

Recommendations	<p>THAT CABINET:</p> <p>1. APPROVES THE REVISED MEDIUM TERM FINANCIAL PLANS; AND</p> <p>2. NOTES THE PROGRESS OF THE JOURNEY TO SELF SUFFICIENCY PROGRAMME.</p>
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1.0 BACKGROUND

- 1.1 In December 2019, members were presented with a report that outlined the current financial forecasts within the council's Medium Term Financial Plans (MTFP). This paper was then subsequently presented to the Corporate Scrutiny Committee on 8 January. A link to the draft minutes have been included as a background paper on page one of this report.
- 1.2 The council's medium term financial plans flow from the 2018 Medium Term Financial Strategy, which was approved by Cabinet in February 2018. The strategy introduced a new five year rolling assessment of the financial resources required to deliver the Council's strategic priorities and essential services and a new, self-sufficient approach to managing and safeguarding the council's ongoing financial position in light of future central government funding changes.
- 1.3 This report details two revised Medium Term Financial Plans – the General Fund MTFP and a separate Housing Revenue Account MTFP to reflect the ring-fencing requirements around the Housing Service. Projections within each of these plans are based on the forecast outturn for the 2019/20 financial year, the final budgeted position for 2020/21, national rent policy, the Spending Review (announced by the Secretary of State on 4 September 2019) and other assumptions around the Fair Funding Review and Business Rates Reform.

2.0 JOURNEY TO SELF-SUFFICIENCY PROGRAMME

- 2.1 The Journey to Self-Sufficiency Programme has, to date, delivered a range of outcomes associated with the council becoming more self-sufficient including the implementation of the Commercial Strategy, the redesign and approval of a new Corporate Charging Policy and the drafting of a new Asset Management Strategy. An update in respect of the programmes achievements was last reported to Cabinet in July 2019.
- 2.2 Following a review undertaken by the Corporate Leadership Team the programme has been updated to reflect a wider council-wide approach, incorporating the Housing Revenue Account (HRA) as well as the General Fund so that the Council can manage its self-sufficient HRA even more effectively as well as create a General Fund position in the future to become self-sufficient and manage forecast deficits.
- 2.3 The ethos of the programme is to enhance the cost-effectiveness of the council's activities in spite of, rather than because of, a negative financial outlook (where one exists). The approach is therefore around the Council building on its 'One Team, One Council' value to make the most of resources and reinvestment opportunities and

being the best it can possibly be.

- 2.4 It is, however, also recognised that there could be circumstances in the future which lead to the need for more profound measures for delivering savings. The new approach therefore looks at the level of threat posed to the ongoing financial sustainability of the council's General Fund and HRA funded services, allowing for more stringent levels of action and curtailment of services if required in the future, where necessary.
- 2.5 This approach also allows for a more comprehensive assessment of such circumstances and the various factors that affect our financial position. Non-delivery against targeted savings and/or significant adverse changes in projected financial position would trigger the need for this programme to focus its efforts towards activities identified in line with the next threat level. The Head of Finance will be responsible for reviewing savings targets and progress against as part of the bi-annual review of the MTFP, and the level of threat posed to the organisation will be assessed and determined by the Head of Finance in line with their statutory Section 151 duties to deliver an ongoing balanced budget.
- 2.6 The revised programme takes a thematic approach, with leads identified for six differently themed work streams. The work streams (listed below) will identify and exploit opportunities to generate income and reduce expenditure in order to deliver cumulative, year-on-year savings with financially effective and long-lasting changes that secure financial stability and sustainability and protect council services.
- 2.7 Thematic savings targets for both the General Fund and HRA have been established and are built into the proposed 2020/21 draft budgets and medium term financial plans, as set out below. Currently, the project scope for each of these work streams remains under development and a further update around the specifics of each theme will be shared with members in the New Year.
- 2.8 It is recognised that there will be a specific need for there to be work to underpin each of the themes to manage the impact of improvements to the way we work and on staff.

Table 1, Journey to Self Sufficiency Programme Work Streams and Savings Targets

Work Stream	General Fund			Housing Revenue Account		
	2020/21	2021/22 – 2024/25	Total MTFP	2020/21	2021/22 – 2024/25	Total MTFP
	£'000	£'000	£'000	£'000	£'000	£'000
Commercial	170	680	850	25	525	550
Contract Management	100	800	900	25	200	225
Use of Assets	200	1,600	1,800	100	400	500
Transformational	25	550	575	25	400	425
Finance	50	650	700	50	650	700
Shared Services	25	250	275	0	250	250
Total	570	4,530	5,100	225	2,425	2,650

- 2.9 To ensure accountability for the delivery of savings, specific service level targets will be developed over the coming months to ensure there is effective accountability for these targets at service-level across the organisation.
- 2.10 The Corporate Portfolio Holder will continue to act as Cabinet sponsor for the programme and updates will be provided on a monthly basis at the portfolio holder briefing session.

3.0 GENERAL FUND MEDIUM TERM FINANCIAL PLAN

2019/20 Forecast Outturn

- 3.1 The forecast position on the General Fund for 2019/20 is a surplus for the year of £353k, compared to a budgeted surplus of £161k. There have been adverse variances of £1.29m, of which £363k relates to a reduction in income, £910k in additional costs compared to the budget and a number of de minimis variances of £15k. This is offset against favourable variances of £1.12m, of which additional income of £215k and reduction in costs of £903k. The net variances of £170k have been financed by £362k of additional business rates.
- 3.2 In line with the decisions made by Council at its meeting on 26 February 2019, the forecast surplus of £353k and any additional surpluses achieved will be transferred to the self-sufficiency reserve.

Medium Term Financial Plan - Projections as at July 2019

- 3.3 The projected deficit arising between 2019/20 – 2023/24, as last reported to members in July 2019 totalled £5.7m. To summarise this position, the following table details the projected financial position over the period:

Table 2, Medium Term Financial Plan Projections as at July 2019

	2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Surplus/(Deficit)	325	365	-1,258	-2,103	-2,985	-5,656

- 3.4 The first and subsequent deficits were forecast as a result of the implementation of the three ongoing local government funding reviews that were originally planned to be implemented from April 2020. Our medium term financial plan had assumed that from April 2020 we would have a new business rates baseline and therefore retain less business rates income and receive less New Homes Bonus because we would only be rewarded for historic growth through legacy payments and not for new housing growth achieved in 2019.

Review of Assumptions

- 3.5 Appendix B includes a list of the original assumptions included in the MTFS and

details of assumptions that have been revised.

Budget Announcement and the Provisional Local Government Finance Settlement

3.6 The government published its Provisional Local Government Finance Settlement on 20 December 2019 and confirmed the level of New Homes Bonus, and tariff and charges against retained Business Rates, which is in line with expectations and announcements previously made in the Spending Review and local government finance settlement technical consultation.

3.7 The settlement confirms:

- A commitment to fund New Homes Bonus in 2020/21, with a new round of allocations for growth achieved to October 2019 as well as continued legacy payment for historic growth. The Government has confirmed their intention to look at the New Homes Bonus scheme and explore the most effective way to incentivise housing growth in the future.
- An elimination of negative Revenue Support Grant (which was due to affect NWLDC in 2020/21), meaning that the Council will not need to adjust its retained business rates to compensate for a negative RSG payment.
- An uprating of the Settlement Funding Assessment, which affects Baseline Funding Level, meaning that we get to retain business rates under the same conditions as at present, with an allowance for inflation.
- That Local Authorities will be able to increase the Band D council tax by 2.0%. It is assumed from this that the £5 maximum will also be available for district councils, but this is yet to confirmed. This 2.0% threshold is lower than the last two financial years (where it was 2.99%).

3.8 The July 2019 version of the 2019/20 – 2023/24 General Fund medium term financial plan has been reviewed in light of the Provisional Local Government Finance Settlement and the consultation paper. The impact is that the plan shows a revised deficit position of £968k over this period compared to £5.7m, with an additional £1.8m anticipated to be retained in New Homes Bonus and retained Business Rates in 2020/21. This report now details the impact of the deferral over the forthcoming five year period from 2020/21 – 2024/25.

Final Budget

3.9 The assumptions around future expenditure included in the MTFP are based on the General Fund Revenue budget and inflated for future years. Details in respect of the budgetary proposals for 2020/21 can be found on the General Fund Budget report on the same agenda as this paper.

3.10 The predicted surplus and contribution to General Fund reserves for 2020/21 is £664k. Assuming the forecast surplus is added to the Self-Sufficiency Reserve, the reserve would increase from an estimated £4.53m at 31 March 2020 to £5.19m at 31 March 2021.

Journey to Self-Sufficiency Programme Savings Targets

- 3.11** As detailed in Section 2 above, the targeted savings of the Journey to Self-Sufficiency (J2SS) Programme have been included in the General Fund revenue budget for 2020/21 and beyond.
- 3.12** However, it should be noted that these savings are targeted and there therefore remains a risk that savings are not delivered in full.
- 3.13** To illustrate this, an additional scenario has been modelled to demonstrate the impact of the savings not being achieved– please see paragraph 3.41 and 3.42 below and Appendix G.

Business Rates

- 3.14** The ongoing Business Rate Retention Reform continues to consider the proposed changes to the Business Rates system. The reform will implement the move from the 50% Business Rate Retention Scheme to that of 75% system in 2020/21 alongside the reset of the business rates baseline. The reform was due to be implemented in April 2020, however, as part of the Spending Review announcement, the Government clarified its intention to introduce in April 2021.
- 3.15** This Business Rates baseline represents the anticipated level of business rates within a locality and is used within the existing 50% retention system to share business rates between local preceptors and the government. Income collected that is above this baseline tends to be as a result of growth in the local area and under the retention system, is shared on a basis that is more favourable to the council.
- 3.16** Currently, the business rates retention systems design working group are considering how to reset this baseline – one option is that the baseline is reset at the 2018/19 level of rates, meaning that we would continue to benefit from any growth in business rates from the 2019/20 year going forward. We have assumed that the baseline would be reset under this methodology in our MTFP.
- 3.17** However, if an alternative approach was taken, where the baseline is reset at the predicted 2021/22 level of rates, this would mean that recent business rates growth would be absorbed into the system and the Council wouldn't benefit directly. This 'alternative method' is currently being considered by the business rates retention systems design working group and an additional scenario has been modelled to show the potential effect of this approach to the resetting of the baseline if no future growth post 2021 were to be retained by the Council – please see paragraph 3.39 and 3.40 below and Appendix G.
- 3.18** Work has been undertaken to assess the likely growth in business rates to the Council in consultation with the Revenues and Benefits and Business Focus teams. Assessing growth is a continuous exercise due to the fluidity of business growth and decline and approval of commercial planning applications. Additional growth in the district has been identified for 2020/21 and as a result, been factored into the MTFP. The increase in retained Business Rates for next year is an increase of £495k compared to the

2019/20 budget. The 2019/20 budget however did include additional rates arising from the participating in the business rates pilot and so the increase in 2020/21 represents a significant amount of growth following the loss of these pilot monies in Leicestershire next year. This significant growth in business rates due to be collected in 2020/21 is largely as a result of the significant developments in and around the North of the District and in particular Kegworth.

- 3.19** The district has a number of key sectors that could be impacted by Brexit through the movement of goods or people: Logistics, Aviation, Hospitality, Manufacturing and Aggregates. Equally the District is also home to a number of foreign owned businesses and European Headquarters for global firms whose future is less certain in light of the EU exit. Through ongoing engagement with businesses via the Council's Economic Development team, there hasn't been any defined thought or movement from businesses to Brexit. Officers have been unable to quantify the risk Brexit may pose to the Council's Business Rate income.
- 3.20** However, to illustrate the impact of a recession-type scenario, including the impact to Business Rates, work has been undertaken to assess the potential impact of an economic downturn to rates retained based on no growth and a further 2% decline in businesses operating as a result of more businesses qualifying for reliefs or businesses folding (alongside the perceived impact to council tax and council expenditure). An additional scenario to demonstrate the impact of this is included in the appendices – please see paragraph 3.39 and 3.40 below and Appendix G.

New Homes Bonus

- 3.21** The MTFP has been updated to take into account that the Council will receive a new round of allocations for growth achieved to October 2019 as well as continued legacy payment for historic growth, as confirmed in the Provisional Local Government Finance Settlement. There will be no legacy payments for growth achieved in 2019 past the 2020/21 financial year.
- 3.22** The Government have confirmed their intention to look at the New Homes Bonus scheme and explore the most effective way to incentivise housing growth in the future. Therefore the Council continues to assume that the scheme will cease and that legacy payments only will be received in 2021/22 and 2022/23.
- 3.23** Other scenarios for New Homes Bonus include the scheme remaining as is or the scheme being abolished from 2021. An assessment of these scenarios can be found in Appendix G.

Council Tax

- 3.24** The Council froze its share of council tax in 2019/20, representing the tenth year of this policy being in place. The cumulative loss of income as a result of this policy from 2010/11 to 2019/20 stands at £8.5m and the cumulative average saving to residents of £286.
- 3.25** The assumption for 2020/21 is that the Council's precept will not rise, taking the cumulative loss of income (based on a 2% increase for 2020/21) to £10.5m and the

cumulative average saving to residents to £344 over the eleven years. The net income foregone by not increasing council tax for 2020/21 from its 2019/20 level is £110k and this is based on the national referendum limit of 2% as it is yet to be confirmed whether the government will allow the council to continue to raise precepts by £5 if it is a higher value than the 2% referendum limit.

- 3.26** In the plan presented to members in July 2019, it was assumed that the council tax freeze policy would remain in place for the foreseeable future and this assumption has not changed.
- 3.27** The impact of assuming a council tax precept freeze to 2024/25 is £1.7m of foregone council tax income based on the 2% national referendum limit.
- 3.28** To provide members with the impact to both residents and the Council over the life of the MTFP, the table below illustrates the impact to residents and the Council of the 2% national referendum limit and the £5 precept increase (pending government confirmation). The table also shows the impact of an illustrative 1% increase over the plan.

Table 3, Impact to Residents and the Council of council tax increases

Increase Basis	Impact to Residents 2020/21 - 2024/25 £	Impact to Council 2020/21 - 2024/25 £'m
Maximum £5 Increase - National referendum limit if higher than a 2% increase (pending Government confirmation)	75.00	2.65
2% Increase - National referendum limit	48.86	1.73
1% Increase - For illustrative purposes	24.11	0.85

- 3.29** Given the likely significant funding challenges, volatility and uncertainty faced by the Council from 2021, it is the recommendation of the Section 151 Officer that all current assumptions around funding should be reviewed in July 2020 by Cabinet as part of the mid-year review of the Medium Term Financial Strategy, when further clarity will be available surrounding future local government funding.
- 3.30** Growth projections in respect of the Council Tax Base for next year have been varied favourably to reflect growth achieved in the current financial year and growth projections from the planning team for 2020 and beyond. The revised projection for future years is 650 homes for 2021/22 and 600 homes per year thereafter.
- 3.31** A scenario to model the impact of an economic downturn to council tax funding has been assessed - please see paragraph 3.39 and 3.40 below and Appendix G.

Transitional Measures

- 3.32** Transitional funding (often referred to as ‘damping’) is likely to occur when a council suffers a loss of total resources above a certain level upon implementation of a new funding regime around business rates and fair funding.
- 3.33** We currently remain unclear as to what level may be used to introduce transitional funding and the Government is yet to consult on this. Based on advice received from our funding advisors Pixel, an assumption of -5% has been used in the Medium Term Financial Plan.
- 3.34** Due to changes in the implementation date for changes to the local government funding system, assumed transitional funding within the refreshed MTFP has been reduced slightly over the 5 year term due to increased assumed business rates income.
- 3.35** It is unlikely that the council will be compensated for any loss below the -5% that occurs as a result of its historic policy to freeze council tax. Transition funding has therefore been incorporated into the MTFP (Appendix C) and the scenario analyses (Appendix G) at the level that could be received if the council’s council tax precept had been increased from 2020 - 2024.

Achieving Carbon Neutrality

- 3.36** As part of General Fund Budget for 2020/21, a £1m climate change reserve has been set-aside to assist the organisation in managing the implementation of early climate change measures on the General Fund. This reserve has now been reduced to £885k due to a revenue contribution to capital to fund the installation of 24 off street electric charging points.
- 3.37** The impact of the council commitment to achieve carbon neutrality from its own operations by 2030 has at this stage not been fully costed and incorporated into medium term financial plans.
- 3.38** Work continues to progress in this area, with the development of a Zero Carbon Roadmap which is due to be shared with members in a workshop in early December before being presented to Cabinet in March 2020 for adoption.

Assessment of Assumptions and Sensitivity Analysis

- 3.39** As detailed throughout the report, where it is appropriate to do so, additional analysis has been undertaken to test how sensitive the MTFP is to changes in assumptions and therefore circumstances concerning future funding and economic conditions.
- 3.40** Included in Appendix G is a summary table of 5 scenarios and the impact to MTFP projections set out against the Base version of the plan.

Medium Term Financial Plan – Revised Projections

- 3.41 The projected deficit arising between 2020/21 and 2024/25 has now been assessed to be £968k over the five year period and can be found in the table below.
- 3.42 It is important to note that this position assumes the Council will meet savings targets of £5.1m over this period. Should these savings not be achieved the deficit projected over the term of the MTFP would increase. Please see Appendix G for details of the projected deficit of £6.1m that would arise if the targeted savings were not met.

Table 4, Medium Term Financial Plan Projections as at February 2020

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
Surplus/(Deficit)	94	-828	-1,815	-1,928	-1,591	-6,068
Journey to Self-Sufficiency Savings	570	895	1,120	1,245	1,270	5,100
Surplus/(Deficit)	664	67	-695	-683	-321	-968

- 3.43 As detailed above, the anticipated balance of the Self- Sufficiency reserve as at March 2021 is £5.19m and it is intended that this reserve is to cover the investment cost for initiatives that will earn the council a revenue return to achieve the projections laid out in Table 1. However, the reserve can also be utilised to balance deficit years where necessary.
- 3.44 The revised medium term financial plan can be found in Appendix C.

4.0 REVIEW OF HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL PLAN

2019/20 Forecast Outturn

- 4.1 The forecast outturn position for the Housing Revenue Account for 2019/20 is a surplus of £1.8m, £358k higher than the approved budgeted surplus of £1.4m. The main causes of this surplus are:
- Reduced expenditure on a painting programme of £100k.
 - Savings of £90k on utility costs, such as council tax, gas and electricity.
 - Lower than anticipated responsive repair costs, saving £50k.
 - Net staff cost savings of £114k.

2020/21 Budget

- 4.2 The budget for 2020/21 is estimated to produce an operating surplus of £2.8m after making a contribution to the capital programme of £0.9m. We will transfer this operating surplus to the debt repayment reserve, and draw on it if required for future projects such.

HRA Medium Term Financial Plan - July 2019 Projections

- 4.3 The projected financial position, presented in July 2019, showed that the HRA was able to fully fund its capital programme and meet loan commitments falling due over the five year period from 2019/20 to 2023/24, with surpluses of £14.3m over 5 years.

Table 5, HRA Medium Term Finance Plan – July 2019 Projections

HRA	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	TOTAL £'000
Total Income	17,649	18,026	18,414	18,775	19,194	92,058
Total Expenditure	-11,308	-11,547	-11,761	-11,982	-12,212	-58,810
Contribution to the Capital Programme (RCCO)	-1,700	-1,069	-104	-413	0	-3,286
Financing Expenditure	-3,223	-3,264	-3,246	-2,987	-2,953	-15,673
Surplus	1,418	2,146	3,303	3,393	4,029	14,289

- 4.4 The July 2019 update suggested that, over the life of the MTFP, a shortfall of £26.4m was anticipated from 2041/42, as a result of a need to finance a large capital programme. This had fallen from the position forecast a year ago as a result of changes to assumptions, and demonstrates the high degree of uncertainty in forecasting a 30 year period.

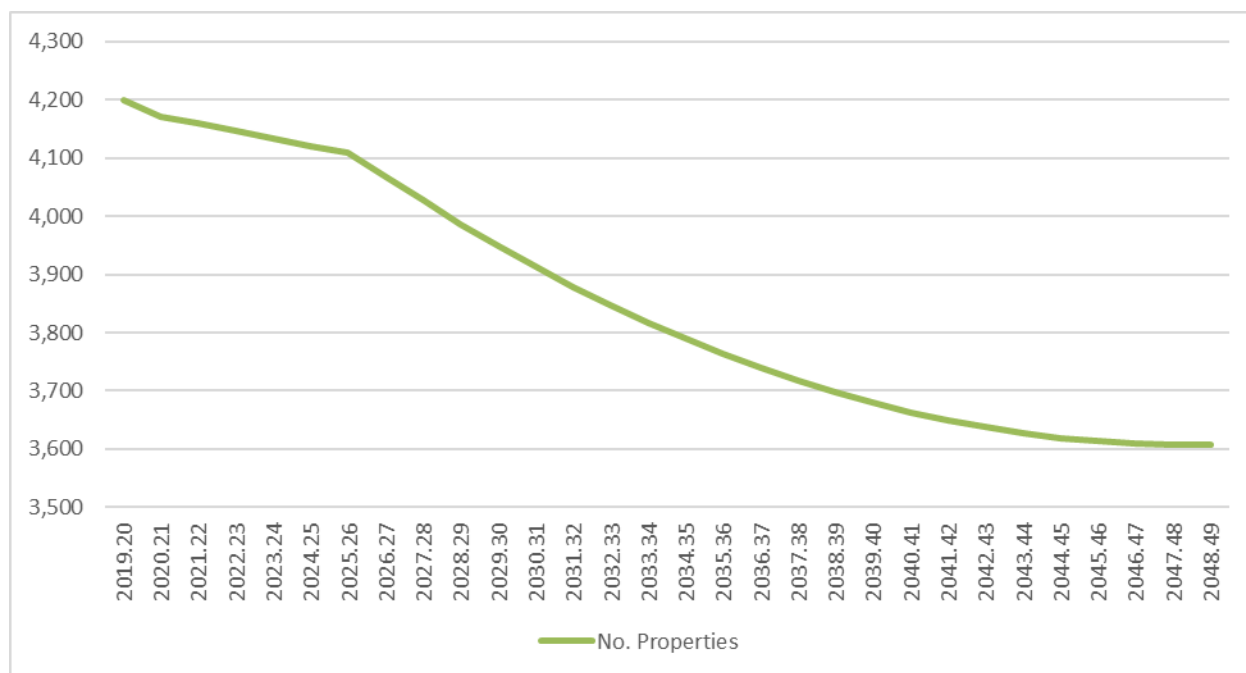
Review of Assumptions

- 4.5 Since July 2019 we have taken further opportunity to review the assumptions underlying the model to ensure our forecasting remains consistent with best practice. Full details of the changes are included in Appendix F, but the key changes are:

4.5.1 Adjustment of costs to reflect changes in property numbers.

As a result of our existing right to buy sale assumptions (which have not changed) we expect our property numbers to fall by 14.0% over the 30 year period, as shown in Figure 1.

Figure 1: 30 Year Estimate of Housing Property Numbers with a 5 year new supply programme



To reflect this, we have introduced a new assumption that our management, repairs and non-new build capital programmes will fall over the 30 years programme to reflect the falling numbers. We have assumed that a 1% reduction in property numbers leads to a 0.25% reduction in management and stock improvement costs, to reflect that falling property numbers does not necessarily lead to a proportionate fall in costs.

This assumption change only applied to years 6-30 of the model, and reduces our costs over the 30 year period by £37.5m in addition to the changes noted below.

4.5.2 Reducing our income inflation assumption. In the last update we had assumed that the income from years 1-5 will increase by 1% more than inflation, as measured by the consumer price index, following the latest guidance from central government. From years 6 to 30 we had assumed that we would increase rents by 0.5% above inflation. To be more prudent we have now revised down the years 6 to 30 increases to just inflation, at a cost to the business plan of £37.2m.

4.6 We have also made a number of changes to our expectations over the 30 year period:

4.6.1 Introduction of a 5 year New Supply Programme. For the first time we have developed a 5 year new supply programme within our capital programme, for the purpose of building and acquiring new properties. We have budgeted the five year programme to cost £24.5m, up from an original planned expenditure of £1.6m. This is expected to produce an additional 168 houses over the 5 year period. The sustainability of the

New Supply Programme is dependent on external funding, so does not currently include a provision for New Supply after 2024/25.

Members of the Corporate Scrutiny Committee suggested that we should forecast the New Supply programme for the 30 years at their meeting on 8 January 2020. Figure 2 (below) shows that if we continued with our estimates of buying or building 30 new properties per year until halfway through 2045-46, we would return stock to their current levels. This would require borrowing of £40.6m to repay our maturity loans when they fall due in 2038 and 2042.

We will be reviewing the wider Housing Revenue Account Business Plan in 2020/21 and this will consider our aspirations for the HRA and our Medium Term Finance Plans will focus more on the upcoming 5 year window rather than the 30 year period.

Figure 2: 30 Year Estimate of Housing Property Numbers aiming to retain current stock numbers



4.6.2 Reducing the size of the long-term capital programme. The model has assumptions around the size of the Housing Capital Programme each year for 30 years. The July 2019 model had assumed that the non-new supply elements of the capital programme would be £251.6m from years 6 to 30, an average of £10.1m per year. This is now considered to be an overassessment of need, and revised figures have brought that down to £196.2m from years 6 to 30, or an average of £7.8m per year – saving the HRA business plan £55.4m.

4.6.3 Updates to 2019/20 forecast expenditure. We have updated our

forecast expenditure for 2019/20, which has improved our financial position by £3.1m. This is due to £2.7m forecast underspend on the capital programme (excluding slippages) and additional surpluses of £0.4m on the revenue account.

4.6.4 Changes within the 2020/21 budget. The 2020/21 budget, before funding the capital programme, is £0.5m better than in July 2019, which is largely due to increases in the In-House Repairs Team's expected surplus now they are also completing the Home Improvement Programme for the Council, plus new savings targets as part of the Journey to Self Sufficiency programme. As budgets in years 3-30 are based on the 2020/21 budget this improves the 30 year budget position by £20.5m.

Achieving Carbon Neutrality

4.7 We have not yet included any cost assumptions for making the council carbon neutral by 2030, as we believe it to be premature to do so whilst we are still developing our roadmap to zero carbon. We will, however, look to introduce an assumption for this for our next update.

HRA Medium Term Financial Plan – Revised Projections

4.8 The net result of these changes is an improvement to the HRA 30 plan of £56.4m. This favourable change means we now anticipate being able to repay the self-financing loans taken out in 2012 in full when they fall due, subject to members wishing to utilise these surpluses for service improvements (including new supply as illustrated in figure 1 above). Members will however, retain the flexibility to re- finance these loans should they wish to do so.

4.9 The changes made to the model illustrate the high degree of uncertainty in forecasting a 30 year period, as our model is highly sensitive to small changes in assumptions, such as changes in our expected capital expenditure and measures of inflation. We will continue to monitor the 30 year financials but most of our focus will remain on the medium term period of the next five years, which are shown in the table below and a detailed breakdown is provided in Appendix F. These figures have been updated to reflect the latest HRA and capital programme budgets, which are detailed in other reports on this agenda, and have reduced the 5 year surpluses by £56k.

Table 6, HRA Medium Term Finance Plan – February 2020 Projections

HRA	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
Total Income	18,238	18,766	19,346	19,953	20,474	96,777
Total Expenditure	-11,469	-11,643	-11,847	-12,050	-12,311	-59,320
Contribution to the Capital Programme (RCCO)	-934	-4,108	-5,133	-4,961	-4,720	-19,856
Financing Expenditure	-3,272	-3,256	-3,031	-3,032	-3,029	-15,620
Surplus	2,563	-241	-666	-90	414	1,980

Journey to Self-Sufficiency Programme Savings	225	325	575	625	900	2,650
Surplus	2,788	84	-91	535	1,314	4,630

4.10 The HRA continues to generate healthy surpluses over the five year period, totalling £4.6m. However, this is lower than in previous forecast, as a result of higher contributions being made to the capital programme as a result of the New Supply programme being budgeted over 5 years and the resulting need for revenue contribution to capital to fund it. These forecasts also exclude any work for reducing our carbon footprint, which will need to be funded from these surpluses or external grants.

4.11 As noted in section 2, the HRA is now included in the Journey to Self Sufficiency Programme. Whilst the HRA is already self-sufficient, the ethos of this programme applies equally to the HRA to ensure that we continually seek to improve the value for money we offer to our tenants. This is particularly important now we are adjusting our longer term predictions to reflect the reduction in property numbers (as outlined in paragraph 4.5.1), as we need to ensure our budgets reflect our reducing property numbers. The J2SS line in the table above sets out the HRA's saving or income targets for the five years that have not yet been identified and allocated to a budget.

Use of surpluses

4.12 Through last year's budget process, Council agreed to allow us to use the HRA's surpluses more flexibly. Due to the ring-fenced nature of the account there are limited ways we can use surpluses, which are summarised as follows:

- **Repayment of debt.** We can repay the debt we took out in 2012 when we adopted a self-financing model.
- **Investing in capital projects.** We can use surpluses to fund capital projects, such as the building or purchasing of new homes and improvements to our existing homes and estates.
- **Improving our day to day service.** We can either invest in the service we offer or reduce the rents we charge.

4.13 In practice, we do all of these each year through our normal budgets. However, the more favourable 30 year financial outlook creates an opportunity to review what we hope to achieve using the HRA's resources. We will explore this further in the coming year with an informal workshop with Cabinet.

4.14 In the meantime, we propose paying additional surpluses into the debt repayment reserve. As this funding will be set aside for a number of years, we propose using the additional flexibility granted to dip into the reserve to provide funding for future projects, if required.

Policies and other considerations, as appropriate	
Council Priorities:	The medium term financial plans seeks to understand the amount of resources the Council will have to deliver its priorities in the future.
Policy Considerations:	Not applicable.
Safeguarding:	Not applicable.
Equalities/Diversity:	Not applicable.
Customer Impact:	Not applicable.
Economic and Social Impact:	Not applicable.
Environment and Climate Change:	The full impact of the climate emergency, declared by Council in May 2019, is not yet known. The plans therefore do not reflect the potential effort required to make the Council carbon neutral by 2030.
Consultation/Community Engagement:	Corporate Scrutiny Committee – 8 January 2020
Risks:	There are a number of risks associated with the medium term financial plan as clearly future events cannot be accurately predicted and as a result the economic outlook can change quickly. In addition, a great deal of uncertainty remains in the local government sector around core funding. A risk and sensitivity analysis is included within this report.
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GENERAL FUND MEDIUM TERM FINANCIAL PLAN – JULY 2019

	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget	Budget	Budget	Budget	Budget
	£000	£000	£000	£000	£000
Base Budget Indicative Base Budget (based on services assessment) Assumed Base Budget (5% increase year on year)	14,772				
Total Budget before Savings/Surplus	14,772	13,683	14,757	15,045	15,358
Transfer to reserves (Savings Required)/Surplus to Self-Sufficiency Reserve	325	365	(1,258)	(2,103)	(2,985)
Total Final Expenditure Budget	15,096	14,048	13,499	12,942	12,374
Funding					
Revenue Support Grant	0	0	0	0	0
Business Rates	6,598	4,056	4,811	5,569	6,332
New Homes Bonus	3,068	2,418	1,887	891	0
Council Tax	5,341	5,430	5,519	5,608	5,697
Council Tax Surplus	90	32	0	0	0
Other Grants	0	0	0	0	0
Damping	0	2,112	1,281	873	345
Total Funding	15,096	14,048	13,499	12,942	12,374

GENERAL FUND REVENUE PROJECTIONS KEY ASSUMPTIONS

		Assumptions of Medium Term Financial Plan – January 2019	Revised Assumptions and additional information of the Medium Term Financial Plan – June 2019	Assumptions of Medium Term Financial Plan – February 2020
Base Budget	1	As per 2019/20 draft budget.	As per 2019/20 final budget.	As per the 2020/21 draft budget
Indicative Base Budget	2.	Stabilisation of planning fees from 2018/19 at £1.2 million per annum	No change	Planning fees reduced to £1.1m for 2020/21 and then increased in line with inflation.
	3.	Stable car parking charges and income	No change	Car Parking charges remain stable, income has reduced. Car Parking is subject to a service review.
	4.	Local Council Tax Reduction / Support Scheme grant to town and parish councils reducing by £25k (approximately 25%) each year over four years, and maintain Special Expenses at their current levels	No change	No change. From 2021/22 the support grant to parishes will be nil.
	5.	Pay award in line with Local Government Pay Offer, with 3% built in for 2019/20 and 2% each year thereafter, pending a detailed redesign of the council's existing pay structure	No change, redesign of the council's pay structure has been implemented	Pay award in line with inflation estimates.
	6.	Pensions and national insurance costs inflated at anticipated levels to 2024.	No change. Additional pension contributions due to be confirmed later in the year. The 1% annual increase included in the base budget have been tested and has been confirmed as reasonable.	No change, expanded to 2025.
	7.	Adjustment to align with the governments forecasts for CPI as announced as part of the Spring	No change, as confirmed via the Spring Statement	No change

		Assumptions of Medium Term Financial Plan – January 2019	Revised Assumptions and additional information of the Medium Term Financial Plan – June 2019	Assumptions of Medium Term Financial Plan – February 2020
		Statement: 2019/20 – 1.8% 2020/21 – 2022/23 – 2%		
	8.	Return on investments at previously achieved performance level of 0.7%, with no additional targets included for commercial activity such as a Local Housing Company or investment into property funds	No change. Anticipate change in line with 2020/21 budget and resultant investment income.	No change
	9.	Apprenticeship levy of 0.5%	No change	No change
	10	That the council saves £100k in corporate overheads in 2019/20 and £200k from 2020/21 and saves £25k in year 1 based on the net position of the new leisure outsourcing arrangement. Additional interest and minimum revenue provision (repayment of internal debt) is also factored in from 2020/21.	No change. The 2019/20 base budget has been aligned with the management fees payable to and from the contractor. Management fee payable: <ul style="list-style-type: none"> • 2019/20: £529k • 2020/21: £280k • 2021/22: £208k Management fee receivable: <ul style="list-style-type: none"> • 2022/23: -£59k • 2023/34: -£321k 	No change
Revenue Support Grant	11.	RSG is phased out in 2018/19. Although it should be noted that until the outcome of the Fair Funding review is known, negative RSG is absorbed into the council's business rate baseline funding level, reducing the council's funding position by: <ul style="list-style-type: none"> • 2019/20: nil • 2020/21: -£210k • 2021/22: -£270k • 2022/23: -£320k 	No change, subject to the outcome of the Fair Funding review.	Elimination of the RSG for 2020/21.

		Assumptions of Medium Term Financial Plan – January 2019	Revised Assumptions and additional information of the Medium Term Financial Plan – June 2019	Assumptions of Medium Term Financial Plan – February 2020
Business Rates	12.	Partial Business Rates Baseline reset in 2020/21 at the 2018/19 level of business rates collected with transition payments assumed so that the council's net funding doesn't reduce below 5%.	Full Business Rates Baseline reset in 2020/21 at the 2018/19 level of business rates collected with transition payments assumed so that the council's net funding doesn't reduce below 5%. Subject to the outcome of the 75% Business Rates Retention system reform and the Fair Funding review.	Full Business Rates Baseline reset in 2020/21 at the 2019/20 level of business rates collected with transition payments assumed so that the council's net funding doesn't reduce below 5%. Subject to the outcome of the 75% Business Rates Retention system reform and the Fair Funding review.
	13	75% Business Rate Retention system implemented in 2020/21	No change. Business Rates are aligned with the 75% retention business rates pilot	No change
	14	Tariff on business rates income in line with Government announcement in respect of 2018/19. 2019/20 and beyond assumed at anticipated level before the announcement in respect of 2018/19. These projections will be updated once firmer detail is understood.	No Change	No change
New Homes Bonus	15	That New Homes Bonus funding is removed from 2020/21 but that legacy payments continue and reduce to NIL by 2023/24.	No change, pending outcome of Fair Funding Review.	No change, pending outcome of Fair Funding Review
Council Tax	16	Council tax assumed at 0% precept increase	No change, on the basis of the Conservative Party Manifesto commitment.	No change
	17	Estimates of council tax base increase of 1.8% every year (broadly 600 homes each year) which impacts on council tax base and NHB. Note that the average increase since 2014 has been in the region of 700 new homes per year.	Council tax base increases are 562 properties per year.	Council tax base increases are 650 for 2020/21 and 600 properties per year.

		Assumptions of Medium Term Financial Plan – January 2019	Revised Assumptions and additional information of the Medium Term Financial Plan – June 2019	Assumptions of Medium Term Financial Plan – February 2020
		<p>NB – A report was presented to Cabinet in December which amended the current discounts offered on second homes and empty homes.</p> <p>This will marginally increase the council tax base and therefore the income collected. These assumptions have now been built into the calculations.</p>		
Council Tax Surplus	18	£90k surplus for 2019/20, assumed at £32k 2020/21 and to NIL from 2021/22.	No change.	Assumed at £66k for 2020/21 in line with the budget
Other	19	Self Sufficiency Reserve of £2.76 million.	Self Sufficiency now stands at £4.2 million.	Self Sufficiency now stands at £4.2 million.
	20	That we will maintain a minimum General Fund working balance will be maintained at the higher of £1.5 million or 10% of net expenditure to 2023	No change	No change
	21	The General Fund Capital Programme is fully funded.	No change. Resultant increases in finance costs reflected in base budget	No change
	22	Transitory measures based on assumption that the council will not suffer a loss of total resources of more than 5% in any one year.	No change	No change
	23	Minimum Revenue Provision policy revised in line with Statutory Guidance – impact to 2019/20 negligible, but increase in MRP for future years.	<p>No change.</p> <p>Anticipated increase in financing costs in future years, not only reflects the MRP policy change but also costs related to the council's need to borrow in 2022 as identified in the Treasury</p>	No change

		Assumptions of Medium Term Financial Plan – January 2019	Revised Assumptions and additional information of the Medium Term Financial Plan – June 2019	Assumptions of Medium Term Financial Plan – February 2020
			Management Strategy presented to Cabinet in February 19	
Transition Funding	24	Assumed to be received when core funding reduces by more than 5% of total funding. Calculated on basis that council tax precept has been increased.	Assumed to be received when core funding reduces by more than 5% of total funding. Calculated on basis that council tax precept has been increased.	No change

GENERAL FUND MEDIUM TERM FINANCIAL PLAN – REVISED PROJECTIONS

	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
	£000	£000	£000	£000	£000
Base Budget					
Indicative Base Budget (based on services assessment)	14,864	15,510	15,760	15,891	16,476
Assumed Base Budget (5% increase year on year)					
Transfer to Climate Change Reserve	885				
Journey to Self-Sufficiency Programme Target Savings	(570)	(895)	(1,120)	(1,245)	(1,270)
Total Budget before Savings/Surplus	15,179	14,615	14,640	14,646	15,206
Transfer to reserves: (Savings Required)/Surplus to Self-Sufficiency Reserve	664	67	(695)	(683)	(321)
Total Final Expenditure Budget	15,843	14,682	13,945	13,963	14,885
Funding					
Revenue Support Grant					
Business Rates	6,882	4,613	5,397	8,186	9,012
New Homes Bonus	3,411	1,887	891	0	0
Council Tax	5,484	5,588	5,683	5,778	5,873
Council Tax Surplus	66	0	0	0	0
Other grants					
Damping		2,593	1,974	0	0
Total Funding	15,843	14,682	13,945	13,963	14,885

* Subject to rounding

HRA BUSINESS PLAN MODEL PROJECTIONS – JUNE
2019

Year	1	2	3	4	5
Financial Year	2019.20	2020.21	2021.22	2022.23	2023.24
HRA 30 YEAR SUMMARY					
Dwelling rents	17,009,750	17,384,057	17,759,063	18,107,675	18,513,203
Non-dwelling rents	65,920	67,238	68,583	69,955	71,354
Service charge income	553,070	553,931	565,010	576,310	587,836
Other income and contributions	20,120	20,522	20,933	21,352	21,779
Total income	17,648,860	18,025,749	18,413,589	18,775,292	19,194,172
Repairs & maintenance	5,372,410	5,506,720	5,644,388	5,785,498	5,930,135
Management (incl RRT)	2,693,780	2,761,125	2,830,153	2,900,906	2,973,429
Bad debts	100,000	103,287	105,602	107,688	110,109
Depreciation	3,139,190	3,172,954	3,178,525	3,185,399	3,195,080
Debt management	2,750	2,750	2,750	2,750	2,750
Total costs	11,308,130	11,546,836	11,761,418	11,982,241	12,211,503
Net income from services	6,340,730	6,478,913	6,652,171	6,793,051	6,982,668
Interest payable	-2,253,980	-2,226,562	-2,197,892	-1,861,824	-1,834,544
Interest income	108,550	116,171	131,982	81,377	115,311
Net income/expenditure before appropriations	4,195,300	4,368,522	4,586,261	5,012,604	5,263,435
Set aside for debt repayment	-1,128,190	-1,153,676	-14,179,746	-1,206,414	-1,233,694
Revenue contributions to capital	-1,700,000	-1,069,341	-104,240	-412,778	0
Allocation to/from other reserves	0	0	13,000,000	0	0
Other appropriations	50,730	0	0	0	0
Net HRA Surplus/Deficit	1,417,840	2,145,505	3,302,275	3,393,412	4,029,742

HOUSING REVENUE ACCOUNT PROJECTIONS
KEY ASSUMPTIONS

	MTFS 2019 – 2024 Original Assumptions (February 2019)	MTFS 2019 – 2024 Revised Assumptions (June 2019)	MTFS 2020 – 2025 Assumptions (February 2020)
Income (Rents)	<ol style="list-style-type: none"> 1. As per Government rent policy of CPI + 1% for five years and then CPI + 0.5% for the remaining 25 years. CPI assumed at 2%. 2. Rent loss performance on empty homes sustained at 0.8% for the life of the plan 3. Right to Buy sales projected to be 36 in 2019/20, 34 in 2020/21 and falling to 30 per annum thereafter. 4. 37 new homes added to the housing stock during 2019/20 at affordable rent levels and 20 in 20/21 	<ol style="list-style-type: none"> 1. No change 2. No change 3. Right to Buy sales increased to 40 in 2019/20, 42 in 2020/21 to 2023/24, 41 for the 4 years to 2027/28 in which is move to 40 in 2028/29 and decreases by two per year until it reaches 0. 4. 26 new affordable properties added to stock levels in 2019/20 with 20 properties added in 2021/22. 	<ol style="list-style-type: none"> 1. As per Government rent policy of CPI + 1% for five years and then just CPI for the remaining 5 years. CPI assumed at 2%. 2. No change 3. No change 4. 32 new homes added to the housing stock during 2020/21 with a target to start work on 30 properties per year thereafter for the 5 years of the programme.
Base budget	<ol style="list-style-type: none"> 5. Inflationary increase of 3.5% per annum. 	<ol style="list-style-type: none"> 5. . Inflation increased revised down to 2.5% to bring to closer to Bank of England target rates. 	<ol style="list-style-type: none"> 5. No change

	MTFS 2019 – 2024 Original Assumptions (February 2019)	MTFS 2019 – 2024 Revised Assumptions (June 2019)	MTFS 2020 – 2025 Assumptions (February 2020)
Other	<p>6. Surplus balances on the HRA to be transferred to the loan redemption reserve to repay the first £13 million of maturity loans.</p> <p>7. HRA Capital Programme is full funded</p> <p>8. The 30 year capital programme cost projects for the HRA was £186 million.</p>	<p>6. We now have £13 million so surpluses will be retained in working balances unless needed for other reasons.</p> <p>7. No change as the Capital Programme remains fully funded. There is a £1.7 million revenue to capital contribution budgeted in 2019/20 and our model predicts that further contributions may be needed to fund non-new build works in the future.</p> <p>8. This figure has increased to £188.0 million in today's prices. It rises to £287.1 million when inflation is added.</p>	<p>6. Due to increased surpluses, £2.0 million proposed to be transferred to the debt repayment reserve for the loans falling due in 2037, with surpluses above that being retained in balances pending strategic review.</p> <p>7. Revenue Contribution to Capital Outlay of £1.0 million in 2020/21 to continue to fund the Capital Programme.</p> <p>8. The 30 year capital programme cost projections for the HRA have been revised down to £229.0 million when inflation and additional New Build properties have been considered.</p> <p>9. New assumption: From year 6's onwards, we are revise down our management, repairs and capital costs to reflect the reducing number of properties we own, but a rate of 0.25% for every 1% fall in property numbers.</p>

HRA BUSINESS PLAN MODEL PROJECTIONS – REVISED
February 2020

Year Financial Year	1 2020.21	2 2021.22	3 2022.23	4 2023.24	5 2024.25
HRA 30 YEAR SUMMARY					
Dwelling rents	17,306,320	17,816,268	18,376,948	18,964,337	19,466,251
Non-dwelling rents	65,920	67,238	68,583	69,955	71,354
Service charge income	556,770	567,905	579,264	590,849	602,666
Other income and contributions	308,660	314,833	321,130	327,552	334,104
Total income	18,237,670	18,766,245	19,345,924	19,952,693	20,474,374
Repairs & maintenance Management (incl RRT)	5,534,960	5,590,180	5,702,025	5,809,614	5,919,743
Bad debts	2,691,730	2,767,791	2,848,635	2,929,409	3,012,344
Depreciation	100,000	103,931	108,520	113,087	117,233
Debt management	3,139,190	3,178,525	3,185,399	3,195,080	3,258,982
Total costs	11,468,630	11,643,177	11,847,330	12,049,939	12,311,052
Net income from services	6,769,040	7,123,068	7,498,595	7,902,754	8,163,323
Interest payable	-2,228,494	-2,197,892	-1,861,824	-1,834,544	-1,806,639
Interest income	109,900	121,722	36,882	36,314	39,649
Net income/ expenditure before appropriations	4,650,446	5,046,897	5,673,652	6,104,523	6,396,333
Set aside for debt repayment	-1,153,676	-14,179,746	-1,206,414	-1,233,694	-1,261,599
Revenue contributions to capital	-934,000	-4,108,237	-5,133,312	-4,960,594	-4,720,296
Allocation to/from other reserves	0	13,000,000	0	0	0
Other appropriations	225,000	325,000	575,000	625,000	900,000
Net HRA Surplus/Deficit	2,787,770	83,914	-91,074	535,236	1,314,438
HRA Balance brought forward	3,047,638	5,835,408	5,919,322	5,828,248	6,363,484
HRA surplus/deficit	2,787,770	83,914	-91,074	535,236	1,314,438
HRA Balance carried forward	5,835,408	5,919,322	5,828,248	6,363,484	7,677,922

GENERAL FUND MEDIUM TERM FINANCIAL PLAN 2020 – 2025
SCENARIO ANALYSIS

The table below is intended to illustrate an isolated change in a number of different assumptions to give readers an indication of the breadth of financial outcomes.

Isolated changes are highlighted in *red italic*.

Table G1 – Summary of Scenario Analysis

	Most Likely Position	Savings targets not achieved	Alternative Model - Business Rates Baseline Reset	Economic Downturn	New Homes Bonus Scheme Continues	New Homes Bonus Scheme Abolished
	Base MTFP £'000	Scenario 1 £'000	Scenario 2 £'000	Scenario 3 £'000	Scenario 4 £'000	Scenario 5 £'000
What the Scenario is modelling?	Most likely assumptions, given known information at February 2020 and impact of Journey to Self-Sufficiency savings being met in full.	The impact of Journey to Self-Sufficiency savings targets not being met.	The potential impact of the 'Alternative Model' methodology for resetting the business rates baseline in 2021 - the effect of which would be that the Council no longer benefit from new business rate growth.	The potential impact to business rates, council tax and expenditure of economic downturn commencing in 2020/21.	The impact of the New Homes Bonus scheme continuing in the future on the same basis as it currently operates.	The impact of the New Homes Bonus scheme being abolished from 2021.
NHB	0.4% Baseline; Legacy payments from 2020	as per Base	as per Base	as per Base	<i>NHB scheme continues as is</i>	<i>NHB scheme abolished in 2021</i>

	Most Likely Position	Savings targets not achieved	Alternative Model - Business Rates Baseline Reset	Economic Downturn	New Homes Bonus Scheme Continues	New Homes Bonus Scheme Abolished
	Base MTFP £'000	Scenario 1 £'000	Scenario 2 £'000	Scenario 3 £'000	Scenario 4 £'000	Scenario 5 £'000
Business Rates	Full reset in 2020 based on 19/20 rates level	as per Base	<i>Alternative Model methodology for resetting of baseline - no growth post 2021</i>	<i>No growth over life of MTFP and a 2% reduction as a result of businesses folding</i>	as per Base	as per Base
Council Tax	0% precept to 2024, growth 650 homes 21/22, 600 p.a. thereafter	as per Base	as per Base	<i>2% reduction in council tax receipts as more people become eligible for reprieve</i>	as per Base	as per Base
Journey to Self-Sufficiency Savings	Savings achieved as per targets (total of £4.85m over period and equating to £1.22m per year by 2025)	Nil savings achieved over period of MTFP	as per Base	as per Base	as per Base	as per Base
Transition	Transitional funding in place when total resources falls below -5% (assessed as if Council Tax had increased historically year on year)					
Expenditure	As per budgetary forecasts	<i>J2SS Savings not achieved</i>	as per Base	<i>1% increase in expenditure to reflect increased demand on services and reduced planning fee income</i>	as per Base	as per Base
Surplus / - Deficit Position £'000	-£968	-£6,068	-£10,315	-£12,427	£40,855	-£1,445

Table G2 - In Year Surplus/ (Deficit)

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Surplus/(Deficit)	664	67	-695	-683	-321	-968
Scenario 1	94	-828	-1,815	-1,928	-1,591	-6,068
Scenario 2	572	50	-853	-4,837	-5,247	-10,315
Scenario 3	-902	-1,477	-2,358	-3,222	-4,467	-12,427
Scenario 4	572	2,778	7,005	13,361	17,140	40,855
Scenario 5	572	70	-1,048	-700	-339	-1,445