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 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 2027/28 to ensure the Council continues to consider the financial picture with a longer-term strategic view and understand the financial resources available.

The future funding envelope beyond 2023/24 remains quite uncertain 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 now expected to take effect from 2025/26. The future funding estimates within the MTFS consider 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. 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 2023/24 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

Forecast Net Revenue Expenditure

	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Portfolio:						
Finance, People & Performance	3,056,858	3,172,104	3,422,239	3,537,908	3,639,025	3,715,399
Housing, Community & Environmental Services	2,578,601	1,978,956	2,057,901	2,133,672	2,211,728	2,292,139
Health & Wellbeing, Community Engagement & Business Support	1,934,172	402,859	218,282	319,185	185,433	201,972
Leader	1,710,310	1,619,061	1,670,404	1,720,471	1,772,041	1,825,157
Neighbourhood Services & Assets	3,107,214	3,175,948	3,299,816	3,434,749	3,568,674	3,707,355
Planning Delivery, Enforcement & Corporate Transformation	3,567,930	3,505,364	3,601,788	3,696,198	3,793,443	3,893,609
Net Direct Expenditure - Portfolio	**15,955,085**	**13,854,292**	**14,270,430**	**14,842,183**	**15,170,344**	**15,635,631**
RCCO	411,066	100,000	22,000	32,000	0	0
Minimum Revenue Provision	389,373	523,737	729,043	939,790	1,034,490	1,113,346
Voluntary Revenue Provision	0	250,000	250,000	250,000	250,000	250,000
Appropriations & Accounting Adjustments	117,239	163,800	0	0	0	0
Contribution to/(from) Earmarked Reserves	(3,225,468)	(209,690)	23,000	13,000	45,000	45,000
Net Revenue Expenditure	**13,647,295**	**14,682,139**	**15,294,473**	**16,076,973**	**16,499,834**	**17,043,977**

Funding Envelope

	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Income from Business Rates	54,534	(2,571,369)	(3,603,782)	(1,152,817)	(1,479,307)	(1,502,124)
Contribution from Business Rates Reserves	(2,144,241)	(1,502,156)	0	0	0	0
S31 Grant - Business Rates Compensation	(2,661,093)	(2,218,844)	(2,343,733)	(1,381,793)	(1,029,244)	(1,048,765)
Revenue Support Grant	0	(74,608)	(74,608)	(74,608)	(74,608)	(74,608)
Lower Tier Services Grant	(867,225)	0	0	0	0	0
Services Grant	(153,747)	(86,633)	(86,633)	0	0	0
Funding Guarantee	0	(1,534,201)	(1,534,201)	0	0	0
New Homes Bonus Grant	(1,020,820)	(461,356)	(430,029)	0	0	0
	(6,792,592)	(8,449,167)	(8,072,986)	(2,609,218)	(2,583,159)	(2,625,497)
Council Tax Deficit	43,211	0	0	0	0	0
Council Tax	(6,106,661)	(6,311,930)	(6,538,486)	(6,772,947)	(7,035,645)	(7,307,996)
Funding Envelope	(12,856,042)	(14,761,097)	(14,611,472)	(9,382,165)	(9,618,804)	(9,933,493)
Funding Gap/(Surplus)	791,253	(78,958)	683,001	6,694,808	6,881,030	7,110,484
Damping				(4,498,733)	(3,568,049)	(2,594,017)
Adjusted Funding Gap/(Surplus)	791,253	(78,958)	683,001	2,196,075	3,312,981	4,516,467

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 haves been compiled by rolling forward the 2023/24 draft budget numbers and applying inflationary factors where appropriate to the elements. Key areas of note are:

- Establishment – assumes a 3% 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 and with a view to achieving full cost recovery.

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 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 2024/25 reflects the impact of new expected borrowing to fund our 5-year Capital Programme.

Voluntary Revenue Provision (VRP)
VRP is in addition to MRP and is applied to smooth the impact of introducing the Council's new MRP policy.

Contributions to/(from) Earmarked Reserves
This represents the release of reserves to support one-off expenditure items or spend to save initiatives.

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 benefitted from considerable growth since the current Business Rates Retention Scheme was introduced in April 2013. The MTFS anticipates a reset of the business rates baseline in 2025/26 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 freeze the business rate multiplier. This results in a loss of income to the Council, which is usually compensated by the government though 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 because of the phasing out of New Homes Bonus. Initially intended as a one-off grant, it was extended into the 2022/23 settlement but has been replaced in 2023/24.

Services Grant
A new grant introduced in the 2022/23 settlement but continued into 2023/24 in the latest settlement.

New Homes Bonus
New Homes Bonus has again been extended by a further year based on the existing distribution mechanism. Blaby's settlement is based on housing growth up to October 2022. It is likely, but not definite, that the grant will continue in 2024/25 although with a lower pot to be allocated.

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 Taxpayers, assuming an increase of 2.99% on Band D each year and an assumed increase in the tax base to reflect new build.

Damping
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 2023/24 **£0.461m** of NHB has been utilised to fund the budget requirement.

  NHB is expected to be removed from the settlement from 2025/26 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 2025/26 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 financial impact of this is illustrated by the considerable financial gap from 2025/26 onwards.

  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 2025/26. Whilst the historic consultation detailed considerations that may be 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. We have also seen considerable increase in homelessness costs and the cost of living crisis may also drive further demands. 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.