

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 year 2020/21 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 Council made a submission to the Department for Communities and Local Government in October 2016 and accepted the 4 Year Settlement spanning years 2016/17 to 2019/20.

The future funding envelope does therefore have a degree of certainty however, there are potential changes to Funding in future years with the Fair Funding Review and Business Rate Review, both of which are expected to take effect from 2020/21. 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

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Authority. With this in mind it is important that the Authority understands the potential future funding gaps so it is best placed to make decisions at an early stage.

Delivery of these savings or generation of additional income can then be planned in a structured manner so as to minimise disruption to our customers.

The Council's new Blaby Plan centres around creating :

- A Place to Live
- A Place to Work
- A Place to Visit

The Council is now in the process to understand how this new plan may change how and what we deliver for our communities and we will reflect any financial impact of these in the revised MTFS summary that is released annually.

For this current version the provisional budget of 2018/19 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.

Forecast Revenue Budget 2017/18 to 2020/21

		2017/18 £	2018/19 £	2019/20 £	2020/21 £
Net Direct Expenditure	1	11,483,878	10,811,587	11,442,220	11,781,905
RCCO	2	657,044	140,000	0	0
Minimum Revenue Provision	3	769,267	886,351	845,655	793,614
Council Tax Support Grant - Parishes	4	196,301	0	0	0
Appropriations & Accounting Adjustments	5	229,453	0	0	0
Contribution to/(from) Earmarked Reserves	6	(1,992,922)	(366,666)	0	0
Net Total Expenditure	S/T	11,343,021	11,471,272	12,287,875	12,575,519
Contribution to/(from) General Fund Balances	7	(228,796)	(214,526)	0	0
Changes to Weekly Refuse & Recycling Service	8	0	0	(72,030)	(72,030)
Identified Transformational Savings/Income	9	0	0	0	0
Additional Savings/additional revenue requirement	10	0	0	(107,562)	(190,240)
Net Revenue Expenditure	11	11,114,225	11,256,746	12,108,283	12,313,249

		2017/18 £	2018/19 £	2019/20 £	2020/21 £
Revenue Support Grant	12	467,159	167,114	-167,000	-167,000
Redistributed NNDR	13	3,267,793	3,449,517	4,160,049	4,160,049
New Homes Bonus Grant	14	2,329,576	2,409,779	2,820,496	2,946,304
Transition Grant	15	11,110	0	0	0
	16	6,075,638	6,026,410	6,813,545	6,939,353
Council Tax Surplus	17	63,679	14,756	0	0
Council Tax	18	4,974,908	5,215,580	5,294,738	5,373,896
Funding Envelope	19	11,114,225	11,256,746	12,108,283	12,313,249

Note: 2020/21 is based on the funding for 2019/20 but with costs inflated within the net revenue expenditure. This is the year that the Fair Funding Review and the change to Business Rates are expected and, therefore, there is a considerable risk that the funding may be very different. Should the Business Rates Baseline be reset the financial gap may be in excess of £1m in 2020/21.

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 2018/19 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 basic salaries, employer's national insurance, and pension contributions.
 - Other Costs – Where contractual arrangements exist any contractual uplift has been allowed for and where applicable an inflationary rate of 2% has been included year on year, except for gas and electricity which have been increased by 5%.
 - Income – In this draft estimate no additional uplift has been included on top of the current income levels for 2018/19. Should any substantial income be generated from any new initiatives these will be reflected in the Transformational Savings/Income line 8.
2. **RCCO** – contributions made from the revenue budget, sometimes via earmarked reserves, to support expenditure on the Capital Programme.
3. **Minimum Revenue Provision (MRP)** is a capital financing charge based upon the current level of capital expenditure that results in a need to borrow. The bulk of this charge is related to the purchase of fleet vehicles but historic Disabled Facilities Grants also contribute to the revenue cost. The success of the 'Light Bulb Project' and the future direction of changes to Refuse and Recycling which are being considered in the future by Leicestershire County Council may cause this figure to alter.
4. **Council Tax Support Grant - Parishes** is no longer transferred to parish councils.
5. **Appropriations and Accounting Adjustments** –none forecast in these years.
6. **Contributions to/(from) Earmarked Reserves** – includes £200,000 support for the budget requirement in 2018/19 from the General Reserve Fund. No release from earmarked reserves is allowed for in 2019/20 or 2020/21.

7. **Contributions to/(from) General Fund Balance** shows the amount utilised from General Fund Balances to support the budget. If Council chooses not to implement any of the options open to them this figure would be equivalent to the additional savings/additional income requirement shown at line 10.
8. **Changes to Weekly Refuse and Recycling Service** – additional budget reduction in 2019/20 and beyond to reflect the full year savings of removal of three refuse vehicles..
9. **Identified Transformational Savings/Income** Work continues to identify and put in place initiatives to generate savings or additional income. Only those that have reached the stage that the financial implications can be estimated will be included within this figure.
10. **Additional Savings/Additional Revenue Requirement** shows the gap for 2018/19 of £214,526 assuming that Council Tax is increased by £5 at Band D level in 2018/19. For subsequent years this represents the gap in funding that is required to be filled. The figure has been calculated on the basis that the gap is not filled within the year in which the shortfall occurs.
11. **Net Revenue Expenditure** is the resulting expenditure figure to match the available funding.
- 12/13. **Revenue Support Grant/Redistributed NNDR** Together these form the Council's core grant funding. Only figures for 2017/18 to 2019/20 are confirmed in the 4 year settlement. .
14. **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 2018/19 onwards £750k will be generated from the increase in new homes each year. NHB being paid has reduced down to 4 years from 2018/19. This has been modelled within the MTF5 and the hurdle growth rate of 0.4% has been maintained at the current level for future years.
15. **Transition Grant** no longer receivable after 2017/18..

17. **Council Tax Surplus** represents the amount of Council Tax Collected above the anticipated collection rate.

18. **Council Tax** represents the expected revenue received from Council Tax billed. For modelling purposes, no increase has been included for 2019/20 or 2020/21. 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 2018/1 **£2.4m** of NHB has been utilised to fund the budget requirement.

Changes to the NHB have been brought in this year and payment is now based on 4 years in 2018/19, rather than the 6 years as when originally launched. An introduction of a growth rate of 0.4% has been in place since 2017/18. NHB will only be paid on growth above this percentage.

There is suggestion that NHB will be changed further and that Council's who do not have local plans in place or who do not permit development which is then successful on appeal will be penalised. The Settlement Statement was silent on this point in December 2017.

- **Localisation of Business Rates.** The Autumn Statement 2015 detailed that the Localisation of Business Rates scheme would be revised. The consultation that followed gave insufficient detail to predict exactly how this will work, however the key points are that:

“local government will retain 100% of business rate revenues to fund local services.”

How this will work in reality is not yet known, and the Settlement statement has suggested that this will take effect in the year 2020/21 at the same time as the results of the Fair Funding Review is expected to be implemented.

The overriding question will be how this redistribution is spread between Districts and County Councils given the financial pressures being experienced by County Councils because of Social Care costs. In addition there has been mention of the Business Rate Baseline being 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 which is in excess of **£1m**.

Whilst there is still lack of certainty as to the impact these changes will have on Blaby, the fact that the authority has an Economic Development Strategy (which has been refreshed in 2016) and works in partnership with local businesses in the district can only suggest the correct approach is being taken to secure funding generated from the future distribution of Business Rates.

- **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.