

# 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 District 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 2026/27 to ensure the Council continues to consider the financial picture with a longer term strategic view and have an understanding of the financial resources available.

The future funding envelope extending after 2022/23 has little degree of certainty given there are changes to funding in future years with the Fair Funding Review and the anticipated reset of the Business Rates baseline, both of which are expected to take effect from 2023/24. The future funding estimates within the MTFS take into account any information that can be gained from the national picture and documents within the public domain on this subject, although there is a high degree of risk and uncertainty around these.

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 Council. With this in mind it is important that the Council understands the potential future funding gaps and scenarios have been included to illustrate possible financial impacts of the changes.

For this latest update of the MTFS, the provisional budget for 2022/23 has been used as the baseline for projecting the future budget requirement. However, priorities and services may have to be revised to ensure the Council remains financially sustainable.

# Financial Summary

<b>Forecast Net Revenue Expenditure</b>					
	2022/23	2023/24	2024/25	2025/26	2026/27
	£	£	£	£	£
<u>Portfolio:</u>					
Finance, People & Performance	2,308,060	2,376,355	2,416,479	2,422,278	2,436,864
Housing, Community & Environmental Services	2,535,039	2,578,248	2,636,903	2,696,792	2,757,900
Health & Wellbeing, Community Engagement & Business Support	350,345	478,563	327,116	333,716	366,487
Leader	1,440,676	1,473,112	1,506,000	1,539,565	1,574,460
Neighbourhood Services & Assets	2,550,096	2,529,910	2,591,439	2,654,320	2,718,579
Planning Delivery, Enforcement & Corporate Transformation	2,817,157	3,077,777	3,094,449	3,112,578	3,184,105
<b>Net Direct Expenditure - Portfolio</b>	<b>12,001,373</b>	<b>12,513,965</b>	<b>12,572,386</b>	<b>12,759,249</b>	<b>13,038,395</b>
RCCO	100,000	0	0	0	0
Minimum Revenue Provision	1,173,162	1,284,153	1,554,846	1,935,510	1,889,669
Appropriations & Accounting Adjustments	0	0	0	0	0
Contribution to/(from) Earmarked Reserves	(230,940)	(5,000)	(21,000)	(41,500)	(9,500)
Total Net Expenditure	<b>13,043,595</b>	<b>13,793,118</b>	<b>14,106,232</b>	<b>14,653,259</b>	<b>14,918,564</b>
<u>Additions/Savings:</u>					
<b>Net Revenue Expenditure</b>	<b>13,043,595</b>	<b>13,793,118</b>	<b>14,106,232</b>	<b>14,653,259</b>	<b>14,918,564</b>
<b>Funding Envelope</b>					
	2022/23	2023/24	2024/25	2025/26	2026/27
	£	£	£	£	£
Income from Business Rates	1,367,158	1,125,746	301,743	293,662	324,111
Contribution from Business Rates Reserves	(2,659,762)	0	0	0	0
S31 Grant - Business Rates Compensation	(3,275,451)	(3,118,513)	(3,176,763)	(3,242,900)	(3,304,969)
Lower Tier Services Grant	(911,919)	0	0	0	0
Services Grant	(153,747)	0	0	0	0
New Homes Bonus Grant	(1,020,820)	0	0	0	0
	(6,654,541)	(1,992,767)	(2,875,020)	(2,949,238)	(2,980,858)
Council Tax Deficit	72,774	55,423	0	0	0
Council Tax	(6,102,119)	(6,328,218)	(6,557,317)	(6,789,415)	(7,024,514)
Funding Envelope	(12,683,886)	(8,265,562)	(9,432,337)	(9,738,653)	(10,005,372)
Funding Gap/(Surplus)	359,709	5,527,556	4,673,895	4,914,606	4,913,192
<b>Sensitivity Analysis</b>					
	2022/23	2023/24	2024/25	2025/26	2026/27
	£	£	£	£	£
Funding Gap/(Surplus) from above	359,709	5,527,556	4,673,895	4,914,606	4,913,192
Damping	0	(3,784,129)	(2,014,869)	0	0
Adjusted Funding Gap/(Surplus)	359,709	1,743,427	2,659,026	4,914,606	4,913,192

# Forecast Assumptions

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

## **Net Direct Expenditure**

Net Direct Expenditure budgets have been compiled by rolling forward the 2022/23 draft budget numbers and applying inflationary factors where appropriate to the elements. Key areas of note are:

- Establishment – assumes a 2% increase to cover the annual pay award, increments and increases in national insurance and pension contributions.
- Other costs – increases in line with contractual arrangements or by reference to appropriate inflationary factors, dependent upon the nature of the expenditure.
- Fees and charges – non-statutory income budgets have been increased by inflation in line with the Spending Review in October 2021.

## **RCCO**

Revenue Contributions towards Capital Outlay – this is where revenue expenditure (including earmarked reserves) is used to finance capital expenditure.

## **Minimum Revenue Provision (MRP)**

MRP is a proxy for depreciation used in local government finance. It is charged on any capital expenditure funded through borrowing, over a period of time commensurate with the estimated life of the asset. Much of the current MRP relates to the purchase of fleet vehicles, investment in our leisure facilities, and historic disabled facilities grants. The increase in MRP from 2023/24 reflects the impact of new expected borrowing to fund our 5 year Capital Programme, including the potential additional cost of moving to electric refuse vehicles.

## **Contributions to/(from Earmarked Reserves**

This represents the release of reserves to support one-off expenditure items or spend to save initiatives.

## **Additions/Savings**

Any new known, growth in expenditure or potential savings not yet built into the budget.

## **Net Revenue Expenditure**

The Council's forecast net expenditure position prior to the application of balances, government grants and council tax.

### **Income from Business Rates**

The Council retains 40% of the net rates collectable from businesses. However, it is also required to pay a tariff to government from its share, as well as a levy payment to the Leicestershire Business Rates Pool based on any growth above the baseline. Blaby has benefited from considerable growth since the current Business Rates Retention Scheme was introduced in April 2013, in particular from the major redevelopment of Fosse Park. The MTFS anticipates a reset of the business rates baseline in 2023/24 and this is likely to have a major impact on the amount of business rates that Blaby will have to support its budget. However, there remains a great deal of uncertainty over the precise impact.

### **S31 Grant – Business Rates Compensation**

The amount of business rates collectable is reduced by various reliefs that have been introduced by the government, for example, to reduce the impact of COVID-19 on businesses. This results in a loss of income to the Council, which is compensated by the government through Section 31 grant.

### **Lower Tier Services Grant**

Introduced by government as part of the 2021/22 financial settlement to offset the reduction in funding that many authorities were feeling as a result of the phasing out of New Homes Bonus. Initially intended as a one-off grant, it has been extended into the 2022/23 settlement.

### **Services Grant**

A new, one-off grant included in the 2022/23 settlement. The Services Grant has been distributed by reference to 2013/14 deprivation indices, resulting in a relatively low grant to Blaby.

### **New Homes Bonus**

New Homes Bonus has been extended by one further year based on the existing distribution mechanism. Blaby's settlement includes a one year only grant relating to housing growth up to October 2021, together with legacy funding that will fall out in 2023/24.

### **Council Tax Deficit**

The amount by which council tax due in the previous year, falls short of the expected sum collectable. The government introduced new legislation in 2020/21 enabling local authorities to spread any unusual deficit arising from the pandemic across three years.

### **Council Tax**

The expected amount of revenue receivable from Council Tax payers, assuming a £5 increase on Band D and an assumed increase in the tax base to reflect new build.

### **Sensitivity Analysis**

An assumption has been built into the MTFS in anticipation that the government will introduce some form of damping mechanism to smooth the impact of the expected reduction in funding. Until the Fair Funding review is complete and the government has made a decision in relation to the business rate baseline reset, the full extent of this impact poses a significant risk.

# 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 2022/23 **£1.021m** of NHB has been utilised to fund the budget requirement.

NHB is expected to be removed from the settlement from 2023/24 onwards and, as yet, there is no indication from government that it will be replaced. If it is replaced, there is a strong likelihood that any new grant will be more weighted towards upper tier authorities.

- **Business Rates Retention Reform**

The recent Statement suggests that this will take effect in the year 2023/24 at the same time as the result 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 2023/24. 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.