

Title of Report	REVIEW OF MEDIUM TERM FINANCIAL PLAN	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder	
Background Papers	Medium Term Financial Strategy – Council 26 February 2019	Public Report: Yes
	Provisional Financial Outturn 2020-21 – Cabinet 27 July 2021 2021-25 Medium Term Financial Plans – Cabinet 2 February 2021	Key Decision: Yes
Financial Implications	The medium term financial plan sets out the indicative five year financial position for the council, and should be considered when making strategic decisions.	
	There remains significant uncertainty around the general fund's funding position over the medium term. The report sets out optimistic and pessimistic scenarios for the future, but under all scenarios structural deficits arise within the medium term.	
	The HRA, as a self-financing account, remains healthy, with occasional deficits over the five year period driven by the need to fund the HRA capital programme. Deficits are fully funded through the HRA's working 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 immediate staffing or corporate implications. However, over the medium term there may be significant implications if the Council's key funding sources reduce as expected.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To update Cabinet on the council's medium term financial position and to approve the approach to setting the 2022/23 budget.	
Reason for Decision	To approve the planned approach to budget setting for 2022/23.	

Recommendations	<p>THAT CABINET:</p> <ol style="list-style-type: none"> 1. NOTE THE COUNCIL’S REVISED MEDIUM TERM FINANCIAL PLANS, IN PARTICULAR THE UNCERTAINTY SURROUNDING THE GENERAL FUND’S FUNDING POSITION. 2. APPROVES THE PLANNED APPROACH TO BUDGET SETTING THIS YEAR.
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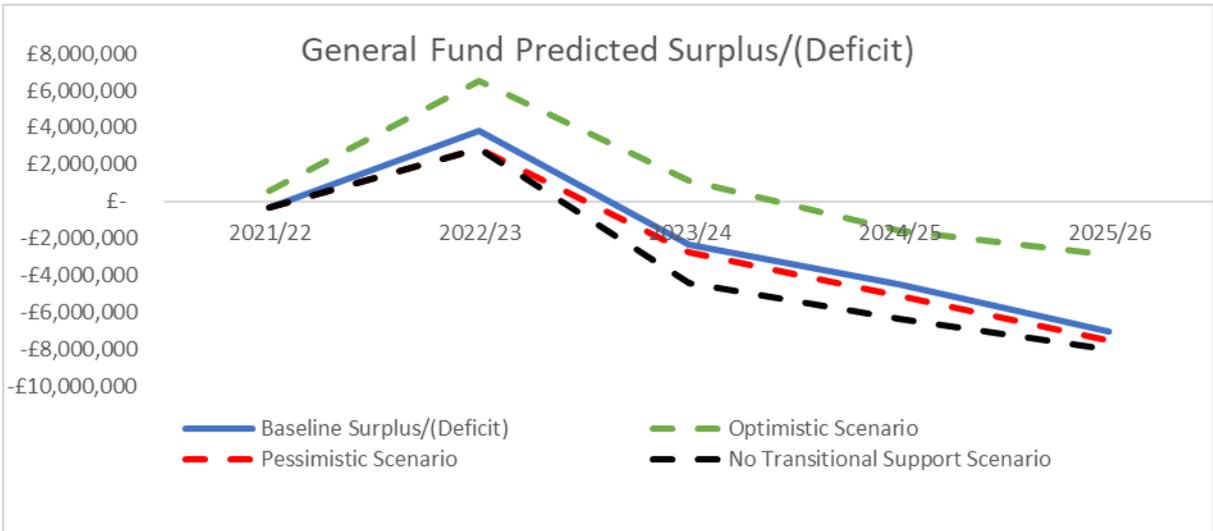
1.0 BACKGROUND

1.1 This report sets out the Council’s latest medium term financial plans and the assumptions that underpin those, with a view to guiding the Council’s approach to setting the budgets for 2022/23. At this stage, only underlying assumptions supporting the plans have been updated, based on the latest information available. Planned expenditure over the medium term has not been updated, except to reflect outturn and known changes going through the committee system.

2.0 GENERAL FUND MEDIUM TERM FINANCIAL PLAN

2.1 The previous medium term financial plan, reported to Council in February 2021, estimated that the general fund would suffer a £10.3 million deficit over the five-year period. This deficit was caused by anticipated changes in government policy that would see the council lose significant amounts of funding. The shortfall would be offset by making savings over the five-year period, totalling £5.1 million, and the remaining shortfall would be covered by the Journey to Self Sufficiency Reserve.

2.2 In updating the plan, officers have developed optimistic and pessimistic scenarios for how the Council’s finances may change over the next five years. These are summarised in the graph below.



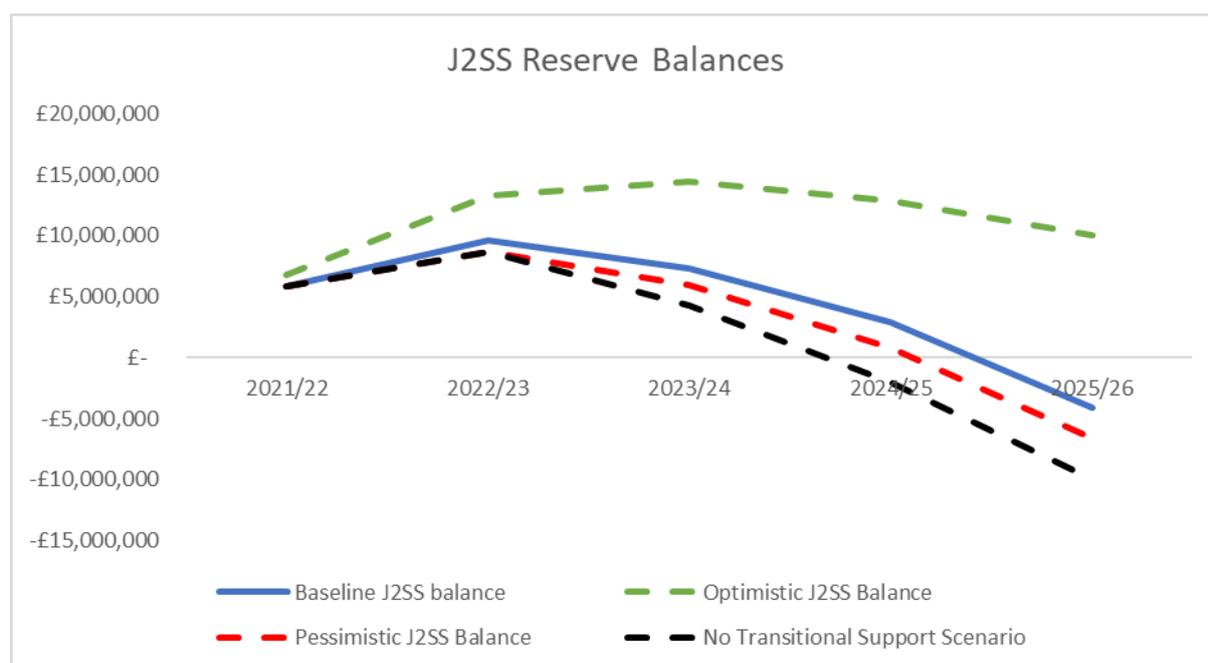
2.3 Overall, each scenario shows a downward trajectory for the Council’s surpluses and shows that we expect the Council’s general fund to fall into a deficit position in the medium term unless action is taken.

- 2.4 The drops are caused by the anticipated resetting of the business rates retention scheme. This scheme allows local authorities to keep a proportion of the growth in business rates within its area, with the baseline reset periodically. That reset is now long overdue, as it is part of Government's wider reviews into local authority funding. The latest expectation is that Government will not reset the business rates until 2023/24, giving North West Leicestershire another year before business rate income may drop.
- 2.5 Other key assumptions included within the modelling are:
- 2.5.1 **Council Tax.** The Council tax base is assumed to grow in each case, with 1.26% per year used in the baseline and pessimistic scenarios and 2.15% in the optimistic. Within the optimistic, it's also assumed that the council increases the council tax charge by the maximum amount possible from 2024/25, which is the first budget set after the next district election. Under the pessimistic scenario, it's assumed that collection rates drop by 1 percentage point and council tax remains frozen throughout the period. This leaves the total income from council tax over the five years varying from £28.0 million in the pessimistic scenario to £28.8 million in the optimistic, with the baseline projection being £28.3 million.
- 2.5.2 **New Homes Bonus.** This is payments provided by central government to incentivise housing growth in districts. Government held a consultation on the future of the new home bonus earlier this calendar year. Our baseline assumption is that there will be one more legacy payment for 2022/23, totalling £0.9 million. The optimistic scenario assumes that the bonus continues, with £1.5 million received in 2022/23 and £1.1 million thereafter. The pessimistic scenario assumes that it is withdrawn in the forthcoming spending review and we receive no bonus going forward.
- 2.5.3 **Business Rates Growth.** In addition to when planned reforms will arise, there is assumed growth in business rates within the district. This varies from there being no growth in the pessimistic scenario, to 0.7% per year growth in the baseline and 2% growth in the optimistic scenario.
- 2.5.4 **Transitional Support.** Government often provides local authorities with some form of transitional support when implementing major funding changes, to ensure councils have time to respond to changes in funding. Under the baseline scenario, it's assumed that government funds 90% of the funding loss initially, with that then falling away each year. The optimistic case sees 95% of the loss funded, whilst the pessimistic sees 80% of the loss funded. These scenarios result in support of £3.3 million over five years in the pessimistic and baseline scenarios, with £0.6 million in the optimistic scenario. A further scenario is presented for no transitional support being provided on top of the pessimistic scenario, which is represented by the black dotted line.
- 2.5.5 **New Unknown Funding.** Under the optimistic scenario, a new, currently unknown, funding source emerges that generates £1 million per year for the Council. Examples could be government funding for initiatives that we already undertake or are planning to in the medium term, such as free collection of garden or food waste. The baseline and pessimistic assumptions assume that no funding sources are found.
- 2.5.6 **Journey to Self Sufficiency Savings.** The optimistic scenario assumes that the planned J2SS savings of £5.1 million over 5 years on the general fund are achieved. This assumption is not presented in the baseline and pessimistic scenarios so it is clear that action is required to balance the budget over the medium term.

2.6 Journey to Self Sufficiency Reserves

2.6.1 The Council's Medium Term Financial Strategy sought to mitigate against this risk by setting aside surpluses into a reserve, known as the Journey to Self Sufficiency Reserve. This currently sits at £6.2 million, and gives the Council resources to fund spend to save activities or offset some future years of deficits.

2.6.2 The figure below shows how the J2SS reserve will fare in each scenario if it is used solely to offset future deficits. It shows that, without action, the J2SS reserve will be depleted in all but the optimistic scenario by 2025/26.



3.0 HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL PLAN

3.1 The previous medium term financial position, reported to Council in February 2021, estimated that the Housing Revenue Account would have a £1.9 million deficit over the five-year period. Unlike the General Fund, HRA is financially self-sufficient with a stable income stream from rents. The 5 year deficit is a result of large revenue contributions to capital to fund the HRA capital programme – a cost which is fully met from the HRA's reserve position.

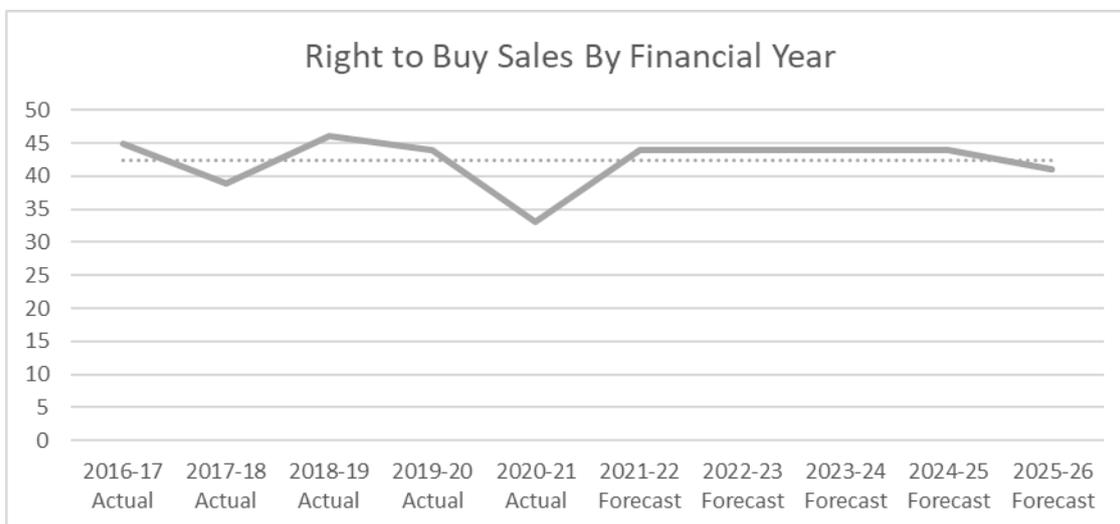
Key assumptions

3.2 The key assumptions underpinning the Housing Revenue Account medium-term financial plan are:

3.2.1 **Rents.** This is the primary income for the HRA, with £17.4 million budgeted in 2021/22. Renting-setting is regulated by government, with the current policy limiting rent increases to CPI+1% each year until March 2025, which is built into our medium-term financial plans. It is not known what the rent policy will be after that period, but our current assumption is that rent increases will be in line with CPI from April 2025.

3.2.2 **Right to buy sales.** Whilst sales of council homes reduce our rental income, they also provide a large capital receipt that part funds the HRA capital programme – in 2020/21 the Council retained £1.1 million from the sales for use in the capital programme.

Our assumption is that right to buy sales will continue at around 44 properties a year, which is based on the average of past sales excluding 2020/21, which saw a dip in sales as a result of the pandemic. We also assume that in 2025/26 we will see the number of sales start to decrease, which reflects the position seen nationally that, over time, right to buy sales start to decrease as house prices increase and most tenants who want to purchase their home would have.



3.2.3 **Inflation.** Inflation increases both the rent we collect, but also the forecast cost increases within the medium term financial plan. The long term assumption for inflation is that it will increase by 2.0% each year. However, the latest forecasts from the Bank of England suggest there will be a short term spike in inflation in late 2021 for a year. The inflation forecasts have therefore been revised up 2.7% for 2022/23 and 3.3% for 2023/24 in line with the Bank of England’s forecasts, before dropping back to the long-term position of 2.0%.

Latest Medium-Term Financial Position

3.3 The revised five year surplus position for the HRA is shown in the table below, and shows a £1.7 million deficit over the 5 year period, an improvement of £0.2 million since the February 2021 report. This change is largely due to the increase in inflation on the figures, as higher inflation allows rents to increase more, which is then compounded over time.

3.4 The table below shows the deficit is a result of the £26.1 million revenue contribution to the capital programme over the 5 years and represents the use of surpluses from previous years that are currently retained to be used flexibly in the future. This demonstrates the robustness of the HRA’s financial position in the medium term.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	TOTAL £'000
Surplus/(Deficit) before adjustments	3,460	3,998	4,525	4,826	4,938	21,751
Revenue contributions to capital outlay	-3,650	-6,136	-5,740	-5,500	-5,070	- 26,100
Planned Journey to Self-Sufficiency Savings	225	325	575	625	900	2,650
Predicted Surplus/(Deficit)	35	-1,813	-640	-49	768	-1,699

3.5 The challenge for the HRA in the medium term is responding to new emerging priorities, such as reducing the carbon footprint of our council homes, a potential new standard for the decency of our homes and Government's new social housing white paper.

4.0 APPROACH TO SETTING THE 2022/23 BUDGET

4.1 The medium term financial position presented in this report shows that there are significant financial risks on the horizon for the Council, although uncertainty remains as to how and when they will crystallise and what the precise impact will be. It is, therefore, important to continue preparations that give the Council the agility to respond quickly if the risks identified within this report do materialise.

4.2 The Council's primary mitigation against the funding risk is the Journey to Self-Sufficiency Programme (J2SS). The previously agreed five-year savings targets was reset for 2021/22, with a total of £7.8 million of savings planned over the next five years across both the general fund and housing revenue account.

4.3 As part of the 2022/23 budget-setting process, officers will perform detailed reviews of budgets to identify budget savings. This will include asking budget holders to complete value for money statements for their service areas and to model the impact of a 10% reduction to their net cost of service on their performance.

4.4 This process aims to improve the understanding, and scrutiny, of overall budgets. This will provide a good basis for moving towards outcomes-based budgeting in the future, should a significant revision of budgets be needed to respond to reduced funding or changing priorities.

4.5 In order to facilitate this additional work and to provide more opportunity for member engagement with the process, officers have reviewed the budget timetable to create more time for developing the budgets and to ensure Cabinet is consulted once it's

clearer what the national funding position looks like. The revised timetable would involve:

- **November 2021:** Corporate Scrutiny Committee will be asked to scrutinise the medium-term financial position of the Council. At this point, members of the committee will be asked to feed in any proposals that they think should be considered as part of the budget setting process.
- **December 2021:** Corporate Scrutiny Committee will be presented with the draft budgets and proposals for scrutiny.
- **January 2022:** Cabinet will be asked to review and approve the draft budgets for a shorter, three-week public consultation.
- **February 2022:** Cabinet will be asked to recommend the final budgets for full Council in the same month.

Policies and other considerations, as appropriate	
Council Priorities:	The medium term financial plans seek to understand the amount of resources available to the Council 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 plans set out in this report do not fully reflect the potential effort required to make the Council zero carbon by 2030. A £1 million reserve was created to fund initial works, of which £409,000 remains unallocated, but there is likely to be further financial resources required in the run up to 2030 to meet this target.
Consultation/Community Engagement:	Not applicable.
Risks:	The financial risks over the medium term are detailed in the report.
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