Medium Term Financial Strategy

2022 - 2027

STRONGER TOGETHER
Oadby & Wigston
BOROUGH COUNCIL

Section 1 - Context

Aims and purpose of the Medium Term Financial Strategy

The purpose of the Council's Medium Term Financial Strategy (MTFS) is to provide a robust strategic framework and approach to achieve long term financial sustainability. It is core to the ongoing delivery of priority outcomes in the Corporate Plan and aids robust and methodical planning as it forecasts the council's financial position, considering the most likely and other potential scenarios surrounding known pressures, major national policy and economic issues and local priorities and factors. Sound strategic financial planning helps the council to respond to pressures and changes as a result of many internal and external influences.

An overarching MTFS is good practice – it provides the strategic financial framework for the authority at a time of considerable pressure and change and supports the delivery of key priorities and ongoing efficiency gains and closer member engagement and budget scrutiny. The key overriding aim of the MTFS is it provides a high-level assessment of the financial resources required to deliver Oadby and Wigston Borough Council's strategic priorities and essential services over the next five years.

The key objectives of the MTFS are to:

- Provide financial parameters within which budget and service planning should take place;
- Ensure the council sets a balanced budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources;
- Maximise the use of resources available to the council
- Review our reserves policy to make sure the council has protection against unforeseen events and takes a sensible approach to funding a sustainable financial position
- Respond to external pressures
- Highlight any financial risks and put mitigating controls in place.
- Ensure services are defined on the basis of a clear alignment between priority and affordability;
- Ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available;
- Ensure that the council's long term financial health and viability remain sound.

1.1 Key strategies and plans

Capital Strategy

The capital programme sets out the capital plans for the next four year period, taking account of any capital investment required to deliver outcomes, transformational change and Council priorities. The programme is reviewed annually to ensure projects are still in line with outcomes, and that the programme is affordable.

The Capital Programme Strategy details the priorities of the council in terms of capital expenditure and provides a framework for the council's capital plans to be agreed and delivered within. The Capital Programme Strategy and supporting capital programme are approved each year in February by Council.

Treasury Management Strategy

The Treasury Management Policy and Strategies is reviewed annually and provides the framework within which authority is delegated to the Strategic Director and Section 151 Officer to make decisions on the management of the council's investment of surplus funds.

The Council defines its Treasury Management activities as: "The management of the local authority's Investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

Part of the Treasury Management operation is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Councils low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the Treasury Management service is the funding of the Council's Capital Programme. The Capital Programme provides a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations.

This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet the Council risk or cost objectives.

External debt relating to the General Fund is expected to be £14.5 million in 2022/23, rising to £15.4 million in 2023/24 and £16.3 million in 2024/25.

The self financing settlement involved the Council taking on £18.114 million of PWLB borrowing. The HRA business plan provides the repayment of HRA debt over its life. The initial borrowing was commenced to repayment in 2020, however due to changes in government legislation which has impacted detrimentally on the financial position of the HRA, this debt repayment plan is now likely to need restructuring with a new plan being drawn up.

Corporate Plan

The Council's policy drivers are the objectives as set out in the adopted Corporate Plan for the period 2019-2024 which set out the Council's Vision of: *A Stronger Borough Together*

"Councillors, staff, residents, businesses, partners and stakeholders will continue to create a stronger borough by working together.

A stronger borough that is inclusive and engaged and focuses on delivering effective services, balanced economic development, green and safes places resulting in better wellbeing for all".

The Corporate Plan centres around Three core Corporate Objectives and is reviewed and updated on an annual basis.

Corporate Objectives

1. **Building, Protecting and Empowering Communities**
   "Be Proud of your borough as a place to live"
2. **Growing the Borough Economically**
   "Realise the aspirations of the borough, benefiting those who live and work here"
3. **Providing Excellent Services**
   "Delivering those services needed to the highest standard whilst providing value for money"

The Council has a range of other key strategic documents, which include:

- **The Local Plan** - The Council's Local Plan was adopted in 2019. It sets out a Vision for how the Council would like the Borough to look in 2031 and allocates land to provide at least 2,960 new homes and 8 hectares of employment use development. Whilst development on the strategic sites is being delivered by the private sector, the Council is currently looking to make use of opportunities presented by the UK Social Prosperity Fund and Levelling Up to play its part in leading the regeneration of the town centres.

- **Environment Strategy and Action Plan** - The Council's Environment Strategy and Action Plan was adopted in 2019. It set out that the Borough Council is committed to making a positive impact to improve the environmental sustainability of the Borough sets out how Oadby and Wigston Borough Council will contribute towards reducing carbon emissions.
- **Procurement Strategy** – The Corporate Procurement Strategy sets out the Council's strategic approach to procurement and is currently under review.
- **People Strategy** – The Council is currently developing a People Strategy, which it is expected to present to members for sign off in 2023. The document will set out how the Council will attract, retain and develop its workforce.
- **Customer Experience Strategy** –The Council is also developing a Customer Experience Strategy. This document will set out how the Council will engage with residents and businesses, including different demographic groups. The strategy will be brought forward for approval in 2023.

Section 2 – Outlook

2.1 Political, economic and regulatory outlook

The national fiscal and economic situation is an important consideration for the Council. Currently there are a number of significant financial challenges for the sector including: the COVID-19 Pandemic; the shift in funding from Central Government Grant to local taxation (council tax and retained business rates receipts) and uncertainty on the future funding of local government; increasing service pressures; restrictions on activity to generate income (in particular the limitation imposed on councils to make commercial property investments); and future fluctuations in inflation.

The system of funding for local government has significantly changed since 2010, with Councils now increasingly reliant on localised funding sources, principally council tax and business rates. It is widely understood that in the future, all local authorities will face a reduction in core funding from the Government once changes to the current funding regime (in particular New Homes Bonus and Business Rates) are introduced – particularly against the backdrop of recovering from the impact of COVID-19 which also has the potential to affect the council's spending. We continue to monitor the progress of the Review of Needs and Resources, the Government's departmental multi-year Spending Review and the redesign of the national Business Rates Retention System. The Council's current projections within the Medium Term Financial Plan (MTFP) make prudent and robust assumptions around the likely level of funding in light of these government reviews.

The Office of Budget Responsibility (OBR) expect CPI inflation to peak in the fourth quarter of 2022 at its highest rate in around 40 years (April 2022 forecast). They state that the increase is driven primarily by higher gas prices feeding into sharp rises in domestic energy bills, alongside

higher fuel prices and global goods inflation. It is anticipated that inflation will return to target at the end of 2025 as the large swings in energy prices fall out of the annual CPI calculation and output grows broadly in line with the economy's productive potential.
Concerns around pay, utilities and fuel in particular are now starting to become more certain and indeed crystalise and is putting significant further budget pressures for the Council – expediting the financial challenges that were originally forecast to hit the Council from 2023.
Inflationary pressures contributing to the cost of living crisis are expected to impact residents and businesses in the borough, which will increase service pressures further. Service spending is likely to be further affected as key partners seek to increase their contract fees and this is starting to play out in at least one of the Council's major contracts.

Against this economic context, the independent Redmond Review of 2020 that looked into the effectiveness of local authority reporting and external audit made 23 recommendations some of which require primary legislation. The likely implications of the recommendations made include initially an increase in audit fees and likely revised timetables for the production of accounts. Further implications are expected around a requirement for the auditor to present an annual report to Full Council, consideration of the appointment of at least one suitably qualified independent member to Audit Committee, the impact of a new audit regulator (ARGA) and an additional requirement to produce a standardised statement of service information and costs. It is expected that these new arrangements will put further reporting pressure on the organisation.

2.2 The Council's own Strategic Outlook

The infographics below provide a useful snapshot of our local resident and business population.

Population 57,055

Number of young people age under 15 is:
10,365 (18.2%)

Number of people aged over 65 is:
12,265 (21.5%)

Area

The Borough is contained within an area of around **9 square miles** of which approximately two thirds is urban.

Housing

23,270 residential properties

1,200 council housing properties

17,400 owner occupiers

£232,736 average house price

Lower quartile house price, Affordability gap
-£25,852
England average **-£39,328**

Health

Average life expectancy for men
80 years

Average life expectancy for women
85 years

Education

23% \of people have no qualifications in Oadby and Wigston compared with 22% across England

Vulnerable groups

11% of children are living in poverty in Oadby and Wigston compared with 17% across England

Employment

There are around **22,000** jobs in the borough.

38% people aged 16-74 are in full time employment compared with 39% across England

Largest employment sector is **Retail**

Welfare & Benefits

1310 claimants in receipt of Housing Benefit (end of 2021)

2672 claimants in receipt of Council Tax Reduction support (end of 2021)

£97,482.76 amount of DHP paid (end of 2021)

Business/Investment

£16.8m redevelopment to take place to provide **15 industrial/warehousing units** at Genesis Park, creating around **100** new jobs.

Crime & Safety

The overall **crime rate is lower** than the average across England **07 per 1,000** population (England average = 09)

Community & Environment

82.5% of people are **satisfied with their neighbourhood** compared to the average across England which is 79.3%

2.3 Local Government Funding

2022/23 Local Government Finance Settlement

Like all councils, the one-year 2022/23 local government finance settlement provided means that understanding our funding post 2022/23 is extremely difficult. The Council's ability to offset any reduction in its funding through growth, and thereby new homes bonus and additional council tax, is limited. However, the council performs well compared to peers in respect of the level of council tax per head, having taken advantage of the flexibility to increase council tax year on year.

Proposed Changes to the Local Government Funding Regime

The changes to the funding regime anticipated as part of the Review of Needs and Resources and Business Rates Reform remain delayed with no clear timetable from government communicated.

No papers were published as part of the local government finance settlement 2022/23 regarding the Review of Needs and Resources looking at relative needs and locally available resources.

A review of Business Rates Retention (BRR) was announced in 2013/14. The call for evidence on the fundamental review of Business Rates closed in December 2020 but there is still no resolution on how this should be taken forward. Further consultation and technical working groups are expected in 2022/23 although it seems unlikely that this will be implemented by 2023/24. This will be alongside further consideration of a possible reset of accumulated business rates growth and how this might be applied.

Similarly, there have been various consultations concerning the future of the New Homes Bonus, but no detail has been confirmed.

In 2021/22 and 2022/23, the Council received a new source of grant funding, the Lower-Tier Services Grant. In 2022/23, an additional new grant, the Services Grant, was also received. Although these funding streams were confirmed to be one-off as part of the 2022/23 finance settlement, there is now uncertainty over the longevity of these funding streams as the Needs and Resources and business rates system reviews remain to be concluded.

2.4 The makeup of Council funding

Funding for the Council has altered dramatically in recent years, with the loss of Revenue Support Grant from 2019. As recent as 2016/17, this level of funding was over £700,000.

Like all other district councils, Oadby & Wigston has seen its net general fund annual budget reduce over a number of years, from £8.5 million in 2010/11 to £7.0 million in 2021/22 which reduces to £6.5million in 2022/23. The Council has managed to achieve this without cutting any front line services, recently turning to income generation as a means of balancing the books but will need to review alternative ways of delivery such as sharing resources with other local authorities to reduce costs.

Unlike many others, the Council has not been able to capitalise on growth within the borough. This is because the area is dense and there is limited opportunity for housing or employment land growth. This has meant the Council has not seen dramatic increases in council tax and new homes bonus from housing growth or additional retained business rates achieved through business growth.

As detailed above, the conclusion of the Needs and Resources review is perceived to be beneficial to the Council as the system in respect of perceived council “spending need” would be reset and associated funding adjusted in line with this.

Ignoring the effect of additional grant funding received in 2020/21 and 2021/22 relating to COVID-19 support, the level of grant funding in 2022/23 has reduced by almost half of the level received in 2017/18.

Chart 1 – Sources of Funding

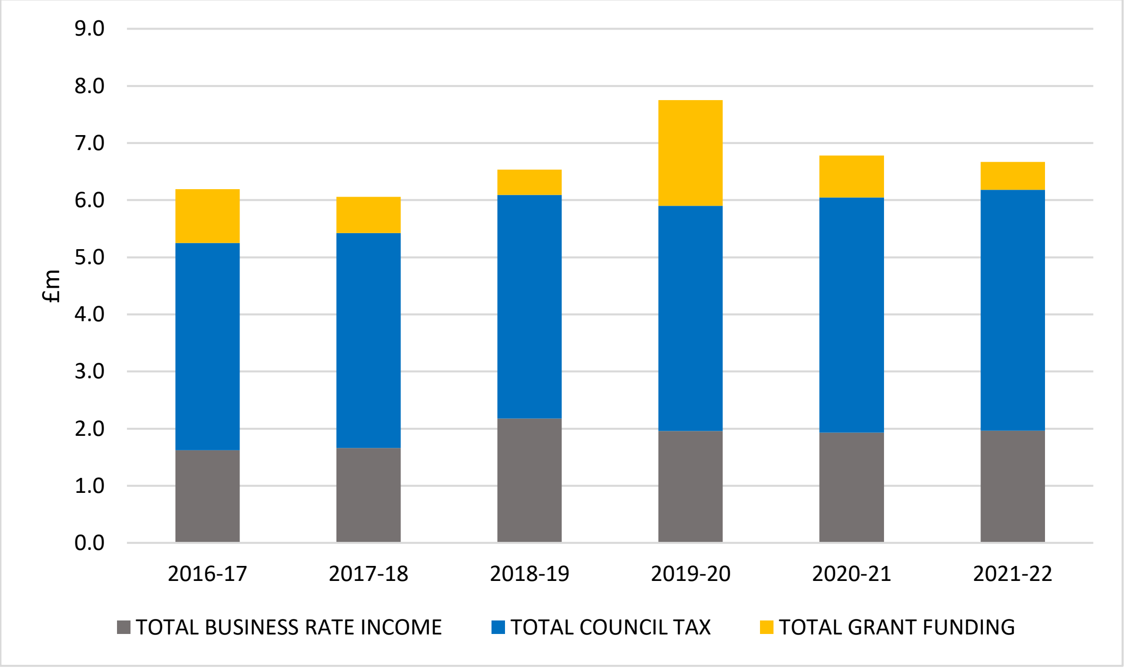
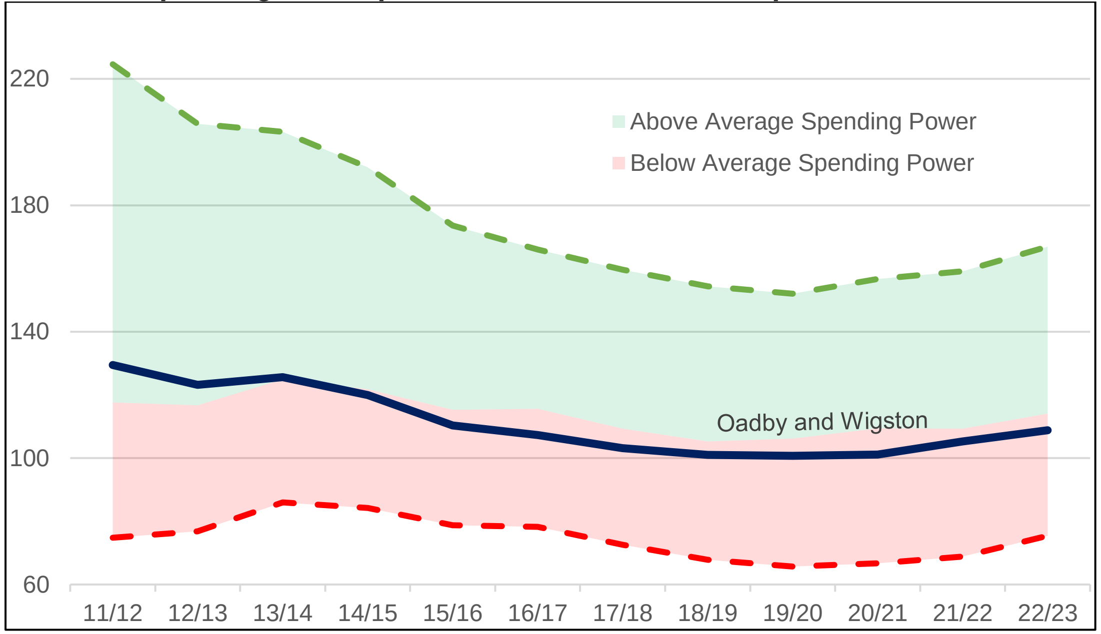


Chart 2 – Spending Power per head of the Council compared to other Districts



Council Tax

The level of Council Tax funding assumed in a budget year is based on the "tax base", a measure of the relative taxable capacity of the borough expressed as the equivalent number of Band D properties in each area, multiplied by the Band D Council Tax.

Compared to peers, the Council has a high level of Band D. However, the Oadby and Wigston area is unparished, and as such, this level of Council Tax will also be funding spending that for other Council's may be funded and delivered by a parish or town council.

Whilst the Council's level of Band D is high, proportionately across the borough, the Council has a heavier weighting of properties in a lower band (bands A – C) which generate less in council tax income compared to properties in higher bandings.

Additionally, since housing growth is restricted, the Council's tax base is towards the lower quartile when compared to other Councils.

Chart 3 – Council Tax Income per head

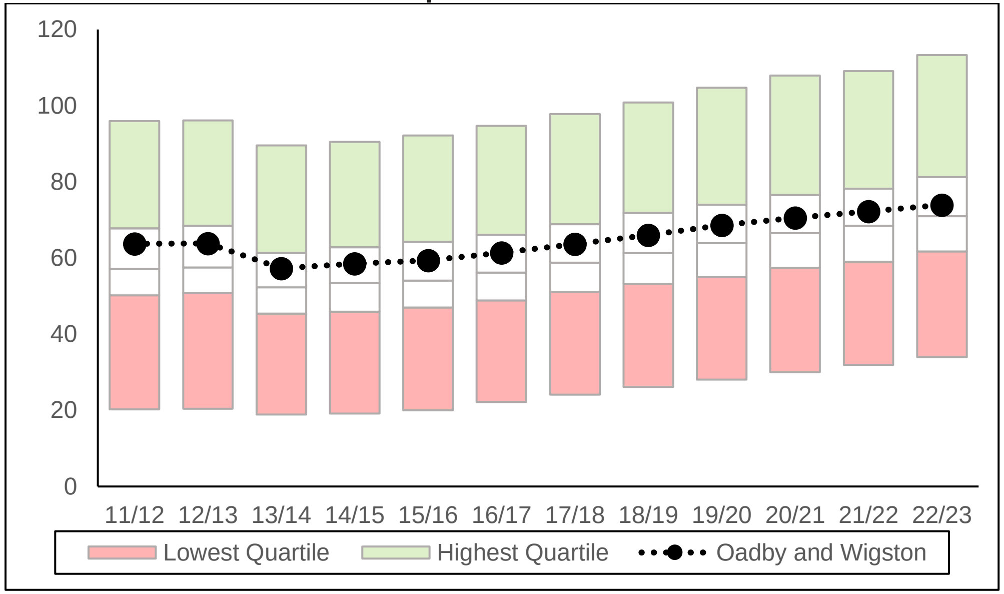


Chart 4 – Taxbase per head

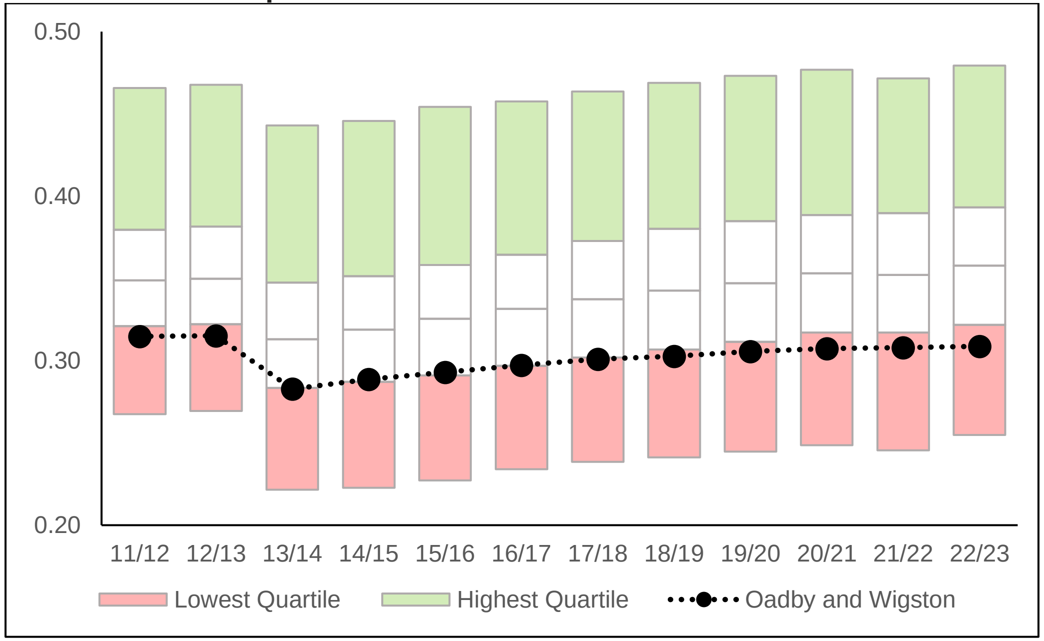
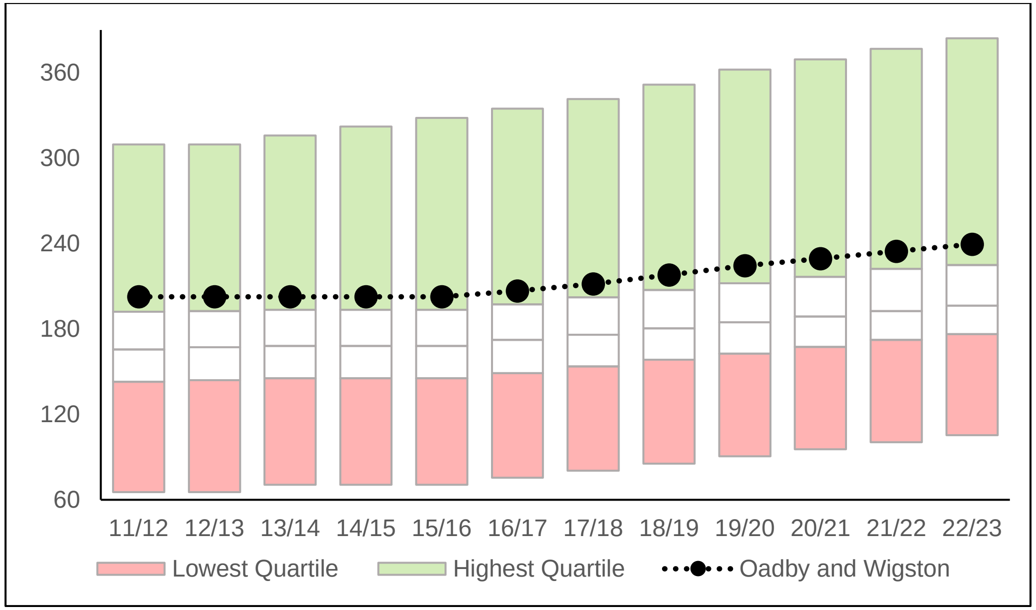


Chart 5 – Band D Council Tax

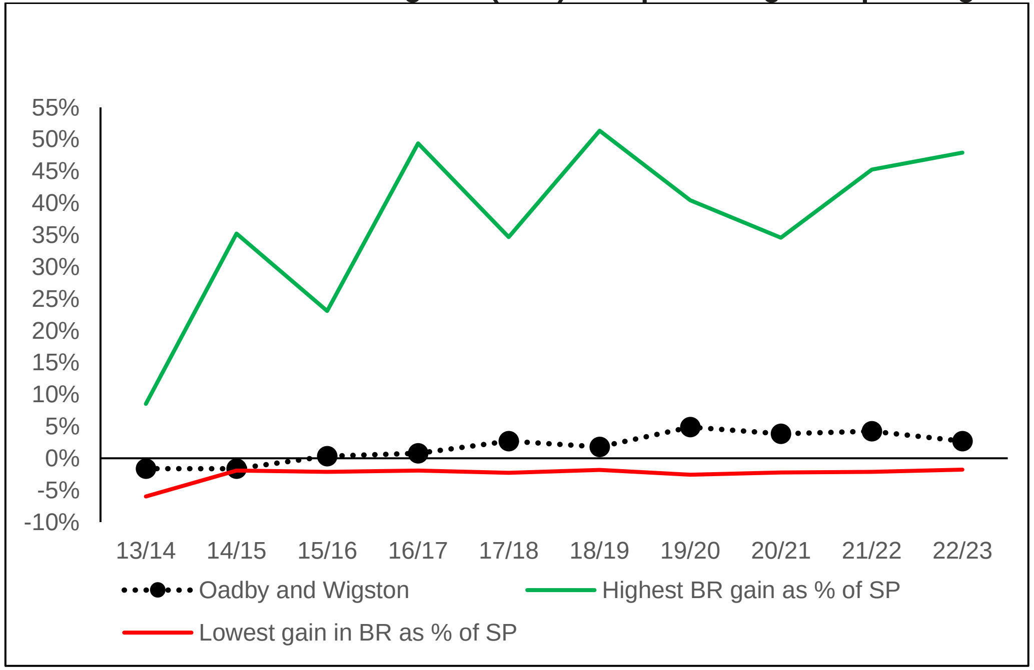


Business Rates

The Council has benefitted very little from business rates growth above the baseline – the level at which the government expect business rates to be generated. This is in contrast to some Councils who have been able to retain significant amounts of rates, meaning greater opportunity to bolster reserves and remain financially sustainable.

Whilst the Council cannot expect to retain any substantial additional rates once the business rates baseline reset is determined and implemented, it is expected that there will be some upside benefit of rates.

Chart 6 – Business rates gain / (loss) as a percentage of Spending Power



Locally generated income

Compared to peers, the CIPFA Financial Resilience “Fees and Charges Ratio” (which shows the proportion of income against the council’s total service expenditure) is at the lower end of benchmarks.

The Council has started to shift this position and focus on new income generation, recently introducing two new significant income streams which have made a positive contribution in 2021/22:

- The Council introduced a Selective Licensing scheme in May 2020 to address the poor standards of housing in the South Wigston rental market. To date the council has issued 698 licenses and total income of £520K, of which £230K was collected in 2021/22. The budgeted level of income for 2022/23 is £150K.

- Charges for Car Parking were introduced in 21/22 across all 8 of council-owned car parks around the Borough. £209K was collected in 2021/22. Charges are forecast to recover £550K for the Council in 2022/23.

Aside from car parking and selective licencing, the Council’s other largest income streams relate to garden waste collections (£494,000), planning application fees (£210,000), cemeteries (£177,250), taxi hack licences (£131,600) and taxi driver (£33,500) licences.

A new Corporate Charging policy to guide services in setting its level of fees and charges for both existing and new income streams is now in place. This new policy seeks to ensure that the cost of providing a service is fully understood and taken into account when determining fees and charges for services to ensure the cost of the service is fully recovered and where the Council is able to do so, a surplus generated.

2.5 Council spending

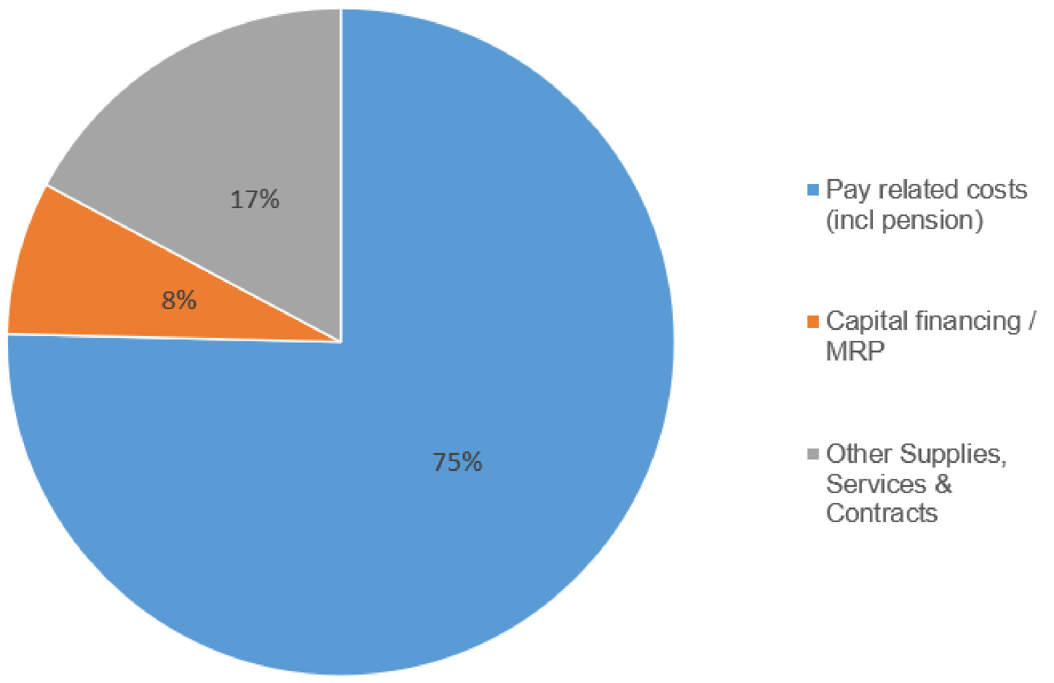
Like most Councils, the largest area of revenue spend is on pay and pay related costs. For 2022/23 this is forecast at well over £7 million for 2022/23 and includes all relevant on-costs such as national insurance and employers pension, as well the additional lump sum pension contributions the Council is required to make to the Leicestershire Local Government Pension Scheme.

The second largest area of Council spend relates to supplies, services and contracts (circa £1.5 million for 2022/23). This broad category of spend includes spending for all services and all contracts. It includes income received in the form of a management fee from the Council’s major contract with Everyone Active (Sports and Leisure Management) for the running of it’s two leisure centres, which is netted off to reduce overall spend. Other key areas of spend in this category include the running costs associated with Council-owned assets such as utilities, NDR and insurance. In general, this area of spend is expected to be the most volatile over the course of the medium term financial plan as it is more likely to be subject to inflationary-linked pressures.

Capital financing, which refers to the revenue cost of borrowing and the Minimum Revenue Provision we are required to make
Locally generated income in the form of fees and charges for services is in the region of £1.5 million per year (at 2022/23 levels) and is netted of from revenue spending. The HRA recharge, a charge from the General Fund to the HRA levied to cover the consumption of corporate services (£1.2 million for 2022/23) also reduces expenditure.

Corporate and democratic costs relate to the allowances paid to elected members (£173,000 at 2022/23 level).

Chart 7 – Key areas of Council Spend



2.6 Reserves and Reserves Level Risk Assessment

Since 2012, the Council's reserves have reduced in comparison to its spending. Whilst the position has stabilised since 2016, the Council now needs to bolster its reserves to ensure it is equipped to manage changes to the local government funding regime, the current economic conditions and any unforeseen financial challenges.

The table below sets out the reserves position for the General Fund. As well as maintaining a general balance the council can also set aside Earmarked Reserves for specific items.

The charts below show how the Council, compared to peers, is at the lower end of benchmarks when considering its level of useable revenue reserves in the context of its budget size.

Table 1 – Historic position of General Fund Reserves

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Deferred Capital Receipts	3	3	3	3	3	3	3	3	3	3
General Fund Reserve	730	891	1,014	996	616	600	600	1,015	1,127	1,182
Housing Revenue Account Reserve										
Use Capital Receipts Reserve	455	705	579	682	1,230	735	937	561	665	790
Contributions Unapplied	30	30	30	30	30	30	24	24	24	24
1-4-1 Housing Receipts Reserve										
Other Usable Reserves	**1,218**	**1,629**	**1,626**	**1,711**	**1,879**	**1,368**	**1,564**	**1,603**	**1,819**	**1,999**
Usable Earmarked Reserves	**2,929**	**4,039**	**4,302**	**2,765**	**2,084**	**1,946**	**1,448**	**1,449**	**5,734**	**2,037**
Total Usable Reserves	**4,147**	**5,668**	**5,928**	**4,476**	**3,963**	**3,314**	**3,012**	**3,052**	**7,553**	**4,036**

Chart 8 – General Fund Useable Revenue Reserves as a percentage of Spending: comparison to peers

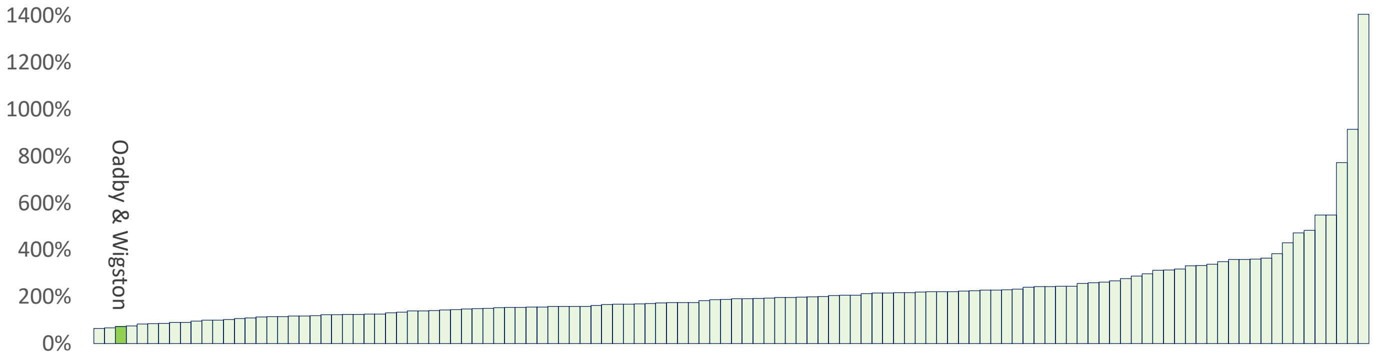


Chart 9 – General Fund Useable Revenue reserves as a percentage of Net Revenue Expenditure

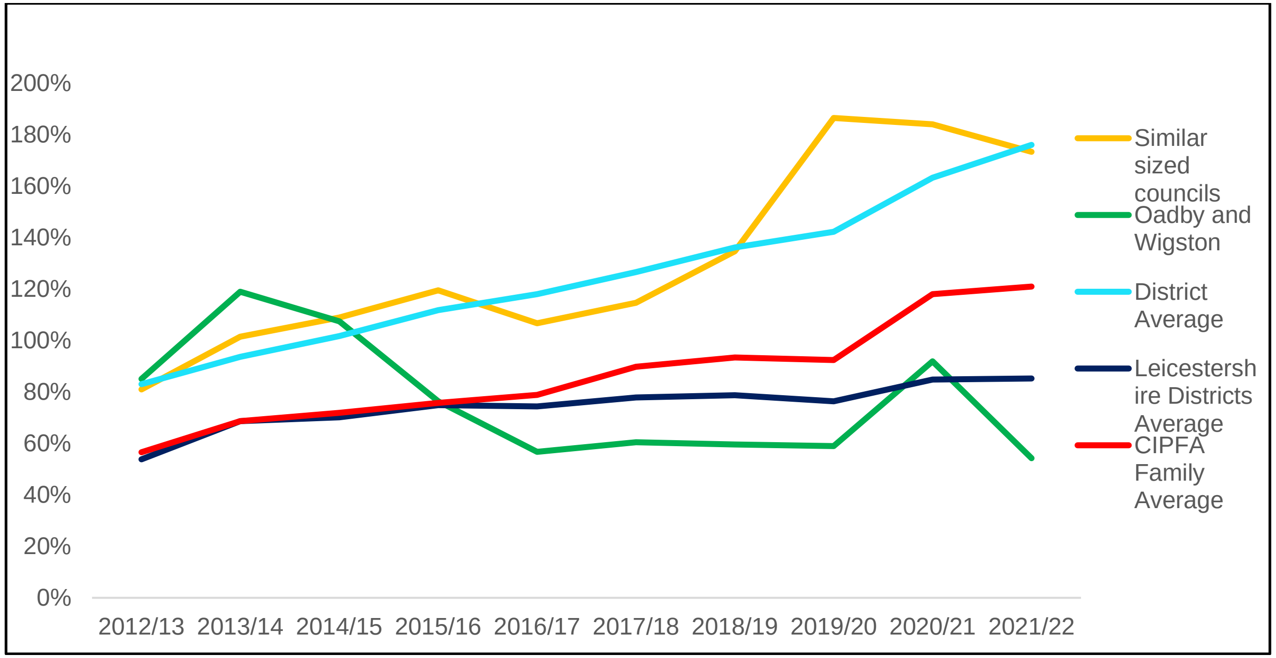
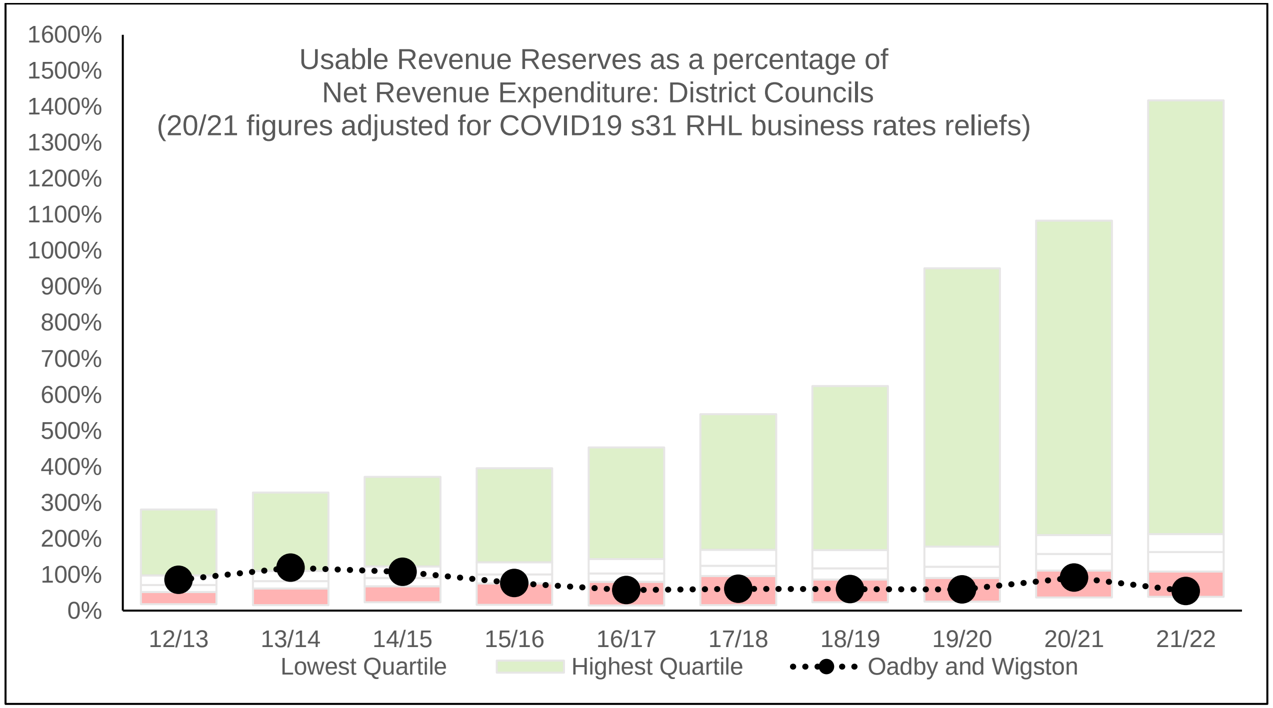


Chart 10 – General Fund Useable Revenue reserves as a percentage of Net Revenue Expenditure



It is important that the Council has sufficient reserves and balances to enable it not only to maintain its financial standing but also to ensure that the Council can realise its service provision expectations.

As set out above, the Council's reserves are low compared to peers. Part of the feedback received from the LGA in 2021 was that the Council should use a risk-based assessment of reserves rather than a percentage. At the time of writing this strategy, the reserves on the General Fund equate to approximately 18% of the budgeted net service cost. Whilst this percentage may seem sufficient, the volatility that can occur on council spending alone could reduce reserves dramatically within a year.

The table below sets out the Council's General Fund reserves, consisting of general reserves and earmarked reserves.

To assist local authorities the Chartered Institute of Public Finance and Accountancy (CIPFA) has published a Local Authority Accounting Practice (LAAP) bulletin that provides best practice guidance on the management of reserves and balances. In accordance with the CIPFA guidance, the relevancy and adequacy of the levels of reserves for the Council should be reviewed on an annual basis.

The financial risk assessment below considers the outcomes of a financial risk assessment, to ensure that as a minimum there are sufficient balances to support the budget requirements and adequately mitigate the risk of significant financial loss in the medium term, in the 2022/23. This exercise will be repeated when setting the forthcoming year's budget as part of the annual financial cycle.

The risk assessment indicates that in the worst case the Council could require £1.013 million of its net service revenue budget requirement to fall back on, should all of the potential risks happen concurrently and at their most extreme.

Ideally the General Fund Reserve balance should be somewhere between the range identified in the table (£813k – £1.013 million). The current General Fund Balance level £1.182 million. Therefore, in reviewing this figure based on current net budget requirement, the Section 151 Officer considers it prudent to minimise the use of reserves and adopt a strategy to seek to bolster reserves over the life of this strategy.

Table 2 - Risk Assessment for the General Fund Balance 2022/23

Risk	Likelihood	2022/23 Value ***(based on in-year impact only)***
Natural disasters and national emergencies The Bellwin Scheme provides financial assistance to local authorities in the event of a national emergency or disaster, subject to an authority contributing to the total costs by an amount equivalent of 0.2% of its approved budget. For this Authority this would require approximately £13k.	**Low**	**£13,000**
Business Continuity - It is difficult to anticipate the cost of such an event that would affect the Authority's business continuity, although it is likely to be substantial. The Council's response to the pandemic has enabled the organisation to be fully agile and more able to respond to emergencies whilst maintaining service delivery. However, for illustrative purposes, £100k is assumed.	**Medium**	**£100,0000**

National Economic Issues As we have seen through the COVID-19 pandemic and cost-of-living crises, Councils have been relied on to deliver financial assistance to businesses and residents. The New Burdens funding doctrine covers additional costs that the Council bears in delivering central government burdens. At the time of writing this report, the inflation crisis continues to worsen. Assessments show that the impact could be significant in respect of supplies and services. Additionally, and linked to inflation, the local government pay award is likely to be considerably in excess of the 2% built into the budget. Additional pressures in relation to service demands are expected to continue to emerge. In total, the Council could expect in the region of £500,000 - £700,000 of additional pressures in year.	**High**	**£500,000 - £700,000**
Grant Funding The Council sometimes seeks external funding/grants for one-off projects. In the event that the expected projected outturns are not achieved, repayment of funding or grant may be required.	**Low**	**£50,000**
Property Assets The identification of unplanned major works to the Council's property portfolio could give rise to a budget pressure. As a responsible owner and with a duty to care, the Council could be expected to fund major works at short notice. Although the initial response would be to look to re-phase the capital programme, this may not be feasible, and additional revenue funding may be required, or prudential borrowing.	**Medium**	**£100,000**
Legal Issues It would be prudent for the Authority to make provision for an unfavourable outcome of any legal action taken against it, which could be made on a range of different grounds, including compensation payments, equal pay, discrimination and corporate manslaughter. Where the Council provides a paid service to a third party that does not directly relate to any statutory duty, the Council may require Professional Indemnity Insurance. This insurance cover is not automatically arranged and in the event that it isn't, and a claim arises the Council could be deemed liable for resulting costs.	**Medium**	**£50,000**
Total Financial Risk Exposure		**£813,000 - £1,013,000**

2.7 Capital Strategy and Capital Programme

The capital programme sets out the capital plans for the next four years, taking account of any capital investment required to deliver outcomes, transformational change and Council priorities. The capital programme covers the same timeframe as the medium term financial plan to ensure all plans are co-ordinated and the focus is on the medium term. The programme is reviewed annually to ensure projects are still in line with outcomes, and that the programme is affordable.

The Capital Programme Strategy details the priorities of the council in terms of capital expenditure and provides a framework for the council's capital plans to be agreed and delivered within. The Capital Programme Strategy and supporting capital programme are approved each year in February by Council.

The revenue impact of capital, including financing, interest, Minimum Revenue Provision (MRP) and impacts to revenue expenditure and income as a result of capital spend are accounted for in the revenue budget and medium term financial plan.

The Council's capital plans are set out annually in the Capital Strategy and Capital programme. For 2022/23, the General Fund Capital Programme includes £10.904M of capital projects.

Table 3 – Capital Programmes (General Fund and HRA)

Scheme	2022-23 Total Budget
	£000's
Housing Revenue Account	
Horsewell Lane housing development, Modular Build	2,330
Decarbonisation of Housing Stock	514
Decent Homes Work	300
Housing Block Improvements	300
Fire Safety	250
Central Heating	200
Major Adaptations	150
New Housing Initiatives	120
Other Projects	180
Total - HRA	**4,344**

General Fund	
New Council Offices	3,276
Vehicle Refurbishment	460
Invest to Save	350
Housing Projects	320
Local Authority Delivery 2	301
Skatepark and Parkour or BMX facilities	220
Provision of Energy Efficiency Technologies at Brocks Hill	200
Coombe Park Pavilion Extension	170
New Facility at Uplands Park	145
Oadby Pool Housing Project	110
Wigston Town Centre Car Parks	100
Other Projects	908
Total - General Fund	**6,560**
PLANNED EXPENDITURE GRAND TOTAL	**10,904**

Section 3 - The Council's Financial Outlook

Forecast financial position 2022/23 – 2026/27

The forecast position is detailed below and includes a range of assumptions, of which key areas are described in the preceding sections. Our projections show that our forecast net spending is not contained within anticipated funding over the life of the plan. For 2022/23, the forecast position at the time of wiring this strategy is starkly different to the budgeted position due to the emerging and intensifying inflation crises. As the inflation crises is set to escalate further, deficits are projected to occur every year going forward, with the position slightly more favourable in 2023/24 and 2024/25 than in later years, due to an assumption of continuing government grant and bonus (the Services Grant, the Lower Tier Services Grant and New Homes Bonus).

Over the life of the plan, reserves would be depleted if action were not taken.

Chart 11 – Budget Gap and Impact to Reserves

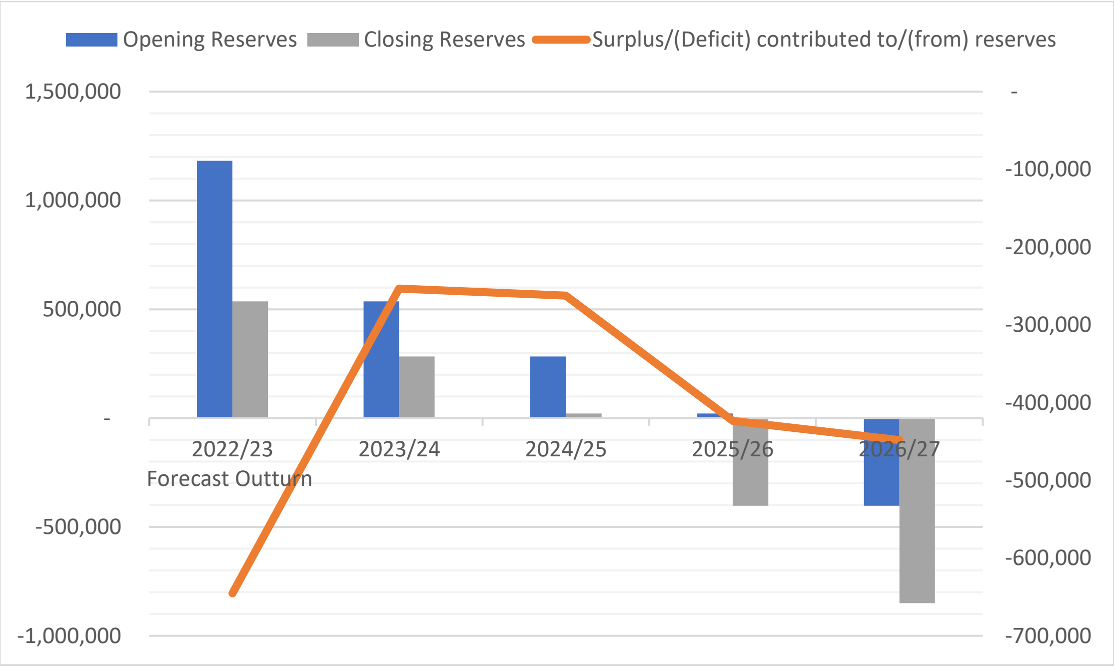


Table 3 – The General Fund Medium Term Financial Plan *

Item	2022/23 Forecast Outturn	2023/24	2024/25	2025/26	2026/27
Net Revenue Expenditure					
Locally generated income	-1,430,000	-1,460,000	- 1,490,000	-1,520,000	-1,550,000
Recharge from HRA	-1,240,000	-1,360,000	-1,380,000	-1,410,000	-1,440,000
Pay related costs (incl pension)	7,410,000	7,460,000	7,600,000	7,740,000	7,880,000
Capital financing / MRP	730,000	840,000	890,000	940,000	940,000
Other Supplies, Services & Contracts	1,690,000	1,610,000	1,490,000	1,430,000	1,620,000
Total Net Revenue Expenditure	**7,160,000**	**7,090,000**	**7,110,000**	**7,180,000**	**7,450,000**
Funding					
Contribution from reserves	-130,000				
Council Tax	-4,220,000	- 4,330,000	-4,440,000	-4,560,000	-4,680,000
Retained Business Rates	-2,010,000	-2,280,000	-2,220,000	-2,290,000	-2,330,000
Collection Fund (Surplus)/Deficit	150,000	100,000	150,000	100,000	
New Homes Bonus	-130,000	-170,000	-170,000		
Revenue Support Grant					
Lower Tier Services Grant	-70,000	-60,000	-60,000		
Services Grant	-110,000	-110,000	-110,000		
Total Funding	**-6,520,000**	**-6,850,000**	**-6,850,000**	**-6,750,000**	**-7,010,000**

Item	2022/23 Forecast Outturn	2023/24	2024/25	2025/26	2026/27
In-Year Budget Gap / (Surplus)	**640,000**	**240,000**	**260,000**	**430,000**	**440,000**
Cumulative Budget Gap / (Surplus)	**630,000**	**870,000**	**1,130,000**	**1,560,000**	**2,000,000**

all values are subjected to rounding differences

3.1 Key Assumptions to forecasts

Key areas of funding, expenditure and income have been identified and reviewed to determine the most realistic future position. For key areas of spend, including supplies, service and contracts, fuel, insurance and utilities inflation forecasts from the Office for Budget Responsibility forecasts (March 2022) have been used. For pay related costs, the latest offer in relation to the 2022 pay award negotiation has been used.

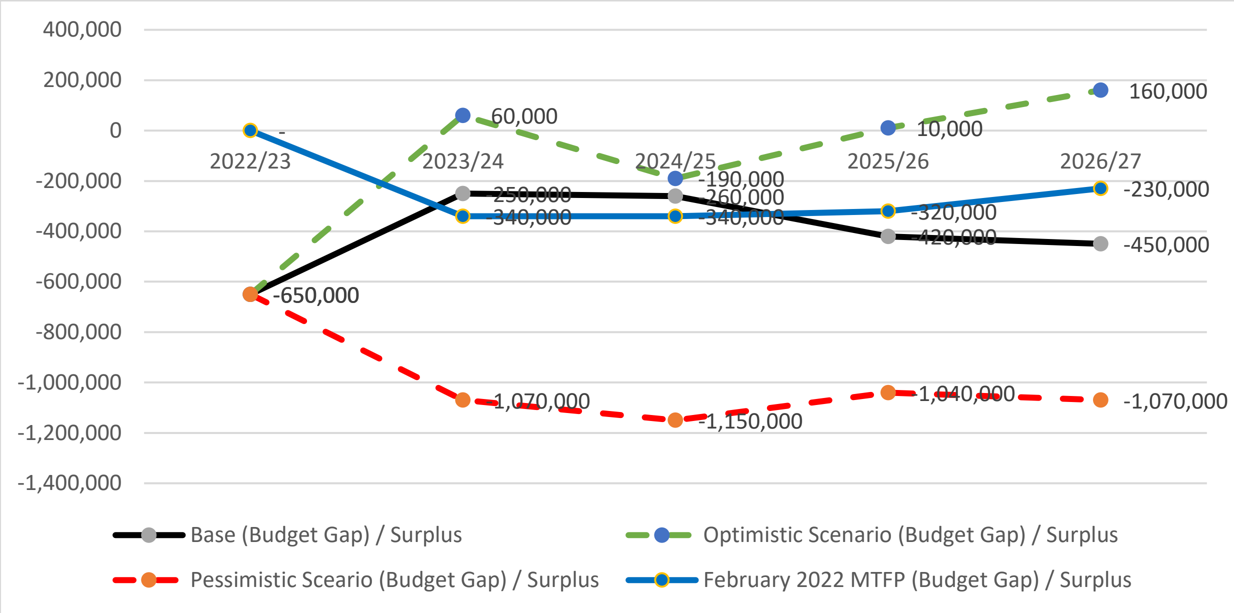
Funding estimates have been forecast using a funding model provided by the Council's funding advisors Pixel Financial Management, whose model projects business rates, new homes bonus and council tax based on local growth assumptions and the national funding formulae.

A list of all assumptions can be found in Appendix 1.

3.2 Scenario and Sensitivity Analysis

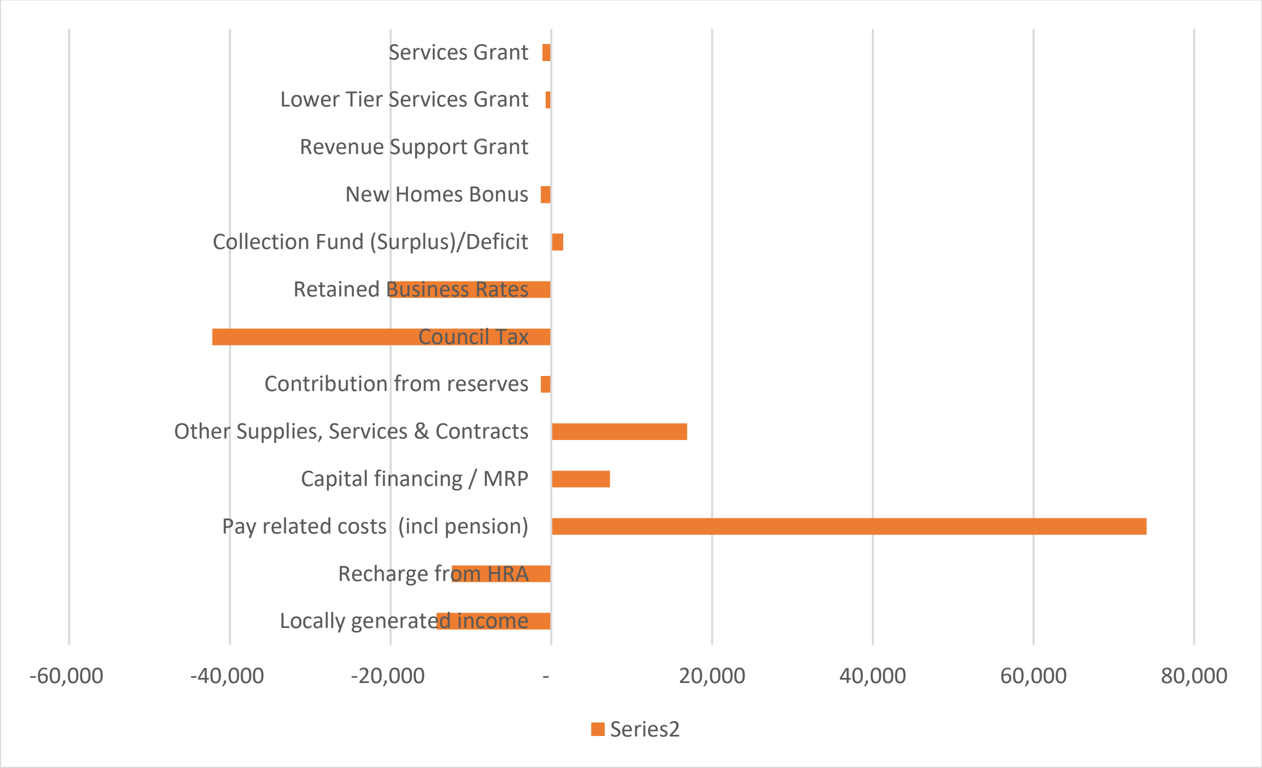
In anticipating the future financial position of the Council, it is important to determine and understand the best and worst-case scenarios – that is, an optimistic position and pessimistic position. The chart below sets out the range of outcomes for the budget gap (or surplus) based on the assumptions being either more favourable or more adverse overall.

Chart 12 – Comparison of Budget Gaps under different scenarios



Since the majority of the future years' financial strategy and model is based on a series of assumptions, the further into the future projections run, the higher the risk that these assumptions are more volatile than anticipated. As such, a relatively small change in key underlying assumptions can produce a significant change in the forecast. The key sensitivities of the financial plan are set out in below, which shows the impact of a 1% change in assumptions, based on 2022/23 levels as a starting point.

Chart 13 – Annual impact of 1% change in key sensitivities



Section 4 - The Housing Revenue Account

4.1 Forecast financial position 2022/23 – 2026/27

The Housing Revenue Account includes and expenditure associated with the Council's function as a social housing landlord. The items that can be debited and credited to the account are determined by statute.

The revenue budget for 2022/23 set out the costs of delivering current levels of service while taking into account the effect of current government legislations regarding changes to housing finance including rent increases of no more than CPI +1%. This follows four years of rent reductions imposed by the Government which ran between 2016/17 and 2019/20.

The 2022/23 Budget was set assuming a 2% pay increase for officers with inflation built in energy bills and contracted services.

Since the Budget was set by the Council, the latest employer offer for the 2022/23 pay award of £1,925 per officer, plus a cost-of-living crisis which has seen inflation rise to around 10% by July 2022 are both well above that which was budgeted for. As a result, the updated projections for the HRA are, over the term, more favourable because of the inflation position that will impact the rent formula assumptions (CPI + 1%) for rent levels in 2023/24 and beyond.

Like the General Fund, the HRA is subject to volatility in respect of inflation, but has a greater ability to absorb impacts due to the rent formula (CPI + 1%) remaining at 1% above inflation. There are a number of other key features of the HRA which are important, given the current economic conditions and strategic outlook. These include (but are not limited to):

- Rising Interest Rates – The Bank of England is currently in the process of increasing interest rates in order to combat inflation. 2022 has seen the largest rise in interest rates for over a decade. The Council needs to refinance debt on a regular basis and is therefore exposed to further increases in this regard.

- Energy costs - The HRA is vulnerable to a spike in heating and power costs within its sheltered accommodation. Unlike energy domestic bills which are currently regulated by Ofgem and subject to a price cap, the current energy contracts of the Council run until the middle of 2023/24 after which they will be subject to price increases if the current crisis has not been abated. Current forecasts suggest that energy inflation will have settled down and returned to pre-inflation crises levels.

- Rent Policy – The government has a history of intervening in rent policy. With inflation running high at around 10% a substantial rent increase is due for 2023/24. Many of the Council's poorer tenants will have their rent paid by Universal Credit and Housing Benefit however this passes the burden on to the Welfare Bill which the government will want to protect.

- Rent Collection Rates – Increases in fuel bills will put pressure on Tenants budgets and will likely impact "bad debts" provisions. The provision for uncollectible debts at 31 March 2021 was £236,000. A provision for bad debts is made in respect of both former tenant arrears and current tenants. The Council included £100,000 in each year's original budgets for further provision against write-offs of bad debt. This is considered to be a prudent measure against a back drop of the exiting from the pandemic and the Government's policy of Welfare Reform with Universal Credit awards for those out f work going back to pre-Covid levels.

- Right-to-Buy Sales - Assumptions are that there will be seven sales each year of the plan counterbalanced by two purchases – a net reduction of five properties from its current stock. There is a risk that stock losses do not follow the pattern assumed in the budget and forecast.

- Borrowing - In 2012 the Council borrowed £18.114million in order to finance the retaking control of its Housing Stock. Due primarily to the reduction in rents the Council has refinanced using short-term borrowing, which has been at an advantageously low interest rate for some time compared to Public Works Loans Board (PWLB) rates. The treasury position of the HRA requires further review in light of this and in light of other finance demands, such as the opportunities to de-carbonise the housing stock which will likely require additional borrowing and/or refinancing.

- HRA Capital – The Council is currently commissioning a stock condition survey which will layout the amount of work required to keep the current stock up to the 'Decent Homes Standard' and identify the work required to bring the housing stock to a position of 'zero carbon' by 2050.

- General Fund Recharges - Recharges between the General Fund and the HRA will be continuously reviewed in the light of structural changes within both the HRA and the rest of the Council. These will be proportionate and fair.

- Service Charges - Tenant's service charges are currently increased at the same rate as tenants rent.

The HRA Business Plan is in the process of being reviewed and will outline the long-term future for a sustainable HRA. Significant developments in the plan are incorporated within this document including financial forecasts outlined in Section 1 of this document.

The tables and chart below sets out the current projections for the HRA and historic position of HRA reserves.

Table 4 – The Housing Revenue Account

	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27
	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	£'000	£'000	£'000	£'000	£'000	£'001
EXPENDITURE						
Management	1,958	1,988	2,030	2,059	2,077	2,093
Repairs and maintenance	1,067	1,019	1,102	1,150	1,173	1,197
Council Tax	10	10	10	10	11	11
Debt Management	10	10	10	10	10	11
Depreciation (MRA cont.)	1,580	1,722	1,808	1,853	1,899	1,946
Provision for Bad Debts	75	75	100	100	100	100
Gross Expenditure	**4,700**	**4,824**	**5,060**	**5,182**	**5,270**	**5,358**
INCOME						
Rents - Dwelling	(4,985)	(4,965)	(5,439)	(5,741)	(5,859)	(5,980)
Rents - Non Dwellings	(93)	(93)	(113)	(114)	(117)	(120)
Charges for Services and Facilities	(197)	(197)	(201)	(205)	(210)	(215)
Gross Income	**(5,275)**	**(5,255)**	**(5,753)**	**(6,060)**	**(6,186)**	**(6,315)**
Interest payable	630	503	636	672	707	743
Interest Receivable	(5)	(5)	(5)	(5)	(5)	(5)
Revenue Contribution to Capital						
Transfers to/(from) Reserves	0	0	0	0	0	0
Total Capital Charges and Appropriations	**625**	**498**	**631**	**667**	**702**	**738**
(Surplus)/Deficit for the Year	**50**	**67**	**(62)**	**(211)**	**(214)**	**(219)**

Opening Balances						
Housing Revenue Account	(1,155)	(1,155)	(1,088)	(1,150)	(1,361)	(1,575)
Universal Credit Reserve	(140)	(140)	(140)	(140)	(140)	(140)
Housing Levy	(220)	(220)	(220)	(220)	(220)	(220)
Closing Balances						
Housing Revenue Account	(1,105)	(1,088)	(1,150)	(1,361)	(1,575)	(1,794)
Universal Credit Reserve	(140)	(140)	(140)	(140)	(140)	(140)
Housing Levy Reserve	(220)	(220)	(220)	(220)	(220)	(220)

Chart 14 – Contribution (from)/to HRA Reserves

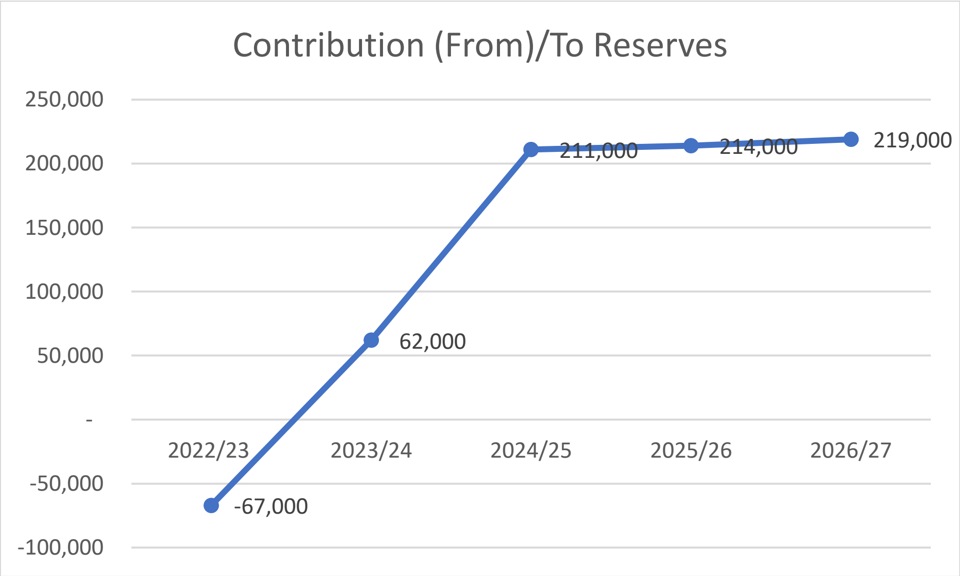


Table 5 – Historic Reserves - HRA

HRA	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Deferred Capital Receipts										
General Fund Reserve										
Housing Revenue Account Reserve	1,027	1,897	2,723	1,346	432	635	1,086	1,139	1,332	1,155
Use Capital Receipts Reserve										
Contributions Unapplied										
1-4-1 Housing Receipts Reserve	0	0	0	47	47	283	389	461	515	678
Other Usable Reserves	**1,027**	**1,897**	**2,723**	**1,393**	**479**	**918**	**1,475**	**1,600**	**1,847**	**1,833**
Usable Earmarked Reserves	**945**	**1,512**	**500**	**376**	**370**	**730**	**1,177**	**739**	**1,141**	**1,179**
Total Usable Reserves	**1,972**	**3,409**	**3,223**	**1,769**	**849**	**1,648**	**2,652**	**2,339**	**2,988**	**3,012**

Section 5 – How we will manage our finances and deliver savings through the Sustainability Plan

5.1 Our general approach to managing finance and adoption of the CIPFA Financial Management Code

In 2021, the Council began to adopt a new approach to managing its finances, following feedback from the LGA that the Council needed to address resourcing issues and the quality of financial reporting. The Council's response included the appointment of a new Strategic Director and Section 151 Officer and a number of new roles within the service to allow implementation of a new finance business partnering service delivery model, which allows for greater engagement between finance and service areas.

In 2020 the Chartered Institute of Public Finance and Accountancy (CIPFA) introduced a new Financial Management Code. The Code is intended to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability and sets the standards of financial management for local authorities.

By following the 6 core principles of the Code, the council will follow best practice in relation to managing finance. The Council has adopted the Code and has identified a number of improvement actions where the code requirements were not met in full, which are reported as part of the 2021/22 Annual Governance Statement.

Illustration 1 – Core principles of the CIPFA Financial Management Code

Leadership	Accountability	Transparency	Standards	Assurance	Sustainability

5.2 Decision making and finance – Financial Appraisal and Affordability Assessment

A specific area for the Council from the Corporate Peer Challenge in 2022 was around aligning the council's finance structure to meet the council's needs at operational and strategic levels. As part of the Council's response, actions were put in place to develop with members, a standardised approach to financially appraising projects and assessing their affordability.

In light of the financial challenges and limited financial resources set out in this strategy and to ensure decision making is as effective as possible, the Council will, where appropriate, use defined financial appraisal techniques to assess the desirability of projects and decisions. Services will work with finance to identify and scope understanding of all associated implementation and ongoing costs and any resultant cost savings and/or income generation. Where appropriate, project outcomes will also be assessed against the medium term financial plan so that members can be informed of the overall impact to the council's forecast financial position.

For projects where there is substantial financial or resource investment required, or where there are two or more mutually exclusive projects due to resource constraints, all of the following financial appraisal techniques will be used depending on the applicability of the project or decision that is being assessed:

- **Net Present Value (NPV)**
  This technique identifies all the cash flows associated with a project with an adjustment to reflect the time value for money (because money today is worth more than money tomorrow). The result is expressed in pounds and either negative (loses money) or positive (makes money). It can be used for one project, or to compare various projects or scenarios. This technique is particularly useful for projects that don't make a return, but that improve a net loss position, compared to the status quo or another scenario.

- **Return on Investment (ROI)**
  Return on investment describes how much return (net of costs) will be received on an annual basis because of the initial investment. It is expressed as a percentage. The technique can be easier to understand but can't be used where there is no financial return.

- **Payback**
  Payback sets out how long it will take a project to repay the initial investment sum and can also be adjusted to reflect the time value for money (because money today is preferable to money tomorrow). The result is expressed in years (or months) or, if defining a time period, the result can be "does not pay back". The technique is widely used and easier to understand compared to other techniques but it can't be used where there is no financial return.

An affordability assessment against the medium term financial plan will also be undertaken – this will involve the creation of a new plan scenario that includes the revenue impact of the project.

5.3 The Sustainability Plan

The Sustainability Plan sets out how the Council will achieve savings over the life of the medium term financial plan period. Along with the MTFP, the sustainability plan will become a "living" document that will be reviewed and updated regularly. The below themes set out how savings will be identified and delivered:

- **Financial Management**
  An immediate review of the reserves of the Council will be undertaken in light of the reserves position and risk assessment outlined above. It is expected that several earmarked reserves will be able to be reassign to general reserves, allowing for greater coverage and resilience. An initial £200,000 is set out for an immediate reallocation.

  Other savings on financial management may be achievable, such as reduction in borrowing costs on loans for example.

- **Service Review**
  As part of the approach to ensure the Council can deliver services within its funding means, the Council will undertake a series of service reviews. This will initially likely be focussed on high-value services because these services may be more likely to be able to make savings.

  The council will make use of benchmarking to identify areas of high spending services. Models of alternative delivery, including sharing with another council and outsourcing, will be considered as options to identify savings, along with service changes.

  A prudent estimate of a recurring £50,000 is set out to be achieved from 2023/24.

- **Outcome Based Budgeting**
  In preparing the budget for 2024 and beyond, the Council will undertake a wholesale review of its operations and costs. This will involve undertaking an outcome based budgeting exercise, where the council's budget will be rebuilt based on member engagement of the level of service to be delivered for each statutory service and whether discretionary services continue and if so at what level. An estimate of 0.5% of council spending, equating to £47,000 per year, is included in the plan from 2024/25.

- **Asset Management**
  The Council is responsible for 69 assets on the General Fund, compromising of Council offices, the Depot, Community Centres, Pavilions, Public Conveniences, Parks, Land, Allotments, Car Parks and Cemeteries. By reviewing its asset base, the Council expects

to be able to reduce its ongoing liabilities in respect of assets through divestment to reduce running costs and/or asset enhancement to improve income. A saving of £25,000 per year is included in the plan from 2024/25.

- **Income Generation**
  Building on the adoption of a new approach to corporate charging, existing income streams will be enhanced to ensure all opportunities to generate income are taken forward. Additionally, new opportunities for income generation will be identified and taken forward where market research and financial appraisal suggests it is worthwhile doing so. Additional income of £15,000 per year is included I the plan from 2023/24. This is in additional to the core assumption of 2% increase in income per year that is already built into the medium term financial plan and is therefore more likely to be achieved through a new income scheme or an existing scheme where forecast demand is higher or there is a substantial increase above 2%.

- **Contracts**
  The Council has a wide range of contracts for the delivery of equipment and services. Overall, the Council will refine its contract management approach so that acts commercially and achieves the best financial and service outcomes possible. This will include the monitoring of contracts to ensure supplier delivery is maintained within the contracted levels. Specific key contracts will undergo review. There is not any estimate around savings included in the sustainability plan as this areas requires further review.

The below Sustainability Plan sets out the savings the Council expects to make over the coming fiver year period. The plan will be reviewed as part of setting the forthcoming years budget and refined as necessary.

Table 6 - The Sustainability Plan

		2022/23	2023/24	2024/25	2025/26	2026/27
Financial Management	Review of earmarked reserves (one-off)	200,000				
Service Review	Savings achievable through review of key services and alteration of service levels		50,000	150,000	150,000	150,000
Outcome Based Budgeting	Assumed 0.5% reduction in overall service costs as a result of an outcome based budgeting exercise in 2023			47,000	47,000	47,000
Asset Management	Targeted reduction in expenditure/increase in income as a result of review of assets and rationalisation			25,000	25,000	25,000

		2022/23	2023/24	2024/25	2025/26	2026/27
Income Generation	New income schemes (assumed increase in existing already in plans)		15,000	15,000	15,000	15,000
Contracts	Pending review					
	Total	**200,000**	**65,000**	**237,000**	**237,000**	**237,000**

Section 6 –Monitoring, Delivery and Review

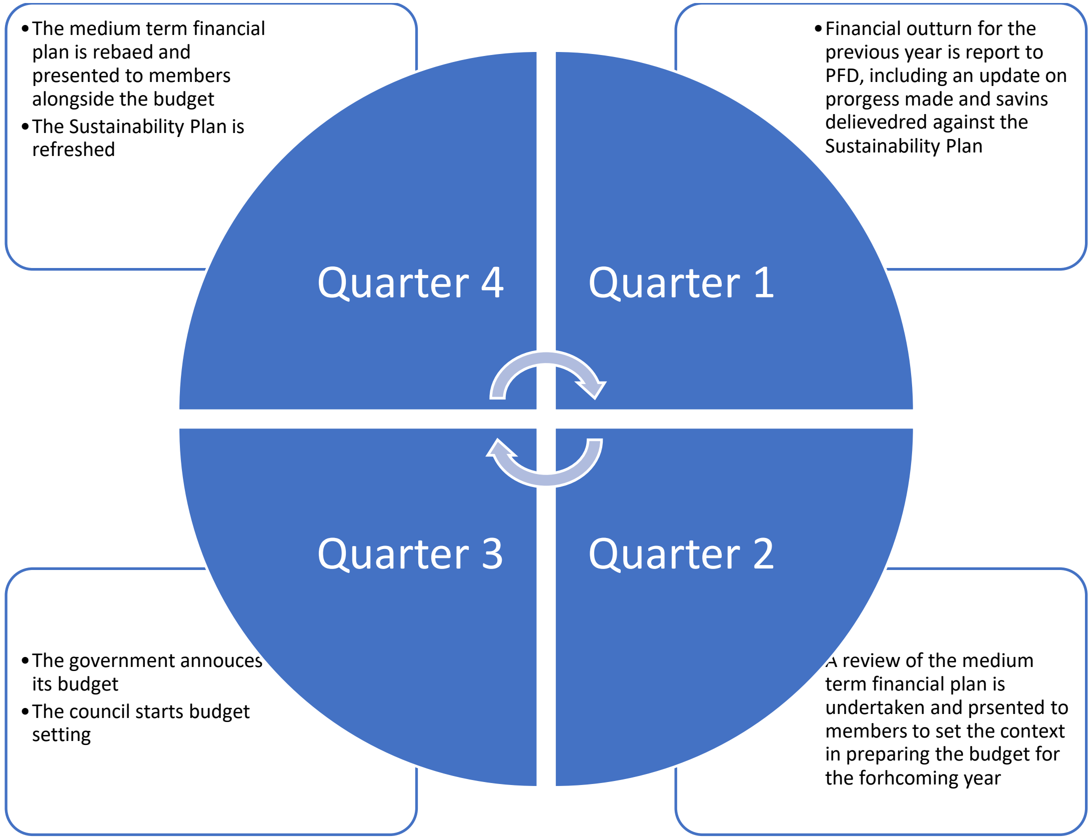
Financial planning is a continuous process and the need for constant monitoring of our current and future financial position is heightened now more than ever before because of the risks associated with the uncertain economic conditions and outlook in respect of local government funding.

There are already well established processes monitoring budgets which include regular monitoring and outturn reports to the Policy, Finance and Development Committee. This regular reporting will be extended to report on the progress of savings delivery in the Sustainability Plan.

An updated rolling five year medium term financial plan and the refreshed sustainability plan for making forthcoming savings will be presented to members annually alongside the forthcoming years' draft budget for approval.

The below sets out the financial management cycle for the Council.

Illustration 2 – The Medium Term Financial Planning cycle



APPENDIX 1

Assumptions to the General Fund Medium Term Financial Plan (Base)

Item	2022/23	Future years assumptions
Utilities	Revised Q1 forecast outturn 2022/23	Gas, elec and water. Revised forecast outturn 2022/23, 2023, price stablisation thereafter, adjusted for Bushloe House>Brocks Hill savings in 2023/24
Services Grant	As per approved 2023/24 budget	Roll forward of 2022/23 into 2yr Local Government Finance Settlement, resulting in additional funding in 2023/24 and 2024/25.
Revenue Support Grant	As per approved 2023/24 budget	
Retained Business Rates	As per Pixel model	As per Pixel funding advisors model - projects assumed growth 0.7% p.a.
Recharge from HRA	Revised Q1 forecast outturn 2022/23	9.4% inflation for 2023, 2% in line with BoE target thereafter
Other Supplies, Services & Contracts	Revised Q1 forecast outturn 2022/23	8% inflation for 2023, effect of inflation curtailed at 2% thereafter, adjusted for Bushloe House>Brocks Hill savings in 2023/24 plus additional £155k 2022/23 to reflect inflation.
Pension employer rates (attached)	Revised Q1 forecast outturn 2022/23	As per Leicestershire LGPS Pension Committee approved stablised employer rates for 2022 and beyond
Pay costs	Revised Q1 forecast outturn 2022/23	4% 22/23 plus additional staffing costs forecast at Q1 (e.g. waste). Future years absed on establishment only: 3% 23/24, 2% thereafter. NB percentages here to reflect total organisational percentage increase, not percentage pay award for staff.
Other grant income	As per approved 2023/24 budget	9.4% inflation for 2023, 2% in line with BoE target thereafter, adjusted for Bushloe House>Brocks Hill savings in 2023/24
New Homes Bonus	As per approved 2023/24 budget	Roll forward of 2022/23 into 2yr Local Government Finance Settlement, resulting in additional funding in 2023/24 and 2024/25.
NDR	As per budget	9.4% inflation for 2023, 2% in line with BoE target thereafter, adjusted for Bushloe House>Brocks Hill savings in 2023/24
Members Allowances	Revised Q1 forecast outturn 2022/23	Remain static
Lower Tier Services Grant	As per approved 2023/24 budget	Roll forward of 2022/23 into 2yr Local Government Finance Settlement, resulting in additional funding in 2023/24 and 2024/25.
Locally generated income	As per budget	2% p.a. flat rate increase
Insurance	Revised Q1 forecast outturn 2022/23	9.4% inflation for 2023, 2% in line with BoE target thereafter
HB Payments	Revised Q1 forecast outturn 2022/23	9.4% inflation for 2023, 2% in line with BoE target thereafter

Item	2022/23	Future years assumptions
Fuel	Revised Q1 forecast outturn 2022/23	Revised forecast outturn 2022/23, OBR oil forecast % year on year change thereafter (reducing)
Council Tax	As per approved 2023/24 budget	Base growth of 0.6% p.a. (2-year average growth from 2023-24-23 onwards). Increase of maximum £5/1.99%.
Contribution from reserves	As per approved 2023/24 budget	As per approved 2023/24 budget
Collection Fund (Surplus)/Deficit	As per approved 2023/24 budget	As per approved 2023/24 budget, forecast deficits into future years as a result of Cost of Living Crises - requires further testing as part of 2023/24 budget setting
Capital financing / MRP	As per approved 2023/24 budget	As per approved 2023/24 budget

CIPFA Financial Management Code Principles

APPENDIX 2