Appendix C

Medium Term Financial Strategy

The Medium-Term Financial Strategy (MTFS) is the Council's key financial planning document.

The MTFS supports the **'Blaby District Plan'** which is our most important document clearly setting out our vision, values and strategic themes for the next four years.

The MTFS document contains a financial forecast which is updated each year to reflect the changes to funding. This update has been extended to include the years up to 2028/29 to ensure the Council continues to consider the financial picture with a longer-term strategic view and understand the financial resources available.

The future funding envelope beyond 2024/25 remains quite uncertain given there are changes to funding in future years with the Fair Funding Review and the anticipated reset of the Business Rates baseline, both of which are now expected to take effect from 2026/27. The future funding estimates within the MTFS consider any information that can be gained from the national picture and documents within the public domain on this subject although, as always, there is a high degree of risk and uncertainty around these.

Whilst the future funding levels are uncertain it is not unrealistic to assume there will continue to be funding reductions or higher demand placed upon the Council. It is important that the Council understands the potential future funding gaps and scenarios have been included to illustrate possible financial impacts of the changes.

For this latest update of the MTFS, the proposed budget for 2024/25 has been used as the baseline for projecting the future budget requirement. However, priorities and services may have to be revised to ensure the Council remains financially sustainable.

Given the future funding gaps identified in future years a high level outline plan has been developed to illustrate how the future budget gaps may be closed should the resetting of the Business Rate baseline and the Fair Funding review be introduced .

Financial Summary

Forecast Net Revenue Expenditure

	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £
Portfolio:						
Finance, People & Performance	2,484,058	2,992,325	3,289,058	3,623,407	3,891,513	4,133,128
Housing, Community & Environmental Services	3,262,288	2,286,511	2,340,603	2,395,778	2,452,051	2,509,459
Health & Wellbeing, Community Engagement & Business Support	2,038,135	(30,669)	36,400	(166,392)	(183,701)	(166,889)
Leader	1,886,978	1,799,347	1,835,316	1,871,991	1,909,404	1,947,566
Neighbourhood Services & Assets	3,583,276	3,640,324	3,725,829	3,818,072	3,906,186	3,995,772
Planning Delivery, Enforcement & Corporate Transformation	4,288,732	4,170,542	4,241,765	4,314,405	4,388,496	4,464,064
Net Direct Expenditure - Portfolio	**17,543,467**	**14,858,380**	**15,468,971**	**15,857,261**	**16,363,949**	**16,883,100**
RCCO	200,729	94,315	54,500	54,500	54,500	54,500
Minimum Revenue Provision	484,445	748,865	979,852	1,138,188	1,199,107	1,600,735
Voluntary Revenue Provision	300,000	300,000	250,000	0	0	(250,000)
Appropriations & Accounting Adjustments	(1,267,990)	205,390	208,670	212,016	215,429	218,910
Contribution to/(from) Earmarked Reserves	(2,913,732)	(349,315)	(379,250)	(385,370)	(491,612)	(397,979)
Net Revenue Expenditure	**14,346,919**	**15,857,635**	**16,582,743**	**16,876,595**	**17,341,373**	**18,109,266**

Funding Envelope

	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £
Income from Business Rates	(1,735,729)	(3,387,423)	(3,721,275)	(920,091)	(972,656)	(1,029,906)
Contribution from Business Rates Reserves	(2,271,803)	(290,204)	271,733	(560,148)	(560,148)	(560,148)
S31 Grant - Business Rates Compensation	(2,285,106)	(2,922,373)	(2,990,112)	(2,005,506)	(2,056,762)	(2,113,884)
Revenue Support Grant	(74,608)	(79,550)	(81,141)	(82,764)	(84,419)	(86,107)
Funding Guarantee	(1,530,635)	(2,245,863)	(2,072,000)	0	0	0
Services Grant	(90,200)	(15,571)	(15,571)	0	0	0
New Homes Bonus Grant	(430,029)	(14,280)	0	0	0	0
	(8,418,110)	(8,955,264)	(8,608,366)	(3,568,509)	(3,673,985)	(3,790,045)
Council Tax Deficit	64,864	87,887	0	0	0	0
Council Tax	(6,311,930)	(6,526,402)	(6,760,501)	(7,022,828)	(7,294,795)	(7,576,750)
Funding Envelope	**(14,665,176)**	**(15,393,779)**	**(15,368,867)**	**(10,591,337)**	**(10,968,780)**	**(11,366,795)**
Funding Gap/(Surplus)	(318,257)	463,856	1,213,876	6,285,258	6,372,593	6,742,471
Damping	0	0	0	(4,009,086)	(2,901,622)	(1,810,087)
Adjusted Funding Gap/(Surplus)	**(318,257)**	**463,856**	**1,213,876**	**2,276,172**	**3,470,971**	**4,932,384**

Forecast Assumptions

Set out below is a commentary relating to the key assumptions that have been made in drafting the future financial forecast.

Net Direct Expenditure
Net Direct Expenditure budgets haves been compiled by rolling forward the 2024/25 draft budget numbers and applying inflationary factors where appropriate to the elements. Key areas of note are:

- Establishment – assumes a 4% increase to cover the annual pay award, increments and increases in national insurance and pension contributions. 3% being allowed within the service budgets with a further 1% held centrally.
- Other costs – increases in line with contractual arrangements or by reference to appropriate inflationary factors, dependent upon the nature of the expenditure.
- Fees and charges – non-statutory income budgets have been increased by inflation and with a view to achieving full cost recovery.

RCCO
Revenue Contributions towards Capital Outlay – this is where revenue expenditure (including earmarked reserves) is used to finance capital expenditure.

Minimum Revenue Provision (MRP)
MRP is a proxy for depreciation used in local government finance. It is charged on any capital expenditure funded through borrowing, over a period commensurate with the estimated life of the asset. Much of the current MRP relates to the purchase of fleet vehicles, investment in our leisure facilities, and historic disabled facilities grants. The increase in MRP from 2024/25 reflects the impact of new expected borrowing to fund our 5-year Capital Programme.

Voluntary Revenue Provision (VRP)
VRP is in addition to MRP and is applied to smooth the impact of introducing the Council's new MRP policy.

Contributions to/(from) Earmarked Reserves
This represents the release of reserves to support one-off expenditure items, brought forward budget or spend to save initiatives.

Net Revenue Expenditure
The Council's forecast net expenditure position prior to the application of balances, government grants and council tax.

Income from Business Rates
The Council retains 40% of the net rates collectable from businesses. However, it is also required to pay a tariff to government from its share, as well as a levy payment to the Leicestershire Business Rates Pool based on any growth above the baseline. Blaby has benefitted from considerable growth since the current Business Rates Retention Scheme was introduced in April 2013. The MTFS anticipates a reset of the business rates baseline in 2026/27 and this is likely to have a major impact on the

amount of business rates that Blaby will have to support its budget. However, there remains a great deal of uncertainty over the precise impact.

S31 Grant – Business Rates Compensation
The amount of business rates collectable is reduced by various reliefs that have been introduced by the government, for example, to freeze the business rate multiplier. This results in a loss of income to the Council, which is usually compensated by the government though Section 31 grant.

Funding Guarantee
The 3% Funding Guarantee was introduced in 2023/24 and ensures that no authority has a Core Spending Power increase of less than 3% without having to increase their Band D council tax. This helps to compensate for any loss in New Homes Bonus (below). This grant is not expected to continue after 2025/26.

Services Grant
A new grant introduced in the 2022/23 settlement. The Services Grant has been reduced significantly in 2024/25 to pay for grants elsewhere. Like the Funding Guarantee this grant is expected to end after 2025/26.

New Homes Bonus
New Homes Bonus has again been extended by a further year based on the existing distribution mechanism. Blaby's settlement is based on housing growth up to October 2023 and, due to lower growth in new housing, coupled with an increase in empty homes, has been almost completely eradicated in 2024/25.

Council Tax Deficit
The amount by which council tax due in the previous year, falls short of the expected sum collectable. The government introduced new legislation in 2020/21 enabling local authorities to spread any unusual deficit arising from the pandemic across three years. This arrangement has now come to an end so that any deficit on 31st March 2024 must be fully recovered in 2024/25.

Council Tax
The expected amount of revenue receivable from Council Taxpayers, assuming an increase of 2.99% on Band D council tax each year and an assumed increase in the tax base to reflect new build.

Damping
An assumption has been built into the MTFS in anticipation that the government will introduce some form of damping mechanism to smooth the impact of the expected reduction in funding. Until the Fair Funding review is complete and the government has made a decision in relation to the business rate baseline reset, the full extent of this impact poses a significant risk.

Financial Risks

- **New Homes Bonus (NHB)** When the New Homes Bonus commenced it was a non-ring fenced grant introduced to encourage the building of new housing. This, in effect, was top sliced from the existing funding streams for local government and therefore has provided an alternative source of funding as the core grant has been reduced. In the early years Blaby was in the position to support local housing schemes with some of the New Homes Bonus. However, in recent years it has been necessary to include the NHB as a source of funding to underpin the budget requirement.

  In 2024/25, Blaby's allocation has reduced to just £14,280.

  NHB is expected to be removed from the settlement from 2025/26 onwards and, as yet, there is no indication from government that it will be replaced. If it is replaced, there is a strong likelihood that any new grant will be more weighted towards upper tier authorities.

- **Business Rates Retention Reform**
  The latest information suggests that this will take effect in the year 2026/27 at the same time as the result of the Fair Funding Review is expected to be implemented.

  If there is a full reset of the Business Rates Baseline as expected, the Council may lose the benefit of any significant growth that has been generated in recent years. This element of the changes to Business Rates provides a substantial risk to the Council which would result in growth being lost. The financial impact of this is illustrated by the considerable financial gap from 2026/27 onwards.

  Blaby will benefit from any future growth in Business Rates, however quantifying the benefit is not yet possible.

- **Fair Funding Review**
  It is expected that this will take effect in the year 2026/27. Whilst the historic consultation detailed considerations that may be being taken into account it is not possible to assess how Blaby District will be impacted by this change. How future changes are softened through a 'damping process' will be key as to how Blaby's financial position may change.

- **County Council and Partner Funding Reductions.** The County Council has openly illustrated the level of funding cuts that they will be required to make over the coming years. Whilst we can plan to mitigate any obvious impacts of this, some are more subtle and the increased demand that results from this is

difficult to quantify financially. This is a considerable risk to which we will put financial values to as and when we are in a position to do so.
Similarly partner organisations are also finding the financial situation a strain on their finances and we expect them to be looking for areas where they may reduce their costs. Given the level of external funding we obtain from external partners for services we provide under shared arrangements there is risk that income levels may reduce in future should partners make the decision to move away from the shared service. Measures are taken to both protect our income levels but also work with partners to take a structured approach to cost minimisation which limits the financial exposure to this Council and ensures services are sustainable.

- **New Demands from Residents**. Blaby has an ageing population which brings with it challenges such as dealing with dementia and issues such as loneliness. We have also seen considerable increase in homelessness costs and the cost of living crisis may also drive further demands. What role Blaby will play in our community to combat these challenges and what different demand this drives for services that are needed have not yet been identified. However, we have taken opportunity to reduce such costs by taking advantage of funding initiatives to support such demand e.g. the investment in properties to utilise for temporary homelessness using the Local Authority Housing Fund.

Plan to Close Future Financial Gaps

The MTFS provides an estimate of the future expenditure of the Council and also the funding envelope in which the Council will be required to operate to produce a balanced budget. Given that the 'Settlement' provides funding for one year only there is little certainty as to whether the MTFS reflects a true picture of the Council's financial position but is the best estimate that can currently be made with available information utilising advice from the Council's advisors and the current expenditure levels of the Council extrapolated into the future.

The MTFS suggests that there will be a budget gap of £1.2m in 2025/26 which rises to £4.9m in 2028/29; three years after the Business Rate baseline reset and after damping has been much reduced.

The Council has for some years operated an ongoing initiative to close the financial gaps that have been predicted within the MTFS and continues to do so. Investment has been made in resource to drive the transformation agenda and the newly adopted Transformation Strategy 'Transforming Blaby Together' includes the Council's commitment to embrace new technology, deliver affordable and efficient services in addition to embracing business-like thinking to seek new and innovative ways of maximising income. It is through these initiatives and investment in ICT that plans have been made to close the future gaps as illustrated in the table below.

FINANCIAL PLAN TO ADDRESS BUDGET GAP

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£	£	£	£	£	£
Budget Gap before damping	154,486	463,856	1,213,876	6,285,258	6,372,593	6,742,471
Damping	0	0	0	(4,009,086)	(2,901,622)	(1,810,087)
Budget Gap after damping	154,486	463,856	1,213,876	2,276,172	3,470,971	4,932,384
Measures to close funding gap:						
Transformational Savings			(334,840)	(344,885)	(355,232)	(365,889)
Closing the Gap Initiatives			(263,000)	(345,290)	(355,049)	(365,100)
Prioritisation and Rationalisation				(1,395,000)	(1,436,000)	(1,471,000)
Residual Budget Gap	**154,486**	**463,856**	**616,036**	**190,997**	**1,324,691**	**2,730,395**

The Council recognises that, should the introduction of the Business Rate Baseline and Fair Funding generate the budget gaps as predicted, then significant prioritisation and rationalisation will be required in order to meet the significant budget gaps. The lack of certainty of these budget gaps materialising and the potential for a change of approach does however, suggest that activating such plans might be premature. The Council will therefore not implement such plans until more certainty is gained but will continue to consider future options to close the gaps and monitor the funding situation on an ongoing basis.