

# 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.