Medium Term Financial Strategy

Appendix C

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 Council was informed in mid November that the application had been accepted.

The future funding envelope does therefore have a degree of certainty however, there are potential changes to New Homes Bonus and Business Rate Retention Schemes in future years. 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 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 priorities within the Blaby Plan are as follows:

- A vibrant local economy and job market.
- Residents are healthy, fulfilled and confident for their future
- Safe, strong and happy local communities

In 2017/18 preparations will be required to revise the new Blaby Plan for 2018/19 onwards. It will be important to align that future plan with the MTFS to ensure that the Plan is affordable.

The provisional budget of 2017/18 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	10,156,839	9,879,655	10,068,123	10,271,194
Minimum Revenue Provision	2	818,210	894,048	913,952	913,952
Council Tax Support Grant - Parishes	3	196,301	196,301	196,301	196,301
Appropriations & Accounting Adjustments	4	211,343	125,000	125,000	125,000
Contribution to/(from) Earmarked Reserves	5	(1,087,347)	(210,000)	(210,000)	(210,000)
Net Total Expenditure	**S/T**	**10,295,346**	**10,885,004**	**11,093,376**	**11,296,447**
Contribution to/(from) General Fund Balances	6				
LCC Dry Waste Recycling	7	0	500,000	500,000	500,000
Identified Transformational Savings/Income	8				
Additional Savings/additional revenue requirement	9	(159,558)	(1,518,631)	(1,658,968)	(1,815,652)
Net Revenue Expenditure	10	10,135,788	9,866,373	9,934,408	9,980,795

		2017/18 £	2018/19 £	2019/20 £	2020/21 £
Revenue Support Grant	11	467,159	167,114	-168,043	-168,043
Redistributed NNDR	12	2,082,748	2,149,755	2,226,223	2,226,223
New Homes Bonus Grant	13	2,329,576	2,142,761	2,303,478	2,179,286
NNDR Growth	14	200,000	200,000	200,000	200,000
Transition Grant	15	11,110	0	0	0
	S/T	5,090,593	4,659,630	4,561,658	4,437,466
Council Tax Surplus	16	70,287	70,287	70,287	70,287
Council Tax	17	4,974,908	5,136,456	5,302,463	5,473,042
Funding Envelope	18	10,135,788	9,866,373	9,934,408	9,980,795

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 2017/18 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, and increases of 1% and 1.7% per annum respectively for 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.
    - Income – In this draft estimate no additional uplift has been included on top of the current income levels of 2017/18. Should any substantial income be generated from any new initiatives these will be reflected in the Transformational Savings/Income line 8.

2. **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 but Disabled Facilities Grants also contribute to this charge. 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.

3. **Council Tax Support Grant - Parishes** is based on the current level of grant transferred to Parishes. This is based on the actual amount of Council Tax Support specifically awarded within the parish and the impact it has on the parish tax base. This may fluctuate given the caseload.

4. **Appropriations and Accounting Adjustments** represents the New Homes Bonus transferred to Parishes and a small amount for support to bring empty properties back into use.

5. **Contributions to/(from) Earmarked Reserves** represents the release of reserves to support the budget requirement. In 2017/18 a release of £400k is included and a release of £200k for the following 3 years. This general release is in addition to more specific reserve releases the main one being £232k per year from the Pickles grant supporting weekly collections.

6. **Contributions to/(from) General Fund Balance** shows the amount utilised from the General Reserve Fund to support the budget. Should Council choose not to implement any of the options open to them this figure would be £321,801 for 2017/18 if no further savings were found before the budget is presented to Council in February.

7. **LCC Dry Waste Recycling** represents the financial impact of the County Council's decision to direct the recycling material and to remove the recycling credits paid to the Authority.

8. **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.

9. **Additional Savings/Additional Revenue Requirement** shows the gap for 2017/18 of £159,558 (This assumes an increase of £5 Council Tax). For subsequent years this represents the gap in funding that is required to be filled. The figure has been calculated on the basis that that gap is not filled within the year in which the shortfall occurs. **Note: this is a change from previous years. It is perhaps realistic that not all the future gaps will be filled in the year they arise.**

10. **Net Revenue Expenditure** is the resulting expenditure figure to match the available funding.

11/12. **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. The Redistributed NNDR figure may however be subject to change with the implementation of the 100% Business Rate Retention Scheme.

13. **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 £500k will be generated from the increase in new homes each year. The Settlement suggests that NHB being paid will be reduced down to 4 years from 2018/19. This has been modelled within the MTFS and contributes to the substantial 2018/19 financial gap.

14. **National Non Domestic Rates (NNDR) Growth** An amount of £200k has been identified for release on an ongoing basis throughout the forecast from growth in Business Rates. Whilst the uncertainty of appeals continues to impact on the growth it is felt prudent not to uplift this further. Should significant economic growth reach a point of certainty then further growth will be fed into the forecast.

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

17. **Council Tax** represents the expected revenue received from Council Tax billed. For modelling purposes, an increase of £5 has been included in 2017/18 followed by an increase of 1.99% for each of the forecast years thereafter. An assumed uplift in tax base has also 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 2017/18 **£2.14m** of NHB has been utilised to fund the budget requirement.

  Changes to the NHB have been brought in this year and a reduction had already been built into the MTFS for the NHB to be reduced from a payment for a 6 year period being reduced to 5 years. It is to reduce further to 4 years in 2018/19.

  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. Further consultation is to be sought on this point.

- **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, but there is mention that the system of top-ups and tariffs which redistributes revenues between local authorities will be retained.

  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. This said, the figures within the MTFS only take into account £200k uplift in growth in each year. No allowance has yet been made for any major growth in business rates over the coming years.

With the retention of this revenue will come new responsibilities. Funding the administration of Housing Benefit for Pensioners being specifically mentioned as an example.

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.