

Title of Report	REVIEW OF MEDIUM TERM FINANCIAL PLAN	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder	
Background Papers	<a href="#">Review of Medium Term Financial Plan</a> – Cabinet, 29 September 2020	Public Report: Yes
	<a href="#">Medium Term Financial Strategy</a> – Cabinet, 6 February 2018	Key Decision: Yes
Financial Implications	<p>The changes to assumptions that drive the Medium Term Financial Plans have resulted in changes to the forecast position over the forthcoming five year period to 2025/26 and are detailed in this report.</p> <p>On the General Fund the revised projected deficit arising between 2021/22 and 2025/26 remains stable compared to the previous five year plan, moving marginally from £5.3m to £5.2m. The Journey to Self-Sufficiency reserve is forecast to stand at £6.3m by March 2021, and will provide a healthy balance to be able to fund initiatives to reduce our ongoing spending, increase income and where necessary balance the budget.</p> <p>The HRA revised position could see the surplus reduce from £1.1m over the five-year period to a deficit of £1.9m. This is caused by the HRA funding the capital programme, and can be funded from HRA reserves.</p> <p>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.</p>	
	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.	

	<b>Signed off by the Head of Paid Service: Yes</b>
<b>Purpose of Report</b>	To present Members with the revised Medium Term Financial Plans which are aligned to the proposed final General Fund and Housing Revenue Account budgets for 2021/22 and beyond and provide an update in respect of the Journey to Self Sufficiency Programme.
<b>Reason for Decision</b>	For members to have an understanding of the council's medium term financial outlook.
<b>Recommendations</b>	<b>THAT CABINET NOTE THE COUNCILS REVISED MEDIUM TERM FINANCIAL PLANS</b>

## 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** Cabinet were last presented with the plans at its meeting on 18 September 2020, which were then aligned with current circumstances and predictions around funding, income and expenditure from 2021.
- 1.3** This report now presents revised plans following the development of budgets and is aligned with the final General Fund and Housing Revenue Account (HRA) revenue budgets and capital programmes for 2021/22 – 2025/26.

## 2.0 Summary of Revised MTFPs

- 2.1** 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.
- 2.2** On the General Fund, future retained Business Rates continues to be at risk due to the impending national funding changes. The risk around the future of New Homes Bonus funding also remains and the government have confirmed they will consult on reform of the scheme in the near future. The effect of the pandemic is still emerging, but the review has taken into account the effect through its impact on 2020/21 forecast outturn and the assumed position for 2021/22 as well as projections beyond. The revised projected deficit remains stable, moving marginally from £5.3m to £5.2m over the forthcoming 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.
- 2.3** On the HRA, the five year outlook has moved from a forecast surplus of £1.1m to a deficit of £1.9m due to funding changes on the capital programme. The deficit can be funded entirely from reserves.

### 3.0 Journey to Self-Sufficiency Programme

- 3.1 The Journey to Self-Sufficiency Programme has continued to deliver outcomes linked to the Council becoming self-sufficient, particularly around the continued development of the Council's commercial mind set and business-like approach to decision making.
- 3.2 However, it is now clear that the landscape in which the Journey to Self-Sufficiency Programme was formed has now changed. National trends around commercial estate management, property investment and noting recent changes to lending criteria from the Public Works and Loans Board restricting borrowing for yield earning purposes, mean that a greater emphasis is now required upon internal transformation, efficiency and the delivery of value for money services.
- 3.3 Equally the pandemic has focused Council resources away from the programme, onto supporting the national response. This has resulted in the rolling forward and re-profiling of the programme to subsequent financial years. The programme remains balanced over the general fund and HRA, with the savings requirement profile rebased as per below.

**Table 1, Journey to Self-Sufficiency Programme Savings Delivery Profile**

	2021/22	2022/23	2023/24	2024/25	2025/26	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund</b>	570	895	1,120	1,245	1,270	<b>5,100</b>
<b>HRA</b>	225	325	575	625	900	<b>2,650</b>
<b>Total</b>	<b>795</b>	<b>1,220</b>	<b>1,695</b>	<b>1,870</b>	<b>2,170</b>	<b>7,750</b>

- 3.4 The programme will be relaunched internally, in early 2021, with a view to the first savings being realised in the subsequent financial year. This will be sponsored by the Corporate Leadership team, with respective Head of Service, owning their respective profile.
- 3.5 Despite the pandemic impacts, the baseline objective of savings is £7.75m over the next 5 financial years. The programme will be supported by the mobilisation of programme resources and will draw in external voices to provide challenge, opportunity and insight. The work will be funded from the self-sufficiency reserve, formed in 2018 and is projected to be 6.3m by March 2021.
- 3.6 Expenditure associated with the project (utilising £100k reserve established in September 2020) and the progress of resultant programme savings will be delivered through the quarterly performance reports to Scrutiny and Cabinet.

## 4.0 GENERAL FUND MEDIUM TERM FINANCIAL PLAN

### Medium Term Financial Plan - Projections as at February 2020

- 4.1 The projected deficit as last reported to members in September 2020 was £5.3m, arising between 2020/21 – 2024/25, as per the table below.

**Table 2, Medium Term Financial Plan Projections as at September 2020**

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
Surplus/(Deficit)	-1,034	-1,641	-2,590	-2,038	-2,598	-9,772
Journey to Self-Sufficiency Savings	56	895	1,120	1,245	1,270	4,586
<b>Surplus/(Deficit)</b>	<b>-978</b>	<b>-746</b>	<b>-1,470</b>	<b>-793</b>	<b>-1,328</b>	<b>-5,315</b>

### Review of assumptions and changes made

- 4.2 The review of the plan has first focussed on the rebasing of the plan so that the 5-year projections are aligned with the of proposed budget for 2021/22 and beyond, including the funding for next year confirmed as part of the provisional Local Government Finance Settlement (LGFS). The assumptions surrounding the impact of the pandemic on the Council's finances for future years initially included in the plan last September have also been refined. Key changes and areas of importance are outlined below:

**4.2.1 Alignment with budget plans for 2021/22 and beyond.** The plan has been rebased, with the final proposed budget being presented to Cabinet and Council on 2 and 23 February 2021 now representing the first year of the plan. This position includes a number of areas of additional funding announced as part of the provisional LGFS and detailed within the budget report, including: a new 'Lower Tier Service Grant'; additional COVID-19 emergency funding; an extension of the COVID-19 sales, fees and charges income compensation scheme into the first quarter of 2021; and compensation for 75% of council tax and business rates losses in 2020/21. Compared to the position presented to members in September, the final proposed budget is considerably more favourable and more detail is covered within the budget report.

**4.2.2** Projections surrounding future spending continue to rely on generic inflationary increases in line with the indicative budget for 2022/23 – 2025/26. Given the scale of potential funding changes, future plans will need to be reviewed and the Journey to Self Sufficiency programme will lead this process.

**4.2.3 Rebasing of the J2SS Programme and related savings.** As part of the final

General Fund revenue budget, the original 5 year delivery profile of savings under the Journey to Self Sufficiency Programme have been “rebased”, meaning the original savings profile of £5.1m planned from 2020/21 – 2024/25 has now been re-profiled based on the same values but from 2021/22 – 2025/26 instead.

**4.2.4 Business Rates - Resetting of the baseline to remove accumulated growth in the system.** The level of rates retained by the Council has increased dramatically in recent years as a result of the high business growth achieved in the District. This has naturally increased the Council's reliance on this revenue stream, putting us at greater risk should this funding fall.

**4.2.5** The current business rates retention system is designed to have periodic resets to address accumulated growth. The reset is now considerably overdue, meaning NWL continues to benefit significantly from growth achieved in recent years that is in excess of the current baseline. As such, the resetting of the baseline and potential reference point for this rebasing represents a significant risk.

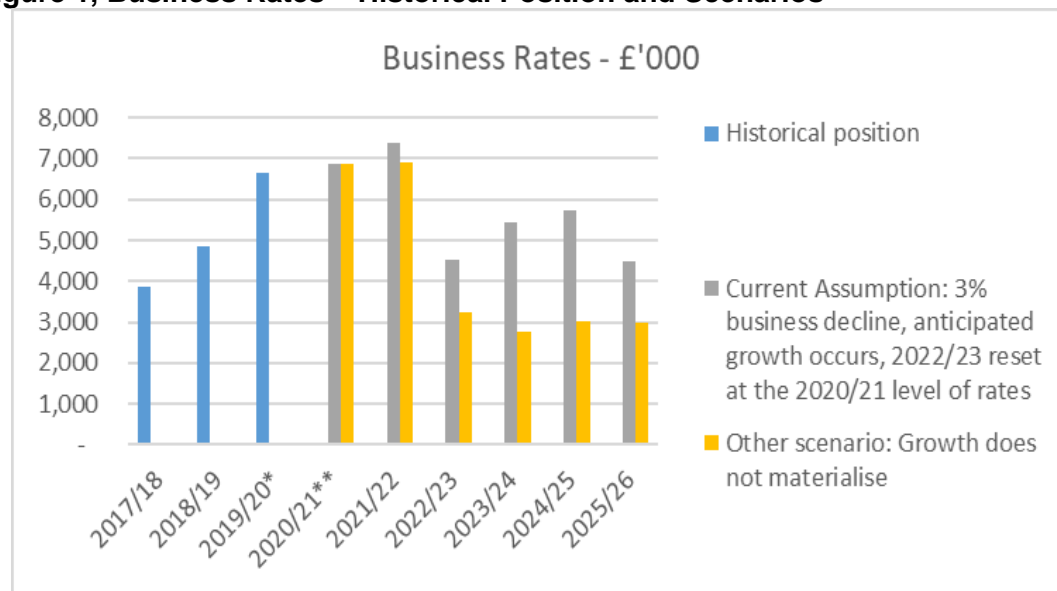
**4.2.6** The assumption in the MTFP is that the baseline is reset in 2022/23, based on the level of level of rates achieved in 2020/21, however this date remains unconfirmed by government currently. When delivering his provisional LGFS statement to the Housing of Commons, the Secretary of State set out that work with the sector would commence on the broader reforms for local government finance (which include fair funding and the business rates reset), once a clearer path was understood. This indicates that there remains a chance that rates still may not be reset in April 2022.

**4.2.7** The first subsequent reset to occur after the assumed 2022 reset is assumed for 2025/26 and then every 5 years thereafter. However there remains a great deal of uncertainty when making assumptions about future resets given the current state of understanding around the outstanding reset.

**4.2.8 Business Rates: The impact of the pandemic and future growth.** The assumption included in last version of the plan around economic downturn and business decline has not been changed and the opening position for rates in 2021/22 is based on an overall increase in rates of 1.7%, determined by reviewing business growth due to come online in the year coupled with a 3% decline in existing businesses. Growth of 5% is forecast in 2022/23 and 8% in 2023/24 to reflect known business development underway, including a significantly large assessment in the south of the district that received planning permission in 2019.

**4.2.9** Figure 1 below illustrates the historical position in respect of Business Rates, the current assumptions around future rates, including the reset in 2022/23 and a further periodic reset in 2025/26 and a scenario to demonstrate the effect growth currently forecast in the plan not materialising.

**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.

\*\*The position for 2020/21 is based on the Quarter 3 forecast.

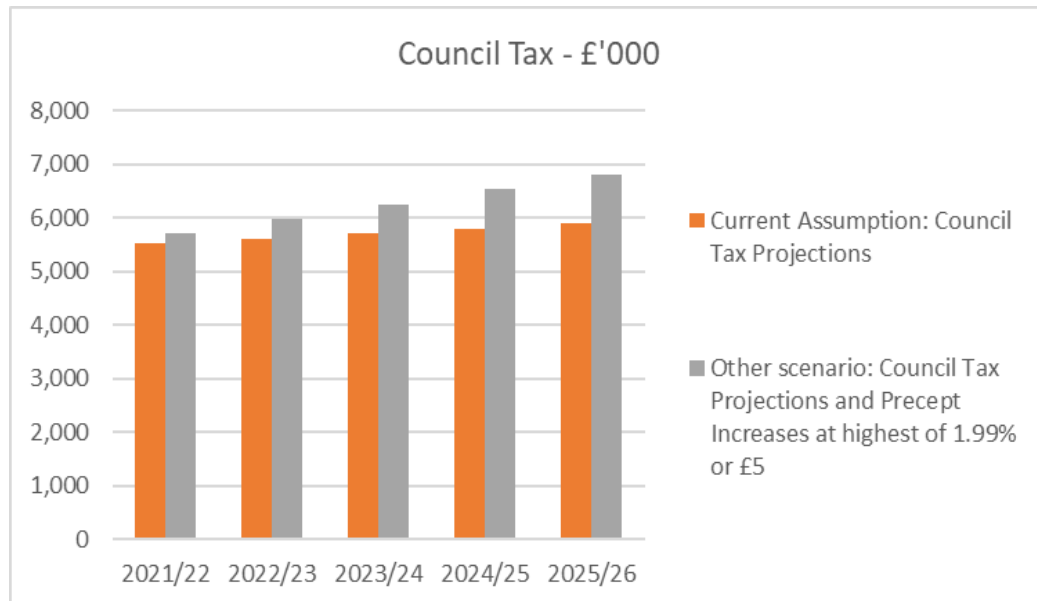
#### **4.2.10 Council Tax Growth: The impact of the pandemic and future growth.**

Similar to business rates, the budgeted position in respect of council tax is aligned with the 2021/22 budget (and council tax base approved by Cabinet in January 2021). The budget also includes the impact of the pandemic to date.

**4.2.11** The assumptions for the number of new homes added to the Council Tax base over the life of the 5 year plan has not changed and is assumed at 570 homes per year.

**4.2.12** There is no change to the assumption regarding the Council's policy of freezing Council Tax. Figure 2 below illustrates the £2.7m of foregone income from 2021/22 to 2025/26 as a result of this policy, which is forecast to save residents £75.00 on average over the period.

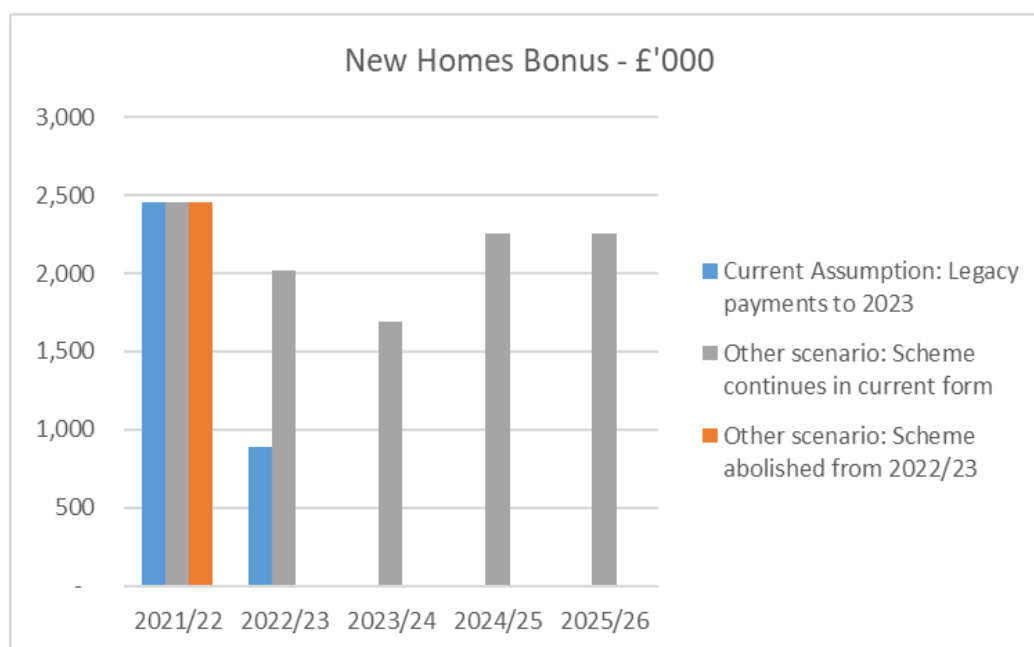
**Figure 2, Council Tax – Effect of Assumption Changes on Future Years and Scenario on Council Tax Increases**



**4.2.13 New Homes Bonus.** The last version of the plan assumed that only legacy payments would be received in 2021/22 and 2022/23. The provisional LGFS confirmed that in addition to this, a new round of bonus payments would be paid, which has delivered a further £560k worth of funding in 2021/22 for NWL.

**4.2.14** As part of the settlement, government confirmed its intention to publish a consultation document on the future of the New Homes Bonus, including options for reform. 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 2022.

**Figure 3, New Homes Bonus Scenarios**



**4.2.15 Transitional Funding.** Transitional 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.

**4.2.16** We currently remain unclear as to what basis Transitional Funding might be calculated when Fair Funding and Business Rates Reform (or the baseline reset if at a different time) are implemented. We have previously included an assumption of compensation where funding reductions are in excess of -5%, based on advice from our funding advisors, Pixel, we also adjusted the workings to take account of 'notional' Council Tax as it is unlikely that the Council will be compensated for any loss that occurs as a result of its historic policy to freeze Council Tax.

**4.2.17** Given the continued uncertainty around this unconfirmed funding stream and the increasing reliance on that assumed income, we have revised the estimate to assume compensation where funding reductions are in excess of -10%. This has the effect of reducing the level of assumed transitional funding over the 5 year period, which is considered more prudent given the uncertainty.

### **Medium Term Financial Plan – Revised Projections**

4.3 As always, 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 2021/22 – 2025/26 could be £5.2m over the five year period and can be found in the table below.

4.4 It is important to highlight that this position assumes the Council will meet its budgeted 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.

**Table 3, Medium Term Financial Plan Projections as at September 2020**



	2021/22 (£)'000	2022/23 (£)'000	2023/24 (£)'000	2024/25 (£)'000	2025/26 (£)'000	<b>Total</b>
<b>Surplus/(Deficit)</b>	541	467	-1,483	-3,475	-6,366	<b>-10,316</b>
<b>Journey to Self-Sufficiency Programme Savings</b>	570	895	1,120	1,245	1,270	<b>5,100</b>
<b>Surplus/(Deficit)</b>	1,111	1,362	-363	-2,230	-5,096	<b>-5,216</b>

- 4.5 The forecast balance of the Self-Sufficiency reserve as at March 2021 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.

## 5.0 REVIEW OF HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL PLAN

### HRA Medium Term Financial Plan – February 2021 Projections

- 5.1 The projected financial position, presented Cabinet in September 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 2020/21 to 2024/25, with surpluses of £1.1m over 5 years. These surpluses were dependent on the savings from the Journey to Self Sufficiency Programme, and table 3 shows that there were some years where the surplus was negative – meaning the short fall would need to be met from the HRA's health reserves.

**Table 3, HRA Medium Term Finance Plan – September 2020 Projections**

<b>HRA</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>TOTAL £'000</b>
Total Income	17,634	18,202	18,903	19,483	19,976	94,196
Total Expenditure	-10,960	-11,866	-12,133	-12,341	-12,541	-59,840
Contribution to the Capital Programme (RCCO)	-934	-4,005	-5,530	-4,923	-4,495	-19,888
Financing Expenditure	-3,339	-3,323	-3,054	-3,058	-3,058	-15,832
Surplus/(Deficit)	2,401	-993	-1,815	-839	-118	-1,364
J2SS Adjustments	0	325	575	625	900	2,425
<b>Surplus/(Deficit)</b>	<b>2,401</b>	<b>-668</b>	<b>-1,240</b>	<b>-214</b>	<b>782</b>	<b>1,061</b>

### Review of Assumptions and changes made

- 5.2 The HRA Medium Term Financial Plan has been updated to reflect the following changes:

- 5.2.1 2021-22 HRA Budget Changes.** The medium term financial plan has been updated to reflected the latest budget position as set out in the Housing Revenue

Account and Capital budget reports.

- 5.2.2 Rebasing the Journey to Self-Sufficiency Programme.** As with the general fund, the expected savings from the Journey to Self Sufficiency Programme have been rebased, with savings expected from 2021-22.

### **HRA Medium Term Financial Plan – Revised Projections**

- 5.3** Table 4 below sets out the current projected 5 year Medium Term Financial Plan for the HRA. It shows that there is a expected to be a deficit on the HRA of £1.9m in total over the period. This is a result of additional revenue contributions to the capital programme (RCCOs), which have increased by £6.2m as a result of the increases to the capital programme set out in the capital report.

**Table 4, HRA Medium Term Finance Plan – February 2021 Projections**

<b>HRA</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>TOTAL £'000</b>
Total Income	18,460	18,949	19,575	20,068	20,444	<b>97,496</b>
Total Expenditure	-11,638	-11,851	-12,062	-12,256	-12,520	<b>-60,326</b>
Contribution to the Capital Programme (RCCO)	-3,650	-6,139	-5,740	-5,500	-5,070	<b>-26,100</b>
Financing Expenditure	-3,362	-3,067	-3,067	-3,067	-3,066	<b>-15,629</b>
<b>Surplus/(Deficit) before J2SS savings</b>	<b>-190</b>	<b>-2,108</b>	<b>-1,294</b>	<b>-755</b>	<b>-212</b>	<b>-4,559</b>
J2SS Savings	225	325	575	625	900	<b>2,650</b>
<b>Surplus/(Deficit)</b>	<b>35</b>	<b>-1,783</b>	<b>-719</b>	<b>-130</b>	<b>688</b>	<b>-1,909</b>

- 5.4** The deficits can be funded without additional borrowing by using the HRA's generous reserves, which are estimated to be £6.1m at the end of the current financial year, subject to confirmation of the outturn for 2020/21. This approach is in line with plans previously approved by Cabinet to utilise the HRA surpluses more flexibly.
- 5.5** The medium financial plan does not currently include an estimate for the medium term costs associated with reducing the carbon emissions from our council houses, as there remains significant uncertainty about the total expected costs of making our existing properties carbon neutral and what external funding might be available over that time to support this work. Work is ongoing in this area and will feed into a planned review of the Housing Strategy in 2021/22, giving us a stronger basis for modelling the potential future costs of in this area.

<b>Policies and other considerations, as appropriate</b>	
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 remains 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. A great deal of uncertainty remains in the local government sector around core funding from 2022 and the full extent of the impact of the COVID-19 pandemic still remains unclear. A risk and sensitivity analysis is included within this report where relevant.
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