NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 19 JULY 2022

Title of Report	**MEDIUM TERM FINANCIAL PLAN OUTLOOK**	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder	
Background Papers	[2022-2027 Medium Term Financial Plans] Cabinet 1 February 2022	**Public Report:** Yes **Key Decision:** Yes
Financial Implications	The medium term financial plan outlook sets out the environment for the Council's five year financial position, and should be considered when making strategic decisions. There remains significant uncertainty around the general fund's funding position over the medium term but structural deficits are likely to arise within the next 4 years. The HRA, as a self-financing account, remains healthy, with occasional deficits over the medium term 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. This will be reviewed as part of the service and financial planning process and revised plans put in place as appropriate.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To update Cabinet on the Council's medium term financial outlook and to approve the approach to setting the 2023/24 budget.	
Reason for Decision	To approve the planned approach to budget setting for 2023/24.	
Recommendations	**THAT CABINET:** **1. NOTE THE REVISED MEDIUM TERM FINANCIAL OUTLOOK, IN PARTICULAR THE UNCERTAINTY SURROUNDING THE COUNCIL'S GENERAL FUND POSITION AND THE LIKELY DELAY, BY A**	

	FURTHER ONE YEAR, OF LOCAL GOVERNMENT FUNDING REFORMS FROM THE POSITION REPORTED IN FEBRUARY 2022. **2. APPROVES THE PLANNED APPROACH TO BUDGET SETTING THIS YEAR.**

1. **BACKGROUND**

1.1 This report sets out the Council's latest medium term financial plan (MTFP) outlook and the environment that underpin those, with a view to guiding the Council's approach to setting the budgets for 2023/24. At this stage, only factors affecting the plans have been communicated, based on the latest information available. Planned expenditure over the medium term has not been updated.

2. **GENERAL FUND MEDIUM TERM FINANCIAL PLAN**

2.1. The medium term financial plan, reported to Council in February 2022, estimated that the general fund would suffer a £30.4m anticipated underlying funding gap over the five-year period 2022/23 to 2026/27. This funding gap was caused by anticipated changes in government policy that would see the council lose significant amounts of funding, specially related to retained business rates and new homes bonus income.

2.2. This gap would be offset by making savings over the five-year period, totalling £5.8 million, and the use of one-off reserves totalling £9.4m with the remaining gap in financial years 2024/25 to 2026/27 of £15.3m being covered by future saving and efficiency programmes to be scoped and developed.

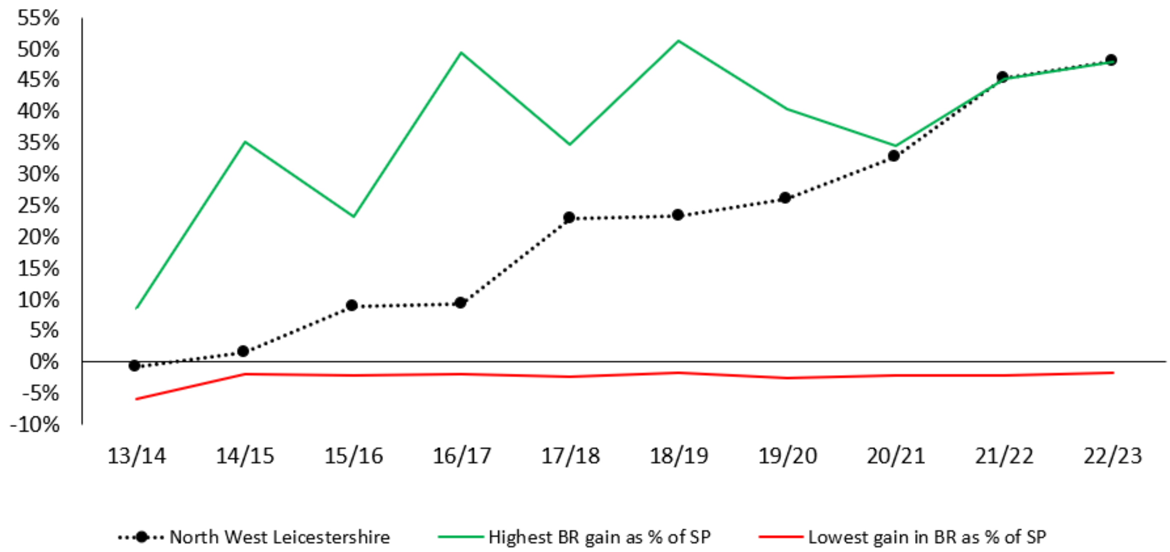
Table 1 – Medium Term financial Plan Deficit

	2022/23	2023/24	2024/25	2025/26	2026/27
Net Revenue Expenditure	16,705,449	18,556,133	18,591,745	18,874,385	19,350,945
Income/Funding	17,006,504	11,129,082	11,349,094	10,800,209	11,355,126
Anticipated Underlying Funding Gap	**(301,055)**	**7,427,051**	**7,242,651**	**8,074,176**	**7,995,819**
Targeted savings in relation to J2SS	(895,000)	(1,120,000)	(1,245,000)	(1,270,000)	(1,270,000)
J2SS Reserves	1,196,055	(3,242,222)	(4,260,921)	0	0
Business Rate Reserves	- -	3,064,829	-	-	-
Anticipated Baseline Funding Gap	**0**	**0**	**1,736,730**	**6,804,176**	**6,725,819**

2.3. The reductions in funding communicated in February 2022 were caused by anticipated local government funding reforms due to take effect from 2023/24. This would have resulted and affected a resetting of the business rates retention schemes, which North West Leicestershire District Council has particularly benefited from over the past 10 years. 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.

2.4. As chart 1 indicates North West Leicestershire District Council is now the highest business rate gaining district in England as a percentage of its spending power (48%), now standing at £5.5m over baselines. In essence, the reset would result in the district losing this income. The district has seen considerable growth over the past 10 years and in particular over the past 3-4 years, comparing against neighbouring districts (table 2) the North West Leicestershire District business rates above baseline have grown to levels now totalling the value of the next two neighbouring districts (Harborough and Blaby) combined.

Chart 1 – NWLDC Business Rate Gain/(Loss) Post Levy As A Percentage of Spending Power



2.5. The medium term plan also anticipated local government funding reforms would also have resulted in a reset of the New Homes Bonus regime resulting in a reduction of funding for the Council of £2.2m from 2023/24.

Table 2 – Business Rate Growth Over Period 2013/14 to 2022/23 by Leicestershire District

District	Rates Gain as % of SP	Business Rates Gain Above Baseline
NWLDC	**47.91%**	**5,548,695**
Harborough	25.50%	2,854,326
Blaby	22.81%	2,424,086
Hinckley and Bosworth	20.41%	1,950,502
Melton	10.87%	707,732
Charnwood	1.14%	196,149
Oadby and Wigston	2.67%	165,861

2.6. Considering the substantial business rates retained within North West Leicestershire and the embedding of significant elements of this funding into the net revenue expenditure of the Council the timing and make-up of the anticipated reform is a key financial variable for the Council's medium term financial plan.

3. **MEDIUM TERM OUTLOOK**

3.1. A delay in the local government funding reforms until after 2023/24 now seems to be inevitable. Although government ministers had given a strong commitment to update the current funding regime, they were careful not to commit to a specific date. And whilst 2023/24 would have been the Government's preferred timeframe, it is now getting too late to implement any fundamental changes to funding in 2023/24.

3.2. To allow for major changes would require a full consultation paper before the parliamentary recess in July with working groups with local authorities needing to be arranged to allow for review, feedback and formal scrutiny. Even seemingly innocuous changes in the funding formulas could cause very significant changes in funding distribution as much of the system is now so out-of-date that any update/changes even marginally can have very significant distributional consequences, sometimes unforeseen.

3.3. This was reinforced by the speech that the then Secretary of State Michael Gove, gave to the Local Government conference on 28 June 2022 when he stated that local authorities would be given greater financial certainty, with a simplification of the number of funding streams being introduced and a new two-year settlement which it is assumed would cover the periods 2023-24 and 2024-25.

3.4. The proposal for a two-year settlement suggests that there will be rollover settlements in both 20223-24 and 2024-25. That is, that financial settlements will be broadly similar to the 2022-23 settlement. The Fair funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025-26.

3.5. As a result, it is now safe to assume that the funding reforms will not be implemented at the earliest until 2024/25, so in essence a year later than the Council's medium term financial plan had assumed in February 2022.

3.6. There are also positive reasons for delay: the Census 2021 data will be available to use in a settlement in 2024/25 or later and there is likely to be a new spending review in 2024. It is therefore safe to assume a rollover settlement in 2023/24, and with the full range of funding reforms implemented in 2024/25. It is possible due to the impending timeline of a general election that even a two-year rollover could be announced, perhaps on a phased basis.

3.7. The final New Homes Bonus (NHB) legacy payment was also paid in 2022/23 and in theory (and modelled in the Council's medium term financial plan in February) there will be no further NHB payments in 2023/24 or beyond, the Council is scheduled to receive £2.2m of NHB in 2022/23. However, if there is a roll-over settlement year next year, it would be a reasonable assumption that a further one-off payment would be possible. If that is the case, it will be the fourth year in a row that ministers have made an additional one-off payment.

3.8. It therefore seems likely that the following grants and pilots will also continue into 2023/24 and be allocated on the same basis as 2022/23. It is possible, though, that ministers might look at alternative options, although that seems unlikely:

3.8.1. Lower Tier Services Grant
3.8.2. Services Grant
3.8.3. Business Rate Pilots

3.9. It is also likely that Council Tax increases will again be capped at the maximum “core” increase of 1.99%, with districts allowed to increase by £5 if this is higher.

4. JOURNEY TO SELF SUFFICIENCY RESERVES

4.1. The Council’s MTFP sought to mitigate against the risks outlined in section 2 above by setting aside surpluses into a reserve, known as the Journey to Self Sufficiency Reserve (J2SS). This is forecast to total £6.3m at the end of financial year 2022/23, with an update on the latest position available following the provisional outturn.

4.2. The reserve provides the Council with resources to fund spend to save initiatives and activities to manage the transition through to the anticipated local government funding reforms and/or offset some future years of deficits as a one-off intervention.

4.3. The medium term financial plan, reported to Council in February 2022 set out that this fund would be fully depleted by the end of 2024/25 in the main through the offset of deficits forecasted in 2023/24 and 2024/25.

4.4. The now likely delay in funding reforms until at the earliest until 2024/25 will, if all other variables remain consistent with the MTFP as set out in February, result in the requirement for the J2SS reserve to offset deficits over the period 2024/25 and 2025/26 rather than the earlier period indicated in 4.3 above.

5. EXTERNAL TRADING ENVIRONMENT

5.1. It is now likely that the external trading environment and UK economy will have a number of adverse impacts on the Council’s short to medium term financial plan that were either unforeseen or not as acute last year:

5.1.1. UK Inflation

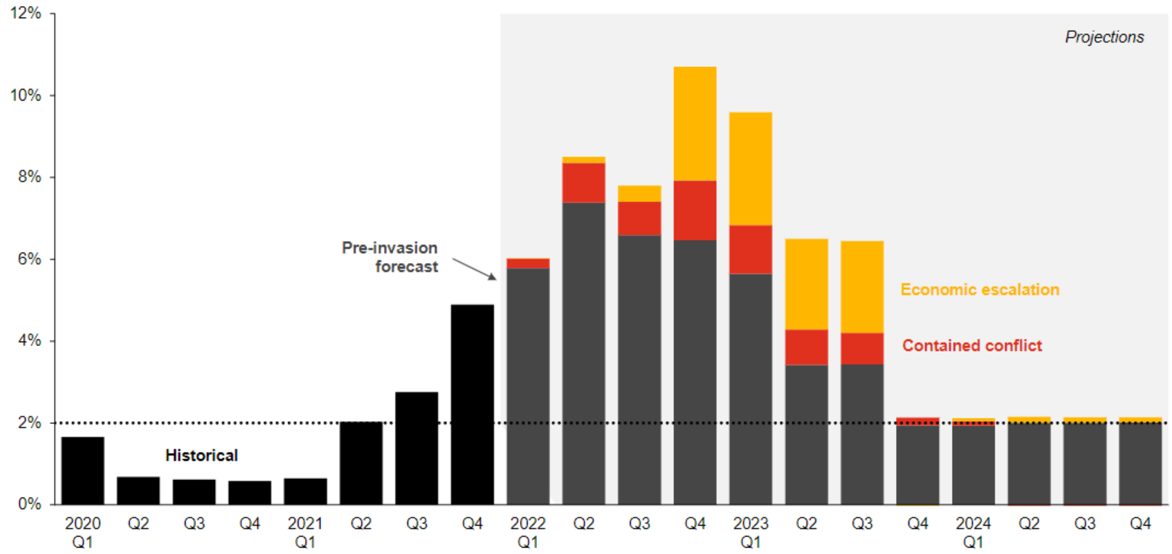
The Consumer Prices Index (CPI) surged to a three decade high of 6.2% in February, more than four percentage points above the Bank of England’s 2% target inflation rate. Around half of the contribution to the headline inflation was driven by fuel, food and electricity prices. In the next few months, households and businesses will need to brace for further price increases, as the war in Ukraine adds to existing inflationary pressures (red bar in chart 2).

The UK inflation rate is forecast to hit a 40 year high of around 11% in Q4 2022, with the energy price cap likely to increase by a further 75%.

UK businesses and public sector organisations do not benefit from energy price caps and therefore the Council is expected to see significant pressures on utility and energy costs which will feed into the short-term planning assumptions/proposals for the budget in 2023/24 and probably 2024/25.

National negotiations are currently taking place with regard to the 2022-23 pay claim but it is likely that there will be pressure on the employers’ side to increase the offer beyond the indicative 4% which we have made provision for in this year’s budget.

Chart 2 - CPI inflation (year-on-year), 2020 Q1 to 2024 Q4



Sources: ONS, PwC analysis

5.1.2. Household Incomes and Wage Inflation

The UK's households are under significant financial pressures due to the inflationary impacts of fuel, utilities and food prices. The extent of the cost-of-living squeeze now taking place will impact all household budgets materially, but is likely to be felt most acutely amongst lower income brackets. Along with other factors such as the number of job vacancies and high level of employment there is likely to be significant pressures on higher than inflation pay awards. With public sector finances in the position they are, requiring constraint across all sectors due to the significant rising national debt costs, the pressure on the demands for pay awards and the ability to facilitate them is likely to be intense.

6. HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL OUTLOOK

6.1. The previous medium term financial position, reported to Council in September 2021, estimated that the Housing Revenue Account would have a £1.7 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.

6.2. Rental income is the primary income for the HRA, with rent setting regulated by government, with the current policy limiting rent increases to CPI+1% each year until March 2025, this is built into the Council's medium-term financial plans. It is not known what the rent guidance/policy will be after that period, but the current assumption is that rent increases will be in line with CPI from April 2025.

6.3. The underlying rises seen and forecasted in CPI over the next 1-2 years and the pressures on households budgets will undoubtedly place pressures on Council's across the country to respond with below inflation rent rises. However, this will prove difficult during a period when underlying costs themselves within the HRA are also rising linked to the underlying economic conditions, outlined in section 5.

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

7. APPROACH TO SETTING THE 2023/24 BUDGET

7.1. The medium term financial position and outlook 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 crystalise and what the precise impact will be. It is now highly likely that the deficits outlined to Council in February have moved out to the right, by a now further one year funding rollover into 2023/24. There is also a more remote possibility that reforms will not take place for a further two or three years in view of the timeframes of the next general election.

7.2. However, there is little doubt that local government funding reform will take place, the only questions that remain is when this will occur and in what form? What is also likely is that North West Leicestershire will be adversely impacted. Therefore, it is important to continue preparations that give the Council the agility to respond quickly if the risks identified within this report do materialise.

7.3. As part of the 2023/24 budget-setting process, officers will perform detailed reviews of services to identify budget efficiencies. This will include asking budget holders to complete benchmarking, efficiency and value for money statements for their service areas. There will also be detailed business cases to support all budget proposals in key areas.

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 timetable would involve:

- **November 2022:** 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 2022:** Corporate Scrutiny Committee will be presented with the draft budget proposals for scrutiny.

- **January 2023:** Cabinet will be asked to review and approve the draft budgets for a three-week public consultation period.

- **February 2023:** 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 plan outlook seeks 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 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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