

The MTFS generated in February 2019 forecast a budget gap of £47k for 2020/21 if there were no changes to Fair Funding, Business Rate Retention and New Homes Bonus. Had changes gone ahead a financial gap of £1.354m was forecast.

## Funding the Budget

The table below illustrates how the budget is funded and shows the reliance the Council places on income streams relating to Business Rate Retention and New Homes Bonus.

Sources of funding are as follows:-

	Working Budget 2019/20	Base 2020/21	Variance
Redistributed National Non Domestic Rates	3,131,644	3,444,747	313,103
Revenue Support Grant	0	0	0
New Homes Bonus Grant	2,851,626	2,694,837	(156,789)
Transition Grant	0	0	0
Other Non Ringfenced Government Grants	943,854	980,319	36,465
Council Tax (Surplus)/Deficit	0	0	0
Council Tax Precept	5,461,576	5,534,216	72,640
	<u>12,388,700</u>	<u>12,654,119</u>	<u>265,419</u>

This reflects:

- Redistributed NNDR has increased by £313k
- The fact that the Council no longer receives Revenue Support grant.
- New Homes Bonus (NHB) Grant has reduced by £157k. This is £283k lower than that forecast within the MTFS. A total amount of £2.7m of NHB is utilised to support the budget.
- Other Non Ringfenced grants relate to S31 grants which compensate the Council for providing Business Rate Reliefs such as Small Business Rate Relief.
- Council Tax precept has increased by £73k. This is before any increase is applied, but reflects the increase in the tax base (increase in properties) in the district.

## Budget Gap

Members will be aware that leading up to this point Council has made difficult decisions to ensure budget gaps that were forecast were filled. These included decisions as follows:

- to reduce Council Tax Support (CTS) payments to Parish Councils (£196k saving)
- to reduce New Homes Bonus (NHB) payments distributed to Parishes to zero from 2018/19 (£153k saving).
- Movement to an alternate weekly refuse and recycling system (£350k saving).

Council making such decisions, alongside increases to Business Rates retained income, continued generation of New Homes Bonus and strands within the Council's Commercial Strategy has enabled the Council to operate within the funding envelope for 2020/21 resulting in a surplus of **£71k**.

There is however substantial future financial risk to the Council that may result from the proposed changes to the Business Rate Reform, the Fair Funding Review and the Future of New Homes Bonus payments – as can be seen in the draft Medium Term Financial Summary document at Appendix E.

Council has the option to increase Council Tax in recognition of the future financial challenges that may result from the proposed changes.

#### 1. Council Tax Increase

Members will be aware that over recent years there has been more of an expectation nationally that Councils will increase Council Tax as a mechanism for closing the financial gap. This continues to be reflected in 'the Statement'.

For 2020/21 the threshold for Council Tax increases for "core" Band D Council Tax has reduced with local authorities able to increase their Council Tax by up to 2% (1.99%). An additional amount of **£110k** would be generated with a 1.99% increase which equates to an increase of £3.25 per annum, £166.57 for a Band D equivalent property.

District Councils may however raise Council Tax by **£5** without triggering a referendum. This is an option that Blaby may consider given it is larger (3.06%) than the 1.99% increase. This option would generate an additional **£169k**, £168.32 for a Band D equivalent property.

For Shire County Councils increases for 'core' Band D Council Tax has also been reduced with an increase of up to 2% being allowed.

It is important to also note that within the Settlement those Authorities with responsibility for Adult Social Care, such as Leicestershire County Council, retain the additional flexibility to increase their current Council Tax referendum threshold by up to 2% on top of the core principle for an Adult Social Care precept.

The Leicestershire County Council proportion of the total Council Tax charge forms approx. 70% of the total charge (based on 2019/20).

Police and Crime Commissioners and Fire & Rescue Authorities are also limited to a referendum principle of 2%.

### **General Assumptions within Budget Requirement**

- The establishment budget allows for an increase of 2% in establishment costs.

The budget proposals for 2020/21 take into account the cost of employers' national insurance and pension contributions, contractual increments, and the Apprenticeship Levy. (More detail relating to this point was included within the report "Establishment 2019/20 20/21" presented to Cabinet Executive on 4<sup>th</sup> November 2019 and presented at Scrutiny Commission on 27<sup>th</sup> November).

- Planning appeals are not included within the budget requirement but expenditure will be funded from balances if it is necessary.
- Portfolio figures are shown before any recharges from department to department in order that the spending service is scrutinised rather than the method of apportionment across departments.
- Capital expenditure is as per the draft previously presented to Scrutiny Commission on 27<sup>th</sup> November 2019.

### **Fees and Charges**

All fees and charges have been individually reviewed by the service to which they apply and will be uplifted where possible. It is important to note that many charges are statutory fees and can not be altered.

Any significant changes will be discussed within the individual service portfolio reviews.

### **New Homes Bonus**

The Council has continued to generate New Homes Bonus (NHB) from the increase in houses built in the district. Since 2013/14 the New Homes Bonus has been used to underpin the budget requirement as government funding has reduced. In 2020/21 an amount of **£2.7m** is being utilised to fund services.

In 2017/18 the government brought in changes to NHB which reduced the period of years that NHB was paid from 6 years down to 5. 2018/19 saw a further reduction to 4 years.

In 2017/18 a new baseline was brought in, the baseline being 0.4% growth in housing. No NHB will be paid up to 0.4% growth. It was expected that this baseline was going to be increased in 2020/21 but no changes have been made this year.

The future of NHB is very uncertain and poses a considerable future financial risk for the Council. There has been little mention of the future of NHB in the Fair Funding review and it is unclear whether there will be any damping allowance should NHB Funding be removed.

In 2020/21 NHB has been awarded for one year only. This means that the £467k awarded for this year will not be received for the three following years. Given that the legacy payment dating back to 2017/18 will also no longer be paid in 2021/22 then NHB may reduce by approx. £1m in 2021/22 if it is not replaced by another form of funding.

Within the Statement it was announced that the Government are proposing to carry out a consultation in the Spring on the future of this housing incentive. It suggests that this will include moving to a new, more targeted approach that rewards local

authorities where they are ambitious in delivering the new homes needed, and which is aligned with other measures around planning performance.

### **Business Rates**

Since the Localisation of Business Rates in 2013/14 local authorities have been in a position to benefit from a proportion of growth in business rates and Blaby has, like most councils, needed to release this growth to support the budget.

There has however, always been a risk that appeals put forward by businesses may impact unfavourably on the amount of income that Blaby is able to release.

It has been difficult to forecast the growth given the impact of appeals against the rateable values of commercial properties in the District.

A revaluation exercise was run by the Valuation Office (VO) in 2010 and there are still appeals outstanding that date back to this time.

This was complicated in 2017/18 by a further revaluation exercise which has been completed nationally and may cause further appeals to be made against rateable values. To date however, no such appeals have been registered within the Blaby District.

Blaby use advice from experts to understand the appeals that have been put forward and to make a provision for these appeals. Increasing the provision will reduce the amount of business rate income that can be retained.

The Statement suggests that the next revaluation will be brought forward by a year from 2022 to 2021 and that revaluations will then follow a three year cycle rather than a five year cycle.

Councillors will be aware that the mechanism for the distribution of business rates was expected to be changed in 2020/21 but has been delayed until 2021/22. This does not impact on 2020/21 financial year but is a consideration in the MTFs for future years.

Councillors will also recall that Blaby was part of a Leicestershire bid to become a 75% business rate pilot scheme for 2019/20. It was confirmed that this bid was for a one year period only.

## **Financial Budget Summary**

	Approved 2019/20 £	Working 2019/20 £	Base 2020/21 £
<b><u>Net Direct Expenditure</u></b>			
Community Services	1,565,224	1,946,442	1,573,388
Corporate Services & Neighbourhood Services	4,448,300	4,481,537	4,437,942
Finance, Efficiency & Assets	1,909,498	1,737,791	1,774,340
Health Improvement, Leisure & Regulatory Services	1,093,455	1,558,675	988,606
Leader	1,491,659	1,580,228	1,430,151
Planning, Housing Strategy, Economic & Community Development	1,103,122	1,434,559	1,021,560
Net Direct Expenditure	11,611,258	12,739,232	11,225,987
Revenue Contributions towards Capital Expenditure	0	1,062,336	115,000
Minimum Revenue Provision	865,484	845,272	1,108,315
Council Tax Support Grant paid to Parish Councils	0	0	0
Other Appropriations & Accounting Adjustments	0	99,000	0
Adjustment for Forthcoming Costs			286,000
Net Total Expenditure	12,476,742	14,745,840	12,735,302
Contribution to/(from) Earmarked Reserves	(522,743)	(2,511,245)	(151,907)
Contribution to/(from) General Fund Balances	7,879	154,105	
<b>Net Budget Requirement</b>	<b>11,961,878</b>	<b>12,388,700</b>	<b>12,583,395</b>
Redistributed National Non Domestic Rates	(2,732,644)	(3,131,644)	(3,444,747)
Revenue Support Grant	0	0	0
New Homes Bonus Grant	(2,851,626)	(2,851,626)	(2,694,837)
Transition Grant	0	0	0
Other Non Ringfenced Government Grants	(922,876)	(943,854)	(980,319)
Council Tax (Surplus)/Deficit	6,844	0	0
Council Tax Precept	(5,461,576)	(5,461,576)	(5,534,216)
<b>Funding Envelope</b>	<b>(11,961,878)</b>	<b>(12,388,700)</b>	<b>(12,654,119)</b>
<b>Funding Surplus/(Gap) 2020/21</b>			<b><u>70,724</u></b>

## **Fair Funding Review**

The current system for allocating local government funding has been in place for over a decade and during that time demand for local government services has changed. There is a desire for local government funding to be decided on a fair, robust and evidenced-based way, one that reflects the most up-to-date picture of council's relative needs and resources.

A technical consultation was released late in 2018 to refine how the government determines relative needs for services. No further consultation was received in 2019. The aims of the review have remained unchanged from those detailed in 2017 and are as follows:

- **set new baseline funding allocations** for local authorities,
- deliver an **up-to-date assessment of the relative needs of local authorities**. The Government has been clear that there will continue to be redistribution of business rates between local authorities to take account of relative needs; the review will determine what the redistribution should be,
- **examine the relative resources of local authorities**. The Government will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils,
- focus initially on the **services currently funded through the local government finance settlement**, and
- be **developed through close collaboration with local government** to seek views on the right approach. Alongside on-going engagement with the sector and formal consultation, government plan to publish a series of technical papers to ensure that local authorities are well sighted on the progress. This will include careful consideration of transitional arrangements to ensure any changes in funding are introduced in a manageable way.

There continues to be a lack of clarity as to how the review impacts directly on Blaby District Council. Detailed below are elements from the consultation which were relevant and may help to inform members as to what considerations were being made:

- Proposals appear to result in a simpler 'needs' assessment – this usually results in a flatter distribution of funding.
- Government's proposal was to set up a Foundation Formula. Within such a formula, funding would be distributed largely on a per head basis and it will form the largest element of the new funding formula.
- Accompanying the Foundation Formula there were proposed to be 7 service-specific funding formulae (currently there are 15). Only 2 of these impact upon Shire Districts; Legacy Capital Finance and Flood Defence and Coastal Protection. Neither of which are of particular relevance to Blaby.

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON	OTHER
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities <sup>4</sup>
Foundation Formula	Upper tier	●	●		●	●	
	Lower tier	●		●	●	●	
1) Adult Social Care		●	●		●	●	
2) Children and Young People's Services		●	●		●	●	
3) Public Health		●	●		●	●	
4) Highways Maintenance		●	●		●	●	
5) Fire & Rescue <sup>5</sup>		●	●				●
6) Legacy Capital Finance		●	●	●	●	●	●
7) Flood Defence and Coastal Protection		●		●	●	●	

- Deprivation has been a primary driver for funding in the past (other than population). It was proposed that deprivation was removed from the calculation of the Foundation Formula.
- An Area Cost Adjustment (ACA) will exist to compensate authorities for the difference in unit costs of providing services. Elements of the ACA include; rates cost adjustment; labour cost adjustment and a remoteness adjustment.
- It is expected that the Government will use population projections in the funding formula.
- A Relative Resource Adjustment may be used to take into account the authorities ability to generate Council Tax and there is the suggestion that this could be expanded to include income from sales and fees and charges. The one income stream that is still being considered to include are off-street car parking income.
- Government is considering devising a damping regime that takes into account all the various changes in the Fair Funding Review, the baseline reset (Business Rate Reform) and any other changes in funding.

### **Business Rate Retention Reform**

The Government's ambition for business rates retention is:

- To give local government greater control over the money it raises
- To incentivise local authorities to support local economic growth

As such the business rate retention scheme is designed to transfer a level of risk and reward to local authorities.

The consultation paper did not give clarity on how Business Rate Retention Reform will impact Blaby, however, there are some concerning elements that pose considerable risk to the retained business rates that Blaby District Council currently rely upon.

Detailed below are elements from the consultation which are relevant and may help to inform members as to how the review may progress:

- Ministers are still minded to have a full baseline reset from 2021/20. This is the line from which growth is measured. If this goes ahead, there is potential for Blaby to lose the benefit of the growth it has generated since 2013/14.
- The new system is likely to reward growth more generously. (75% retention rate rather than 50% with a limited levy).
- The tier split of the increased retained rates is likely to alter. Currently Blaby retains 40% (but is subject to a further levy) with County Council at 9% and Fire at 1%.
- There were suggestions that some specific grants will be funded from Business Rate retention e.g. Public Health.

### **Medium Term Financial Summary**

The impact of the changes that the Fair Funding Review; Business Rate Retention Reform and New Homes Bonus will cause are difficult to model.

The Fair Funding Review consultation suggested that some damping would be brought in to protect local authorities from dramatic changes in funding levels but that this will unwind over time, something that hasn't historically happened.

The Medium Term Financial Summary at appendix E attempts to model some of the financial impact of changes to future funding.

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**ANALYSIS OF RESERVES - REVISED BUDGET 2019/20 & BASE BUDGET 2020/21**

**Appendix B**

	GL Code	Balance at 31/03/19 £	Movement in 2019/20 £	Estimated 31/03/20 £	Movement in 2020/21 £	Estimated 31/03/21 £
<b>Earmarked Reserves</b>						
Leisure Centre Renewals Fund	0001/VBA	(79,364)	0	(79,364)	0	(79,364)
IT Reserve Fund	0001/VBB	(250,000)	111,977	(138,023)	15,000	(123,023)
Special Schemes Reserve - capital	0001/VBH	(600,000)	396,005	(203,995)	50,000	(153,995)
<b>Capital Earmarked Reserves</b>		<b>(929,364)</b>	<b>507,982</b>	<b>(421,382)</b>	<b>65,000</b>	<b>(356,382)</b>
Licensing Reserve	0001/VBC	(27,869)	0	(27,869)	0	(27,869)
Insurance Reserve Fund	0001/VBD	(100,000)	0	(100,000)	0	(100,000)
Special Schemes Reserve - revenue	0001/VBJ	(600,000)	429,058	(170,942)	50,000	(120,942)
General Fund Reserve	0001/VBK	(1,840,005)	160,934	(1,679,071)	0	(1,679,071)
Ongoing Projects Reserve	0001/VBM	(943,644)	906,735	(36,909)	36,907	(2)
Elections Reserve	0001/VBQ	(175,349)	110,000	(65,349)	0	(65,349)
Choice Based Lettings Reserve	0001/VBR	(952)	952	0	0	0
New Home Bonus	0001/VBT	(59,627)	46,349	(13,278)	0	(13,278)
Economic Development Reserve	0001/VBX	(50,000)	0	(50,000)	0	(50,000)
Community Rights Reserve	0001/VCB	(48,724)	0	(48,724)	0	(48,724)
Council Tax Support Reserve	0001/VCD	(250,000)	0	(250,000)	0	(250,000)
Parish New Homes Bonus Reserve	0001/VCE	(881)	0	(881)	0	(881)
NNDR Income Reserve	0001/VCF	(2,237,597)	256,769	(1,980,828)	0	(1,980,828)
Agile Working Reserve	0001/VCG	(100,000)	7,000	(93,000)	0	(93,000)
Planning Fee Income Reserve	0001/VCH	(41,188)	9,698	(31,490)	0	(31,490)
Local Plan Reserve	0001/VCJ	(240,750)	0	(240,750)	0	(240,750)
Lottery Reserve	0001/VCK	(14,452)	14,452	0	0	0
IT System Replacement Reserve	0001/VCL	(100,000)	27,000	(73,000)	0	(73,000)
<b>Revenue Earmarked Reserves</b>		<b>(6,831,038)</b>	<b>1,968,947</b>	<b>(4,862,091)</b>	<b>86,907</b>	<b>(4,775,184)</b>
<b>Total - All Earmarked Reserves</b>		<b>(7,760,402)</b>	<b>2,476,929</b>	<b>(5,283,473)</b>	<b>151,907</b>	<b>(5,131,566)</b>
<b>General Fund Balance</b>	9999/ZZA	<b>(3,165,454)</b>	<b>(145,105)</b>	<b>(3,310,559)</b>	<b>(70,724)</b>	<b>(3,381,283)</b>

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# Appendix E

## Medium Term Financial Strategy

The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document.

The MTFS forms part of the '**Blaby Plan**' which brings together the Council's Community Plan, the Corporate Plan, the MTFS and the People Strategy.

The current MTFS document contains a financial forecast which is updated each year to reflect the changes to funding. This update has been extended to include the years up to 2023/24 to ensure the Council continues to consider the financial picture with a long term strategic view and have an understanding of the financial resources available.

The future funding envelope extending after 2020/21 has little degree of certainty given there are changes to funding in future years with the Fair Funding Review and Business Rate Review, both of which are expected to take effect from 2021/22. The future funding estimates within the MTFS do therefore take into account any information that can be gained from the national picture and documents within the public domain on this subject.

Whilst the future funding levels are uncertain it is not unrealistic to assume there will continue to be funding reductions or higher demand placed upon the Authority. With this in mind it is important that the Authority understands the potential future funding gaps and scenarios have been included to illustrate possible financial impacts of the changes.

For this current version the provisional budget of 2020/21 has been used as the base expenditure to roll forward to establish the budget requirement for future years however, priorities and services may have to be revised to ensure the Council remains financially sustainable.

# Financial Summary

## Forecast Net Revenue Expenditure

		2020/21 £	2021/22 £	2022/23 £	2022/23 £	2023/24 £
Community Services		1,573,388	1,604,771	1,676,570	1,749,927	1,824,887
Corporate Services & Neighbourhood Services		4,437,942	4,591,852	4,750,384	4,913,666	5,081,843
Finance, Efficiency & Assets		1,774,340	1,790,866	1,862,263	1,928,104	2,038,715
Health Improvement, Leisure & Regulatory Services		988,606	897,080	977,049	1,085,093	995,052
Leader		1,430,151	1,499,303	1,538,599	1,579,074	1,620,764
Planning, Housing Strategy, Economic & Community Development		1,021,560	1,067,839	1,114,590	1,162,741	1,212,338
<b>Net Direct Expenditure - Portfolio</b>	<b>1</b>	<b>11,225,987</b>	<b>11,451,711</b>	<b>11,919,455</b>	<b>12,418,605</b>	<b>12,773,599</b>
Revenue Contributions towards Capital Expenditure	2	115,000	132,000	29,000	142,000	90,000
Minimum Revenue Provision	3	1,108,315	1,339,057	1,314,987	1,263,407	1,299,686
Contribution to/(from) Earmarked Reserves	4	(151,907)	(132,000)	(29,000)	(142,000)	(90,000)
Total Net Expenditure		12,297,395	12,790,768	13,234,442	13,682,012	14,073,285
Adjustment for Forthcoming Costs	5	286,000	291,720	297,554	303,505	309,576
Net Revenue Expenditure	6	12,583,395	13,082,488	13,531,996	13,985,517	14,382,861

## Funding Envelope

		2020/21 £	2021/22 £	2022/23 £	2022/23 £	2023/24 £
Revenue Support Grant	7	0	0	0	0	0
Redistributed NNDR (including S31 Grant)	8	(4,425,066)	(5,674,467)	(5,770,220)	(5,865,978)	(5,971,628)
New Homes Bonus Grant	9	(2,694,837)	(2,465,551)	(2,148,533)	(1,817,403)	(1,800,000)
		(7,119,903)	(8,140,018)	(7,918,753)	(7,683,381)	(7,771,628)
Council Tax Surplus	10	0	0	0	0	0
Council Tax	11	(5,534,216)	(5,615,874)	(5,697,532)	(5,779,191)	(5,860,849)
Funding Envelope		(12,654,119)	(13,755,892)	(13,616,285)	(13,462,572)	(13,632,477)

**Funding Gap/(Surplus) with no Funding Changes**      **(70,724)**      **(673,404)**      **(84,288)**      **522,946**      **750,384**

## Sensitivity Analysis

		2020/21 £	2021/22 £	2022/23 £	2022/23 £	2023/24 £
Funding Gap/(Surplus) from above		(70,724)	(673,404)	(84,288)	522,946	750,384
Phasing out of New Homes Bonus		0	917,403	1,367,403	1,817,403	1,800,000
Resetting of NNDR Baseline		0	2,004,778	2,052,652	2,103,477	2,157,302
Damping		0	(1,187,702)	(1,224,112)	(1,307,633)	(631,684)
<b>Adjusted Funding Gap/(Surplus)</b>		<b>(70,724)</b>	<b>1,061,075</b>	<b>2,111,654</b>	<b>3,136,192</b>	<b>4,076,002</b>

## Forecast Assumptions

Set out below is a commentary relating to the key assumptions that have been made in drafting the future financial forecast.

The numbering relates to the lines of the Forecast Revenue Budget table.

1. **Net Direct Expenditure** has been compiled by rolling forward the 2020/21 draft budget numbers and applying inflationary factors where appropriate to the elements. Key areas of note are:
  - Establishment Costs – An increase of 2% has been allowed for year on year in relation to establishment costs, which includes basic salaries, employer's national insurance, and employer's pension contributions.
  - Other Costs – Where contractual arrangements exist any contractual uplift has been allowed for and where applicable an inflationary rate of 5% for utilities, and 3% for other costs has been included year on year.
  - Income – In this draft estimate an inflationary uplift of 3% has been applied to the 2020/21 income levels for non statutory fees and charges, or where it is deemed applicable.
2. **Revenue Contribution towards Capital Expenditure** is where revenue budget is used to fund capital expenditure in a service.
3. **Minimum Revenue Provision (MRP)** is based upon the current level of capital expenditure that results in a MRP charge. The bulk of this charge is related to the purchase of fleet vehicles, recent investment in the Enderby Leisure Centre and historic Disabled Facilities Grants also contribute to this charge.
4. **Contributions to/(from) Earmarked Reserves** represents the release of reserves to support the budget requirement.
5. **Additional Resource Requirement** – costs anticipated but not yet included in individual portfolios.
6. **Net Revenue Expenditure** is the resulting expenditure figure.
- 7/8. **Revenue Support Grant/Redistributed NNDR** Together these form the Council's core grant funding and now includes growth generated from Business Rates. Only figures for 2020/21 are confirmed.
9. **New Homes Bonus Grant (NHB)** This is the total grant forecast to be received based on the current mechanism and distribution of NHB. It assumes that in years 2021/22 onwards £450k will be generated from the increase in new homes each year. (i.e. that either NHB will continue going

forward or will be replaced by an equivalent grant). The hurdle growth rate of 0.4% has been maintained at the current level for future years.

10. **Council Tax Surplus** represents the amount of Council Tax Collected above the anticipated collection rate.
  
11. **Council Tax** represents the expected revenue received from Council Tax billed. For modelling purposes, no increase has been included in any years. An assumed uplift in tax base has however, been included year on year to reflect the continued development of housing in the district.

## Financial Risks

- **New Homes Bonus (NHB)** When the New Homes Bonus commenced it was a non-ring fenced grant introduced to encourage the building of new housing. This, in effect, was top sliced from the existing funding streams for local government and therefore has provided an alternative source of funding as the core grant has been reduced. In the early years Blaby was in the position to support local housing schemes with some of the New Homes Bonus. However, in recent years it has been necessary to include the NHB as a source of funding to underpin the budget requirement.

In 2020/21 **£2.7m** of NHB has been utilised to fund the budget requirement.

The future of NHB is very uncertain and poses a future financial risk for the Council. There is little mention of the future of NHB in the Fair Funding Review and it is unclear whether there will be any damping allowance should NHB Funding be removed. Indications are currently that if NHB is removed it will be done on a phased basis with no future payments being received. If this were to be the case this would remove all of the NHB funding by 2023/24. The sensitivity analysis at the bottom of the financial table illustrates the financial impact of this. The latest Statement would suggest that a replacement funding initiative will replace the NHB, however, no indication has been given as to how this will operate and the potential Blaby has to benefit from this funding.

- **Business Rates Retention Reform**

The recent Statement suggests that this will take effect in the year 2021/22 at the same time as the results of the Fair Funding Review is expected to be implemented.

The overriding question will be how this additional retention locally will be distributed between Districts and County Councils given the financial pressures being experienced by County Councils because of Social Care costs. In addition, it is suggested that there will be a full Business Rate Baseline reset. If there is a full reset of the Baseline the Council may lose the benefit of any significant growth that has been generated in recent years. This element of the changes to Business Rates provides a substantial risk to the Council which could result in growth being lost. The potential impact of this change is shown in the sensitivity section of the Financial Summary.

Blaby will benefit from any future growth in Business Rates, however quantifying the benefit is not yet possible.

- **Fair Funding Review**

It is expected that this will take effect in the year 2021/22. Whilst the consultation details considerations that are being taken into account it is not possible to assess how Blaby District will be impacted by this change. How future changes are softened through a 'damping process' will be key as to how Blaby's financial position may change.

- **County Council Funding Reductions.** The County Council has openly illustrated the level of funding cuts that they will be required to make over the coming years. Whilst we can plan to mitigate any obvious impacts of this, some are more subtle and the increased demand that results from this is difficult to quantify financially. This is a considerable risk to which we will put financial values to as and when we are in a position to do so.

- **New Demands from Residents.** Blaby has an ageing population which brings with it challenges such as dealing with dementia and issues such as loneliness. What role Blaby will play in our community to combat these challenges and what different demand this drives for services that are needed have not yet been identified.