NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CORPORATE SCRUTINY COMMITTEE – WEDNESDAY, 2 SEPTEMBER 2020

Title of Report	**MEDIUM TERM FINANCIAL PLAN**	
Presented by	Tracy Bingham Head of Finance and Section 151 Officer	
Background Papers	Medium Term Financial Strategy – Council 26 February 2019 2020 – 2025 Medium Term Financial Plans – Cabinet 4 February 2020 (presented to Council 25 February 2020)	**Public Report:** Yes
Financial Implications	The changes to assumptions that drive the Medium Term Financial Plans have resulted in changes to the forecast position to 2024/25 and are detailed in this report. On the General Fund the revised projected deficit arising between 2020/21 and 2024/25 could increase from £1m to £5.2m over the five year period. The Journey to Self-Sufficiency reserve stands at £6.3m which provides a healthy balance to be able to fund initiatives to reduce our ongoing spending, increase income and where necessary balance the budget. The HRA revised position could see the surplus reduce from £4.6m to £1.6m over the five year period. The Section 151 Officer considers the Council to be in a stable financial position over the forthcoming five year period as a result of historical surpluses achieved and retained in the General Fund Self-Sufficiency reserve and the HRA balances.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	There are no direct legal implications.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	There are no staffing and corporate implications. However, it is likely that the Council will need to consider organisational changes required to mitigate the financial impact of the COVID-19 pandemic and other funding changes to ensure that critical services continue to be unaffected.	

	Signed off by the Head of Paid Service: Yes
Purpose of Report	To present Members with the impact of modified assumptions within the Council's Medium Term Financial Plans, provide an update in respect of the Journey to Self Sufficiency Programme and set the context for preparing the Council's 5 year budget plans from 2021/22.
Reason agenda item submitted to Scrutiny Committee	To engage the Scrutiny Committee on revised Medium Term Financial Plans so that these may be considered by Cabinet.
Recommendations	**THAT THE CORPORATE SCRUTINY COMMITTEE PROVIDE ANY COMMENTS IT MAY HAVE ON THE COUNCILS REVISED MEDIUM TERM FINANCIAL PLANS TO CABINET**

1.0 BACKGROUND

1.1 The Council's Medium Term Financial Plans (MTFPs) flow from the 2018 Medium Term Financial Strategy (MTFS), 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.

1.2 At the February 2020 Council meeting, members were presented with a report that outlined the current financial forecasts within the Council's two 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.

1.3 This report forms part of the biannual monitoring cycle established as part of the MTFS. The MTFPs are refreshed in the summer to provide the Council and Cabinet with information on the financial position of the Council prior to the development of the 2021/22 budget over the autumn and winter

1.4 Assumptions on both the General Fund and HRA forecasts have been reviewed in light of the 2019/20 financial outturn, the Government's Spring 2020 Budget and other known information concerning the predictions around future funding, income and expenditure. Of most significance throughout this review, is the review of assumptions in light of the COVID-19 pandemic.

1.5 The plans that will be presented to Cabinet on 29 September 2020 will include a revised forecast position in respect of Quarter 1 monitoring and a revised estimate of the financial impact of COVID-19 and as a result will likely show a different position to the plans presented here. This is because routine quarterly monitoring for the period April to June (Quarter 1) has had to be postponed until late August so that the finance team can close the 2019/20 year and produce the annual accounts in line with revised statutory deadlines.

Continuing to assess the impact of COVID-19 on finances

1.6 In July, a Finance Recovery Cell was established to support the financial recovery of the Council and assess and respond to the impact of the pandemic. This cross-Council team has assisted Finance officers in reviewing the assumptions that drive the financial plans and shaping the key messages to be taken away from the new forecasts. This team has also assisted in developing the intended principles for setting the forthcoming 5 year 2021/22 – 2025/26 Revenue and Capital budgets, as the organisation prepares to undertake this task from September.

1.7 The plans presented within this report currently only include the impact of the pandemic to the Council's finances as was projected in May and reported to Scrutiny and Cabinet in June and July, adjusted for known, confirmed variations. This is because routine quarterly monitoring for the period April to June (Quarter 1) has had to be postponed as referenced in paragraph 1.5 above.

1.8 The early assessment of the Council wide financial impact of the pandemic was assessed earlier in the year to be in the region of £2.129m gross and £1.043m net of emergency funding received at that time. Since then, further funding announcements have been made and a further £152k in emergency funding received. However, full detail on the "Income Scheme"; where income losses are funded to the value of 75p in the £1 above 5% by central government, are yet to be shared and so it is not yet fully understood as to what extent the Council's income losses will be covered. As such, estimates presented within this plan do not include assumptions around the amount of compensation for lost income. Details of how much the Council can expect through the income scheme will be reported to Cabinet in September, if the government guidance is available in time.

1.9 As part of Quarter 1 budget monitoring, Team Managers, having responsibility for service areas budgets, have been tasked with reviewing the forecast spending and income for their areas for the year. Three principles have been developed to focus managers and finance in their reviews and ensure the organisation is able to forecast a realistic outturn position for the 2020/21 financial year. These are:

- Additional-ity – recognising the Council's strong financial position, but not relying on this to meet the funding gap and instead, seeking to identify savings where possible that will contribute to clawing back the funding gap.
- Renewal – reviewing budgets in light of the new environment and understanding what is no longer relevant or what new measures are required and making changes to in year forecasts as a result.
- Reality – being realistic about the ability to deliver new service initiatives or actions originally planned, and making changes to in year forecasts as a result.

This approach commenced with the Section 151 Officers review of earmarked reserves requests from service areas. The outcome of this review was that £0.9m was reallocated to the Self-Sufficiency reserve.

1.10 Early assessment of the allocation of the emergency funding received to date between the General Fund and HRA will be undertaken by the Section 151 Officer during Quarter 1 monitoring. Currently all emergency funding is apportioned to the General Fund.

Summary of Revised MTFPs

1.11 There are a range of possible outcomes in respect of the Council's future funding and overall financial position. To aid members understanding of these outcomes, specific scenarios are detailed and illustrated where relevant and as more is understood with regards to future funding and other variables, further updates will be presented to members. Overall, the Section 151 Officer considers the Council to be in a stable financial position over the forthcoming five year period as a result of historical surpluses achieved and retained in the General Fund Self-Sufficiency reserve and the HRA balances.

1.12 On the General Fund, future retained Business Rates is at risk due to the impending national funding changes, although very little detail is understood around the government's plans at this moment in time. The risk around the future of New Homes Bonus funding also remains. The effect of the pandemic is still emerging, but the review has taken into account the effect so far and projections into the future. The revised projected deficit arising between 2020/21 and 2024/25 could increase from £1m to £5.2m over the five year period as a result of changes to business rates and council tax funding along with projected increase in expenditure for the 2020/21 year. The Journey to Self-Sufficiency reserve stands at £6.3m which provides a healthy balance to be able to fund initiatives to reduce our ongoing spending, increase income and where necessary balance the budget.

1.13 On the HRA, expected income from rents has been fallen as a result of lower general inflation but our costs are expected to rise. This has worsened the five year outlook, and whilst the current plan predicts a surplus over 5 years, this surplus could reduce and significant strategic decisions will need to be made as we look to incorporate work to respond to climate change in our longer term plans.

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.

2.2 The ethos of the programme is to enhance the cost-effectiveness, and therefore financial resilience of the Council in spite of, rather than because of, a negative financial outlook (where one exists). The approach builds on the Council's 'One Team, One Council' value to make the most of resources and reinvestment opportunities and being the best it can possibly be.

2.3 As part of developing the 2020/21 and ongoing budget, thematic savings targets for both the General Fund and HRA were established and built into budgets and Medium Term Financial Plans. The savings were designed on the basis that the self-sufficiency reserve would be used to fund initiatives that would reduce spending and increase income as well as the reserve also being used to balance deficit years where necessary At that time, the project scope for each of the work streams remained under development and a further update around the specifics of each theme was anticipated in this report. However, as a result of the pandemic and the focussing of the Council's efforts on the emergency and recovery response, this work has been delayed.

2.4 Of the savings budgeted, the forecast for the 2020/21 year has reduced to £56k against a £570k budget for the General Fund and to nil against a £225k budget for the HRA.

2.5 The Corporate Leadership Team is now reviewing the programme to reflect the current operating environment and ensuring that future saving targets are able to be met. Members can expect a full update as part of the draft budget later in this year. The planning assumptions associated with the journey to self-sufficiency programme will need to be reviewed in light of COVID 19, for example the opportunities afforded through a commercial agenda and the impact of transformational change and the way we work. We also need to consider the impact on our asset portfolio requirements going forward.

3.0 GENERAL FUND MEDIUM TERM FINANCIAL PLAN

2019/20 Outturn

3.1 The budgeted contribution to the self-sufficiency reserve for 2019/20 was £161k. The surplus achieved for last year was £1.2 million and this amount was transferred to the self-sufficiency reserve.

3.2 The additional surplus was achieved through a number of favourable variances, the majority of which had been forecast throughout the year. We spent £408,000 less on salaries than expected due vacant posts and the effects of a senior management and a number of service restructures undertaken just prior to and during the year that were not built into our budgets. We also benefited from reviewing our Corporate Support Services and delivered £153k of savings to meet our commitment to reduce corporate costs and reflect lower usage as leisure centres were outsourced earlier in the year. Other major variances in 2019/20 include an increase in costs and reduction in income for property services and an underspend in rent allowances and rent rebates as a result of less benefits paid than budgeted for.

3.3 The £1.2m surplus was transferred to the self-sufficiency reserve. A further £0.9m of earmarked reserves were also reallocated to the reserve following review by the S151 Officer which identified that these reserves could be released and budgeted for in the future if required, The total balance of the reserve therefore increased from £4.2m to £6.3 million at March 2020.

2020/21 Forecast Outturn

3.4 The current forecast position on the General Fund for 2020/21, following period 1 budget monitoring, is a deficit for the year of £730k, compared to a budgeted surplus of £630k. There have been adverse variances of £1.3m, of which £800k relates to increased spending and income losses arising as a result of the impact of the pandemic and as reported to Scrutiny and Cabinet in June and July 2020. Members should refer to the those reports for the full details but in summary, the main causes for the increase in deficit were:

- A reduction in the journey to self-sufficiency saving targets from £570k to £56k to reflect the Council's focus on responding to and recovering from the pandemic in the current year which has adversely affected work on the savings programme.

- Reduction in income across various areas, including £255k in relation to Grounds Maintenance, £139k trade refuse and £117k pay and display income from car parks.
- Increased spending pressures including £292k in relation to waste staffing costs to enable the service to continue throughout the pandemic and £95k to cover 20% of staffing costs for Everyone Active furloughed staff.
- An indication of the likely level of Collection Fund deficit arising on Business Rates and Council Tax that will impact in 2021/22.

Medium Term Financial Plan - Projections as at February 2020

3.5 The projected deficit arising between 2020/21 – 2024/25 as last reported to members in February 2020 was £1m as follows:

Table 1, 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**

Review of Assumptions

3.6 The review of the MTFP has incorporated the impact of the pandemic on the Council's finances both in terms of current year but also for future years. Given the significant weighting of future local government funding changes, assumptions around the future of Business Rates and New Homes Bonus have also been reassessed. Key changes and other areas of importance are outlined below:

3.6.1 **Confirmed changes for 2020/21, identified since Period 1 monitoring.** In addition to the forecast outturn changes as detailed in 3.4 above, further known changes have been incorporated into the MTFP, pending the completion of Quarter 1 budget monitoring. These include the forecast outturn position at Q1 for Business Rates which shows a marginal adverse variance of £70k, £152k additional Emergency Funding confirmed by central government in July 2020, £146k spending to support the Council's leisure operator Everyone Active from July to September 2020 and £97.5k additional spending on Newmarket as a result of contractor failure. Clearly, there will be many more changes identified when the Council undertakes its Quarter 1 monitoring and as detailed above, these will be updated in the MTFP and reported to Cabinet in September.

3.6.2 **Business Rates - Resetting of the baseline to remove accumulated growth in the system.**

3.6.3 The reform of the existing 50% Business Rates Retention System was due to be implemented on an already deferred schedule in April 2021 alongside Fair Funding. However, the government confirmed that the changes will no longer be implemented in 2021/22. The message alongside this announcement was that the government will continue to work with Councils on the best approach for next year including how to treat growth accumulated in the system from 2021/22. A consultation was announced on in July 2020, however it does not discuss the treatment of accumulated growth.

3.6.4 To address accumulated growth, it is likely that the Business Rates will be rebased meaning that a significant amount of income will be lost as NWL benefits from Business Rates in excess of the current baseline.

3.6.5 We have changed the assumption in the MTFP so that the baseline is reset in 2022/23, based on the level of level of rates achieved in 2020/21. The previous assumption was that rates were reset in 2021/22 at the 2018/19 level of rates. This change has the effect of reducing the amount of rates forecast to be collected over the 5 year MTFP by almost £6m, because the level of rates collected in 2020/21 is significantly higher than the level in 2018/19 meaning there is "further to fall". The other effect of a later reset and later level of rates reference year is that there is less time in the MTFP to accumulate more growth.

3.6.6 Through scenario analysis, we could see rates decline further, if the accumulated growth is addressed in 2021/22 (see Figure 1 below). It should be noted, that if changes result in an adverse movement, Transitionary Funding will likely increase to smooth the effect of any funding reductions (see 3.6.15 below).

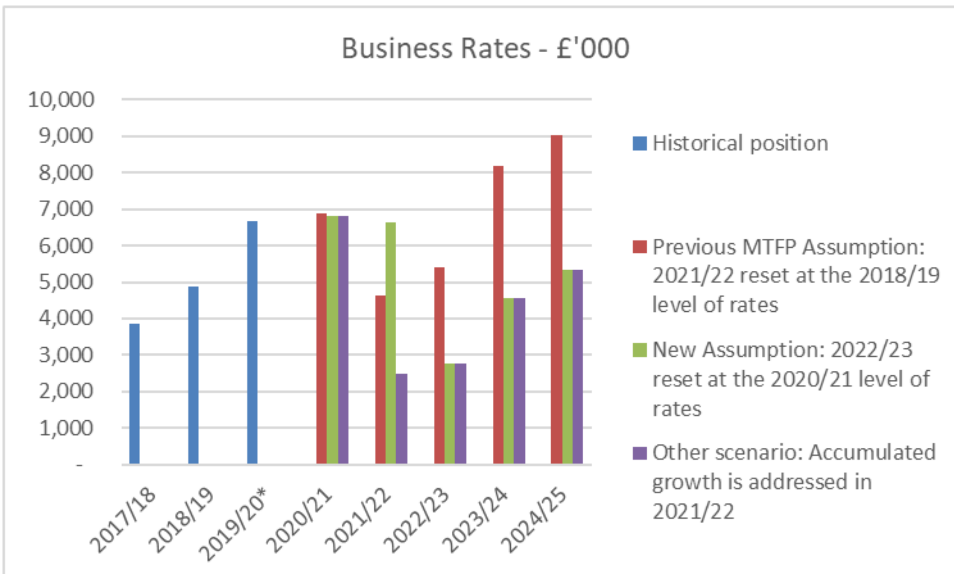
3.6.7 **Business Rates: The impact of the pandemic and future growth.** Business Rates, along with Council Tax, are accounted for in the 'Collection Fund'. This approach means that the Council and other precepting bodies receive their share of Council Tax or Business Rates in line with the original budgeted projections, with any over/under collection taken forward into the next year as a surplus/deficit through the Collection Fund. The forecast variance for Business Rates in 2020/21 is £70k adverse compared to the original £6.8m budget because of some minor changes that hit the General Fun in year (rather than the Collection Fund next year). The forecast deficit for the year will be estimated in November and incorporated into the 2021/22 budget. Despite an anticipated deficit on the Collection Fund, it is assumed that anticipated growth for 2020/21 will be met.

3.6.8 Assessing growth is a continuous exercise due to the fluidity of business growth and decline and approval of commercial planning applications. The district has a number of key sectors that could be impacted by the UK transition period through the movement of goods or people: Logistics, Aviation, Hospitality, Manufacturing and Aggregates. Through ongoing engagement with businesses via the Council's Economic Development team, there hasn't been any defined thought or movement from businesses as a result of Brexit.

3.6.9 To reflect the likely increase in bad debts and resultant deficit on the Collection Fund that will need to be accounted for in 2021/22 and the uncertainty around economic downturn and growth, the assumption for 2021/22 is that rates decline by 3%, before achieving 4% in 2022/23 and 8% in 2023/24 to reflect a significantly large assessment in the south of the district that received planning permission in 2019. Further work will be undertaken to assess the likely growth in Business Rates to the Council in consultation with the Revenues and Benefits and Business Focus teams ahead of setting the 2021/22 budget.

3.6.10 Figure 1 below illustrates the historical position in respect of Business Rates, the previous and revised assumptions around future rates and the scenario to demonstrate the effect of accumulated growth being addressed next year.

Figure 1, Business Rates – Historical Position and Scenarios



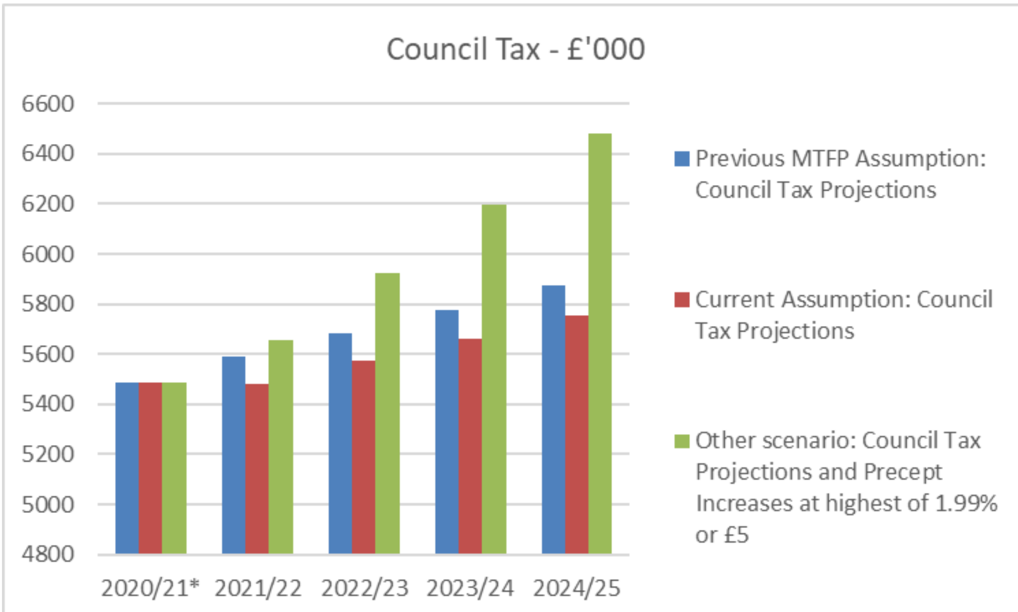
*The Council received circa £600k more in Business Rates in 2019/20 as a result of taking part in the Leicestershire 75% Business Rates Retention Pilot.

3.6.11 **Council Tax Collection Fund Deficit.** Similar to Business Rates, the effect of an adverse variance against the budgeted position for Council Tax will flow through the Collection Fund. The Quarter 1 assessment of Council Tax shows that we have an increase in arrears, an increase in Local Council Tax Support and a decline in new homes being delivered compared to the budgeted position for growth. The current forecast deficit on the Council's share of the Collection fund for this year is £130k.

3.6.12 **Council Tax Growth.** Future years housing delivery has also been reviewed against a revised planning trajectory, although this remains very uncertain at this moment in time the revised position for homes added to the Council Tax base over the remainder of the 5 year plan is 540 homes for 2021/22 and 570 homes per year thereafter (compared to 650 and 600 as per the last MTFP). The effect of this slowed growth is £450k less than anticipated in additional Council Tax.

3.6.13 There is no change to the assumption regarding the Council's policy of freezing Council Tax. Figure 2 below illustrates the £1.8m of foregone income as a result of the policy from 2021/22 to 2024/25 as a result of this policy. The policy will save residents an average of £32.19 in Council Tax over the period.

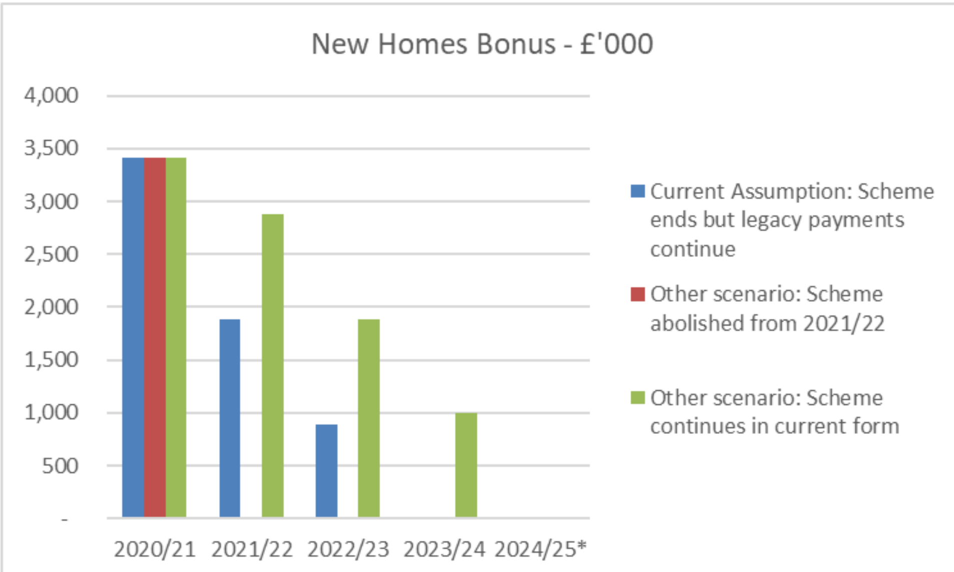
Figure 2, Council Tax – Effect of Assumption Changes on Future Years and Scenario on Council Tax Increases



*Despite revised forecasts for Council Tax Collection in 2020/21, these will not hit the Council's accounts until 2021/22 through the Collection Fund.

3.6.14 **New Homes Bonus.** 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, although there has been no further update since the budget was developed. 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. Figure 3 below illustrates the level of funding that would be received if the scheme were to continue as it is or if it were to be abolished entirely from 2021/22.

Figure 3, New Homes Bonus Scenarios



*No funding is assumed in 2024/25 under any scenario.

3.6.15 **Spending forecasts.** In the General Fund budget, expenditure is made up of spending net of locally generated income such as trade refuse, planning fees, grounds maintenance and legal income amongst others. As detailed above, 2020/21 forecast expenditure is currently aligned with the period 1 forecasts, adjusted for confirmed changes (3.6.1), and once Quarter 1 forecasts have been produced for the year these will be adjusted for in the MTFP. Projections surrounding future spending have not been adjusted for in the MTFP, but given the scale of potential funding changes, future plans will need to be reviewed. The Journey to Self Sufficiency programme will lead this process. In particular whilst general inflation is current very low, future assumptions regarding inflation will need to be reviewed. Additionally, any service-specific matters that could affect the medium term position of spend or income will need to be considered (an example of this is the planning reforms and proposed changes to housing need).

3.6.16 **Transitionary Funding.** Transitionary funding is likely to occur when a Council suffers a loss of funding above a certain level as a result of the implementation of a new funding regime. The concept of the funding is to smooth the effect of funding changes and minimise any cliff-edges. We currently remain unclear as to what basis Transitionary Funding might be calculated when Fair Funding and Business Rates Reform (or the baseline reset if at a different time) are implemented. We included an assumption of compensation where funding reductions are in excess of -5% in our last MTFP based on advice from our funding advisors Pixel, and we adjusted the workings to take account of 'notional' Council Tax as it is unlikely that the Council will be compensated for any loss below -5% that occurs as a result of its historic policy to freeze Council Tax.

3.6.17 This assumption has not changed, but it is important for members to note that the total amount of Transitionary Funding in the MTFP has increased as part of the review because forecast funding in other areas has reduced. It is also worth noting that if other funding scenarios were presented (as illustrated in the charts above), the level of transitionary funding could go up or down.

Medium Term Financial Plan – Revised Projections

3.7 It is clear that there are a range of possible outcomes in respect of the Council's future funding and overall financial position. Based on the review of assumptions as set out above, the projected deficit arising between 2020/21 and 2024/25 could be £5.2m over the five year period and can be found in the table below. As Section 151 Officer, the Head of Finance is confident in providing assurance to members that the Council is able to deliver a balanced budget on an ongoing basis. As more is understood with regards to future funding, further updates will be presented to members.

3.8 It is important to note that this position assumes the Council will meet revised savings targets of £4.6m over this period. Should these savings not be achieved the deficit projected over the term of the MTFP would increase.

Table 2, Medium Term Financial Plan Projections as at August 2020

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**TOTAL £'000**
Surplus/(Deficit)	-746	-1,643	-2,593	-2,044	-2,745	-9,772
Journey to Self-Sufficiency Savings	56	895	1,120	1,245	1,270	4,586
Surplus/(Deficit)	**-690**	**-748**	**-1473**	**-799**	**-1475**	**-5,186**

3.9 The balance of the Self- Sufficiency reserve as at March 2020 is £6.3m. This reserve will be used to fund a combination of funding initiatives that will reduce the Council's ongoing revenue spending and increase income and funding any deficit years that materialise.

4.0 REVIEW OF HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL PLAN

2019/20 Outturn

4.1 The Housing Revenue Account has budgeted for a surplus of £1.4m in 2019/20, but achieved a surplus of £2.4m. The most significant variances included a lower depreciation charge of £455k, net savings on employee costs of £154k and an operating surplus from our in-house repairs team of £826k.

4.2 With balances at the end of the year totalling £16.7m the HRA is in a position to repay the two loans totalling £13.0m that fall due in March 2022 and have £3.7m remaining. Of the remaining balance, £1.0m is kept as a working balance for the HRA, and the rest is available to respond to opportunities, such as acquiring new homes, improving existing ones or to continuing to repaying debt.

2020/21 Forecast Outturn

4.3 The forecast outturn position for the Housing Revenue Account for 2020/21 is currently a surplus of £2.3m, £467k lower than we had budgeted for. The main causes for the fall in are:

- A reduction in the journey to self-sufficiency saving targets from £225k to zero. This reflects the Council's focus on responding to and covering from the pandemic in the current year, which has adversely affected work on the savings programme.
- Expected income falling by £233k, as a result of more properties being sold through right to buy and the expectation that we will need to write-off more debt as a result of the pandemic.

These figures were based on an early assessment of the impact of COVID-19 on the Council's finances, completed in May. As noted in paragraph 1.5, the report to Cabinet that follows this scrutiny report will be based on the latest financial position.

HRA Medium Term Financial Plan – February 2020 Projections

4.4 The projected financial position, presented to Council in February 2020, 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 £1.98 over 5 years that were increase to £4.6m due to £2.65m of Journey to Self Sufficiency savings being included in the plan.

Table 3, 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**

Review of Assumptions

4.5 Since February 2020 the global pandemic has caused some of the underlying assumptions within our Medium Term Financial Plan to move significantly. The key changes are:

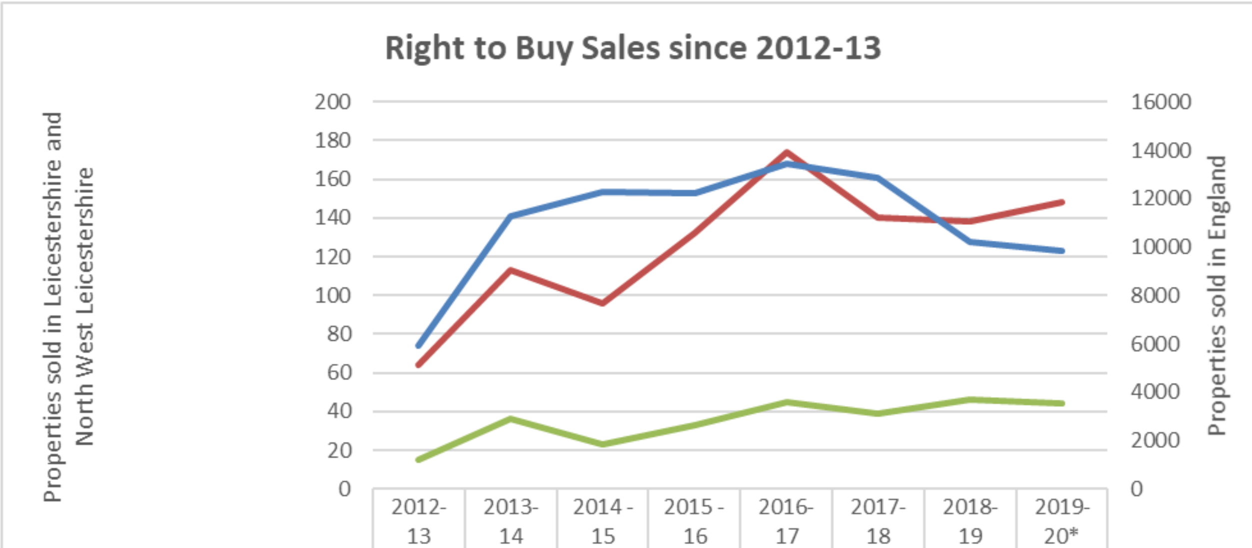
4.5.1 **Significant fall in the expected inflation.** In February 2020 our expectation for inflation, as measured by the Consumer Price Index (CPI) was that it would be near to the Bank of England's target of 2.0%. At that time inflation was at 1.7%, but it has now fallen significantly, with the Office for National Statistics estimating inflation for the year to June 2020 to be 0.8%. Economists expect this to continue to fall towards 0% in the coming months, and it is then expected to take up to two years to inflation to return towards the 2.0% target level.

4.5.2 This fall has a significant adverse impact on our expected income. Government's current rent policy is to allow social housing rents to increase by CPI + 1% for the next four years, with the CPI figure being taken at September of the year before the rise. Economist's current expectation is that CPI will be around 0.25% in September, so our expectation is that we will be able to increase rents by 1.25%. This will result in £314k less income in 2020/21 than originally anticipated and £1.3m less income over the 5 year period.

4.5.3 In 2016 the Government made a sudden change to its social housing rent policy by announcing a 1% reduction in social housing rents per year for four years. Whilst there is currently no evidence that a similar change is being considered, we must be aware of the risk that changing Government policy can have on the HRA's finances. We estimate that if a same 1% reduction were to happen again our income would fall by another £384k in 2021/22 and £5.8m over the 5 year period.

4.5.4 **Changes to our right to buy assumptions.** In 2019/20 we sold 44 properties to tenants through the right to buy scheme – 4 more than we had expected. Figure 4 shows that right to buy sales in North West Leicestershire have grown steadily since the scheme was reinvigorated in 2012, with average sales per year reaching 44 per year over the last 4 years. This trend is broadly in line with the trend in Leicestershire, but sales have started to fall nationally – largely driven by falls in London where it is less affordable to purchase property.

Figure 4, Number of properties sold through Right to Buy in England, Leicestershire and North West Leicestershire since 2012-13.



	2012-13	2013-14	2014 - 15	2015 - 16	2016-17	2017-18	2018-19	2019-20*
Leicestershire	64	113	96	132	174	140	138	148
North West Leceistershire	15	36	23	33	45	39	46	44
England	5944	11261	12304	12246	13427	12876	10225	9817

Source: Ministry of Housing, Communities & Local Government
***** Please note that data for quarter 4 of 2019-20 has not yet been published. We have included the full year figure for North West Leicestershire, but extrapolated the figures for Leicestershire and England are based on data from quarter 1 to 3.

4.5.5 In our February 2020 update we had expected right to buy sales to start to fall to around 42 per year. We have now increased that to 44 properties per year for the five year period, in line with the current trend. This has the effect of reducing income by £12k in 2021/22 and £110k over the five year period.

4.5.6 The effect of additional right to buy sales on the surplus, however, is positive. This is because we retain a proportion of the sale proceeds as a capital receipt, which is used to fund the capital programme and reduces the need for HRA to make revenue contributions to the capital programme.

4.5.7 **Increasing costs.** Whilst general inflation is current very low, we expect to see our costs increase by more than inflation. This is as a result of a general increase in material prices through the pandemic period, along with changes to working practices both increasing costs and reducing productivity. There is also a risk that the end of the transition period following the UK's exit from the European Union could also cause prices to rise.

4.5.8 It is difficult to estimate the extent to which cost may change. We have assumed that costs will increase by an additional 1% over previous plans to CPI + 1.5% for the next two years, based on advice from housing experts. This increases our expected costs by £82k in 2021/22, and £595k over the 5 year period.

4.5.9 **Updates to 2019/20 forecast expenditure.** The higher than budgeted surplus, as set out in paragraphs 4.1 and 4.2, means there is a larger HRA balance carried forward into this year.

HRA Medium Term Financial Plan – Revised Projections

4.6 The result of the above changes is the five year Medium Term Financial Plan could result in a lower surplus of £1.6m over the five year period, with the anticipated surplus in the current financial year being used to finance deficits in future years, as shown in table 6 below.

Table 4, 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	17,819	18,202	18,903	19,483	19,976	94,382
Total Expenditure	-11,239	-11,765	-12,029	-12,233	-12,430	-59,695
Contribution to the Capital Programme (RCCO)	-934	-4,296	-5,083	-4,907	-4,501	-19,721
Financing Expenditure	-3,339	-3,327	-3,055	-3,057	-3,057	-15,835
Surplus/(Deficit)	2,308	-1,187	-1,264	-714	-13	-869
J2SS Adjustments	0	325	575	625	900	2,425
Surplus	**2,308**	**-862**	**-689**	**-89**	**887**	**1,556**

4.7 Borrowing is not required over the five year period of this medium term financial strategy. However, the compound effect of lower expected rents, higher costs and a large capital programme mean that the 30 year business plan currently forecasts a need for £59.0m of borrowing over its lifetime.

Achieving Carbon Neutrality

4.8 Our housing stock is considered to be the Council's greatest source of greenhouse gas emissions, so work to reduce them will form a key part of the our roadmap to zero carbon. Work completed by our consultant last year recommended the retrofit of heat pumps, installation of solar panels and improvements to the energy efficiency of homes to reduce carbon emissions. We are continuing to review the implications of this both financially and for our wider asset management strategy. This means we do not yet have a reliable estimate of costs to build into our Medium Term Financial Plan.

4.9 The cost of bringing over 4,000 properties up to low carbon standards is likely to be vast. Some other social housing providers estimating the costs could be between £20k - £45k per property. If we were to include an assessment of £20k per property within our Medium Term Financial Plan, the cost would be over £8m per year for the next 10 years.

4.10 The 5 year medium term financial position shows that there is not currently the capacity to fund this work through revenue contributions alone. Officers are currently exploring available grant funding opportunities, but even with external funding is likely that the Council will need to reprioritise its longer term capital programme and use borrowing to provide the financial capacity needed to meet our ambitious carbon reduction plans. These matters will be considered in detail the review of the Housing Strategy, Housing Asset Management Strategy and Housing Revenue Account Business Plan currently planned for 2021/22.

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 fully costed and mainstreamed into financial plans. The plans therefore do not reflect the full potential effort required to make the Council carbon neutral by 2030.
Consultation/Community Engagement:	Not applicable
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 and the full extent of the impact of the COVID-19 pandemic. A risk and sensitivity analysis is included within this report where relevant.
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