CABINET

This meeting will be recorded and the sound recording subsequently made available via the Council's website.

Please also note that under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting. The use of any images or sound recordings is not under the Council's control.

To: Councillors Barkley (Deputy Leader), Bokor, Harper-Davies, Mercer, Morgan (Leader), Poland, Rollings, Smidowicz, Taylor and Vardy (for attention)

All other members of the Council
(for information)

You are requested to attend the meeting of the Cabinet to be held in The Preston Room, Woodgate Chambers, Woodgate, Loughborough on Thursday, 15th November 2018 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

2nd November 2018

AGENDA

1. APOLOGIES

2. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

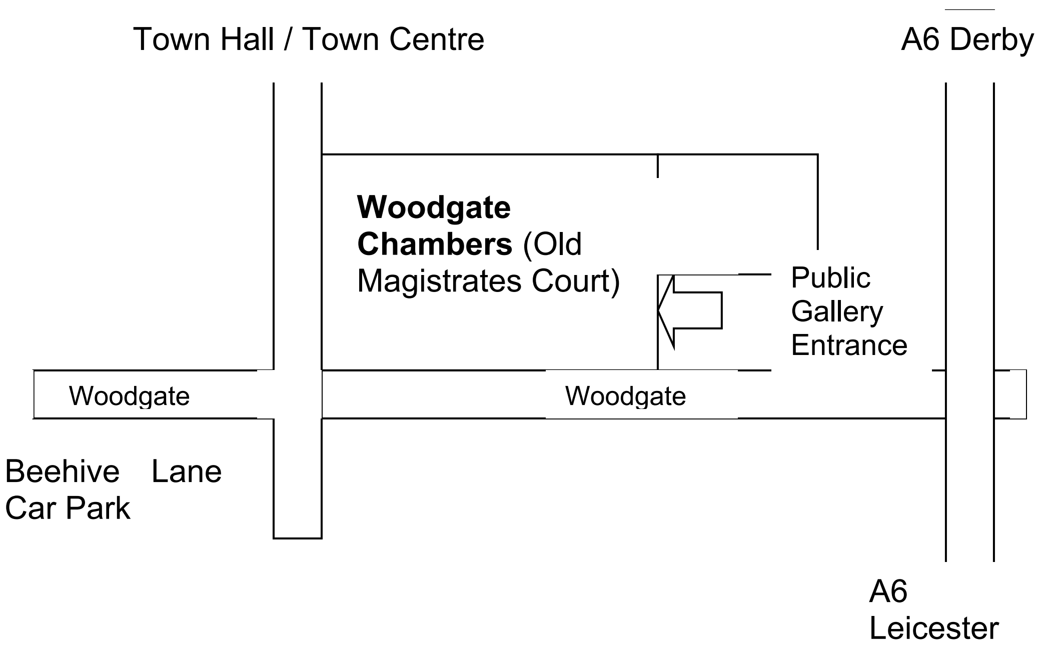
3. LEADER'S ANNOUNCEMENTS

4. MINUTES OF PREVIOUS MEETING — 4 - 8

   To approve the minutes of the previous meeting.

WHERE TO FIND WOODGATE CHAMBERS AND PUBLIC ACCESS

Woodgate Chambers
70 Woodgate
Loughborough
Leics
LE11 2TZ



CABINET
18TH OCTOBER 2018

PRESENT: The Leader (Councillor Morgan)
The Deputy Leader (Councillor Barkley)
Councillors Bokor, Harper-Davies, Poland, Rollings, Smidowicz, Taylor and Vardy

Councillor Capleton

Chief Executive
Strategic Director of Corporate Services
Head of Strategic Support
Strategic Director of Neighbourhoods and Community Wellbeing
Head of Planning and Regeneration
Head of Cleansing and Open Spaces
Head of Customer Experience
Group Accountant (IA)
Democratic Services Officer (LS)

APOLOGIES: Councillor Mercer

The Leader stated that this meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

37. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

The following disclosures were made:

(i) Councillor Rollings – a personal interest in item 8 on the agenda (Leicester and Leicestershire Strategic Growth Plan) as two of his firm's clients had responded to the consultation on the Plan. Councillor Rollings would leave the meeting during consideration on the item.
(ii) Councillor Rollings – a personal interest in item 10 on the agenda (Future Cemetery Provision for Loughborough) as a client of his firm had objected during the consultation to one of the sites. Councillor Rollings would leave the meeting during consideration of the item.
(iii) Councillors Barkley, Morgan, Poland and Taylor – personal interests in item 8 on the agenda (Leicester and Leicestershire Strategic Growth Plan), as Leicestershire County Councillors.

38. LEADER'S ANNOUNCEMENTS

The Leader stated that all at this meeting had been very saddened to hear of the passing of Councillor Sutherington. Councillor Sutherington had been an exceptionally kind, generous man and a person who was always a pleasure to talk to. Many people, particularly in the Anstey area, had been very fond of him and he would be sadly missed. However unwell Councillor Sutherington had been, he had always wanted to know how others were. Councillors would wish to remember Councillor Sutherington at the next meeting of this Council and at his funeral, but all thoughts were with his partner and his family at this time.

39. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 13th September 2018 were confirmed as a correct record and signed.

40. QUESTIONS UNDER CABINET PROCEDURE 10.7

Councillor Hayes – Cemetery Proposal

I fully support and welcome the officers' recommendations.

However, it is important to understand how we have arrived at this point, and my question to the Leader is: Can an investigation be carried out, to establish the full costs and actions that have caused many residents considerable distress and financial hardship over the last year particularly those trying to sell or buy houses?

The Leader referred to the following response, which had been published prior to the meeting:

I'm pleased that Cllr. Hayes agrees with the recommendation being made in this report.

This is an excellent illustration of the effectiveness of the decision making systems in the Council and the value added by Scrutiny. Decisions are not always right first time and on this occasion the checks and balances operated as they should within the Council in a way that led to further examination of the proposals. Officers working on this project have followed appropriate procedures and have been subjected to the required levels of governance throughout. The project also has progressed in accordance with previous Cabinet decisions. For this reason, I do not feel that an investigation is necessary.

Information received from the District Valuer indicates that the impact on properties local to cemetery developments is limited and that the presence of existing cemeteries can enhance the value of neighbouring properties.

41. CALL-IN OF CABINET DECISION - ENVIRONMENTAL SERVICES CONTRACT

Consideration of this item was not necessary as the Scrutiny Management Board had, at its meeting held on 8th October 2018, supported the decision taken by the Cabinet on 13th September 2018 in relation to the Environmental Services Contract.

42. FINALISATION OF VPRS BUDGET ALLOCATION 2018/19

Considered a report of the Head of Finance and Property Services to consider finalisation of the VPRS (Vulnerable Persons Resettlement Scheme) budget allocation (based on more information than was available during the budget setting process) (item 7 on the agenda filed with these minutes).

The Group Accountant assisted with consideration of the report.

RESOLVED that the budget virements outlined in Part B of the report of the Head of Finance and Property Services for the Vulnerable Persons Resettlement scheme be approved.

Reason

To comply with 1.6 of the Scheme of Budgetary Virement where budget changes more than £100,000 are taken to Cabinet for approval.

43. LEICESTER AND LEICESTERSHIRE STRATEGIC GROWTH PLAN

Having declared an interest, Councillor Rollings left the meeting during the consideration of this item.

Considered a report of the Head of Planning and Regeneration to consider a revised Leicester and Leicestershire Strategic Growth Plan, for recommendation to Council (item 8 on the agenda filed with these minutes).

The Head of Planning and Regeneration assisted with consideration of the report.

RESOLVED that it be **recommended to Council** that:

1. the Strategic Growth Plan (SGP) “Leicester and Leicestershire 2050: Our Vision for Growth” (attached at Appendix A to the report of the Head of Planning and Regeneration) be approved; and

2. the Chief Executive, following consultation with the Leader and the Joint Strategic Planning Manager, be authorised to agree prior to publication any final minor amendments to the SGP which do not significantly change the overall content or purpose of the document prior to its publication.

Reasons

1. Approval of the Strategic Growth Plan will put in place a key long-term strategy for the future development and prosperity of Leicester and Leicestershire.

2. The revised Strategic Growth Plan document is being submitted to each participating authority for approval during the autumn/early winter and it is likely that, during this process, the need for some minor changes will be identified. Enabling the Chief Executive to make such amendments following consultation with the Leader and Joint Strategic Planning Manager will avoid unnecessary

delay. The Joint Strategic Planning Manager reports to all partner organisations and acts on behalf of the Members' Advisory Group (MAG).

Councillor Rollings returned to the meeting.

44. REVENUES AND BENEFITS SERVICE - FUTURE OPTIONS

Considered a report of the Head of Customer Experience to consider options for the delivery of the Revenues and Benefits Service post 2020 (when the current outsourcing contract would come to an end) (item 9 on the agenda filed with these minutes).

Councillor Capleton, Chair of the Overview Scrutiny Group, presented a report detailing the Group's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Head of Customer Experience assisted with consideration of the report.

RESOLVED

1. that the development of Options 2 and 3, as set out in Part B of the report of the Head of Customer Experience, into detailed and costed proposals to present to Cabinet for a final decision on the future provision of the Revenues and Benefits service, be endorsed;

2. that the report of the Overview Scrutiny Group be noted.

Reasons

1. To allow resources to be focussed on a defined set of preferred future service delivery options.

2. To acknowledge the work undertaken by and the views of the Overview Scrutiny Group.

45. FUTURE CEMETERY PROVISION FOR LOUGHBOROUGH

Having declared an interest, Councillor Rollings left the meeting during the consideration of this item.

Considered a report of the Head of Cleansing and Open Spaces to further consider options for a new cemetery site for Loughborough (item 10 on the agenda filed with these minutes).

Councillor Capleton, Chair of the Overview Scrutiny Group, presented a report detailing the Group's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Leader wished to thank the Overview Scrutiny Group for its useful scrutiny of matters to be decided at this meeting.

The Strategic Director of Neighbourhoods and Community Wellbeing and the Head of Cleansing and Open Spaces assisted with consideration of the report. The Head of Cleansing and Open Spaces referred to typographical errors in the report as follows. Page 68 of the agenda, the Scrutiny Management Board meeting referred to in the final paragraph had been held on 14th November 2017. Page 69 of the agenda, the Cabinet meeting referred to in the first paragraph had been held on 16th November 2017.

RESOLVED

1. that land at Nanpantan be approved as the location of the site to be developed as a new cemetery subject to approval by the Environment Agency and Planning Permission being obtained;

2. that the revision of the capital programme for the cemetery development project, to allocate £60,000 of capital funding for 2018/19 to enable the commencement of pre-development surveys and assessments and £590,000 for construction/development to 2020/21, be approved;

3. that the report of the Overview Scrutiny Group be noted.

Reasons

1. To reflect the outcome of detailed independent site assessments carried out to the 3 shortlisted sites and to reflect the public consultation undertaken by the Council.

2. To ensure that sufficient resources are made available to deliver the project.

3. To acknowledge the work undertaken by and the views of the Overview Scrutiny Group.

NOTES:

1. The decisions in these minutes not in the form of recommendations to Council will come into effect at noon on 26th October 2018 unless called in under Scrutiny Committee Procedure Rule 11.7.

2. No reference may be made to these minutes at the Council meeting on 5th November 2018 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on 26th October 2018.

3. These minutes are subject to confirmation as a correct record at the next meeting of the Cabinet.

CABINET - 15TH NOVEMBER 2018

Report of the Head of Strategic Report

Part A

ITEM 6 FIVE YEAR HOUSING SUPPLY SCRUTINY PANEL

Purpose of Report

To consider the findings and recommendations of the Five Year Housing Supply Scrutiny Panel, alongside officer advice and recommendations in response, with a view to the Cabinet deciding which recommendations it wishes to agree, if any.

Recommendations and Reasons

Set out below is each Panel recommendation and reason, followed by the officer advice and recommendation in each case.

Panel Recommendation 1

That the Council's Business Plan be amended to include the five year housing supply figure as one of the Council's Key Performance Indicators (KPIs).

Reason

To ensure the figures are reported and monitored corporately and by the Performance Scrutiny Panel on a regular basis.

Response of the Head of Planning and Regeneration

The Council publishes an annual five year supply statement figure and this can be presented as a KPI in the Business Plan.

Officer Recommendation 1

That the recommendation of the Panel be accepted, with effect from the 2019/20 Business Plan.

Panel Recommendation 2

That the Council's Business Plan be amended to include the various deadlines by which planning applications of different types should be determined as KPIs.

Reason

To ensure that the figures are reported and monitored corporately and by the Performance Scrutiny Panel on a regular basis.

Response of the Head of Planning and Regeneration

The monitoring of development control performance is published by the Service and provided as a return to government. These can be added as KPIs in the Business Plan.

Officer Recommendation 2

That the recommendation of the Panel be accepted, with effect from the 2019/20 Business Plan.

Panel Recommendation 3

That the Chair of the Panel and the Lead Member for Planning to write a letter to Government reinforcing the need for enforcement sanctions for non-completion of developments.

Reason

To reiterate the need for more powerful sanctions for non-completion and delayed developments.

Response of the Head of Planning and Regeneration

The Leader of the Council wrote to Government in February 2018 raising concerns and offering assistance to Sir Oliver Letwin in his review of land supply and housing delivery. A further approach could be made as recommended by the Panel if Cabinet feels it appropriate and necessary.

Officer Recommendation 3

That Cabinet considers the recommendation of the Panel.

Panel Recommendation 4

That a best practice review of the Council's processes for dealing with section 106 agreements, reserved matters applications and pre-commencement conditions be completed to identify any areas for improvement.

Reason

To ensure that those processes are streamlined and speeded up, therefore enabling permitted developments to begin more quickly, and to reassure Members that the Council is following best practice in relation to its processes.

Response of the Head of Planning and Regeneration

A comprehensive best practice review of the S106 process was carried out during 2015 as a consequence of decisions made by Cabinet in light of recommendations made by the S106 Scrutiny Panel (minute 107 15/16 refers). This review made changes to the S106 process to improve member engagement, established a lead member champion for S106 matters and put in place an annual meeting for members to discuss S106 issues, amongst other things. There is however less control available to change the S106 process to speed it up. This is because S106 legal agreements require negotiation between the planning authority and third parties whose interests are not necessarily aligned. The planning authority will always seek to commence negotiations early in the planning application process but more often applicants do not wish to commit resources to what are often protracted legal negotiations until they have a favourable resolution from Plans Committee and details of the heads of terms to inform the negotiations. This approach avoids abortive work if the application is refused or if members resolve to approve amended obligations.

The processes for dealing with reserved matters applications are set out in law; however, the Service has introduced a chargeable pre-application service that provides the means for developers to engage with officers prior to an application being submitted. This is a chargeable service and was highlighted by the Planning Officers Society in their peer review of the DM service in 2015 as best practice. Resolving issues at the pre-application stage enables the planning application process to run smoothly, without delay and sometimes faster than the statutory time limits for determining applications. it also provides a managed environment for members and communities to discuss S106 obligations with developers and to raise views about design issues.

The Government has recently reviewed parts of the planning approval and consent regimes and new rules introduced on 1 October 2018. reduce the scope for pre-commencement conditions to be attached to planning approvals to reduce the time lag between planning permission being granted and work starting on site.

Whilst there is always merit in checking and challenging established processes and approaches, in this case the value of that does appear to be somewhat limited due to the specification of the law on process and the lack of control that officers have over third parties. The government has already reviewed planning process in an effort to remove recognised barriers to delivery. If Cabinet is minded to pursue this it should be recognised the role of the local planning authority is only one of a number of stakeholders who can influence the prospects for improvement and the scope of any study should be extended to key players. However, this activity is likely to be resource intensive and the outputs are likely to be limited and dependent on the full cooperation of third parties.

Officer Recommendation 4

That no further action is taken in respect of a review of section 106, reserved matters and pre-commencement conditions processes.

Panel Recommendation 5

That the current review of the Core Strategy be completed in accordance with the timetable set out in the Local Development Scheme agreed by the Cabinet most recently on 15th March 2018.

Reason

To ensure that it remains the most relevant for the residents of Charnwood and that the review is completed in a timely manner.

Response of the Head of Planning and Regeneration

No comment.

Officer Recommendation 5

That the recommendation of the Panel be accepted.

Policy Justification and Previous Decisions

Scrutiny Committee Procedure 11.12(a) sets out the procedures by which a report of a Scrutiny Committee should be considered by the Cabinet.

The Scrutiny Management Board, on 24th October 2018, agreed that the report of the Five Year Housing Supply Scrutiny Panel be submitted for consideration by the Cabinet, with clarification to the recommendations made.

In accordance with Scrutiny Committee Procedure 11.12(d), background information and officer advice have been provided to enable the Cabinet to make a decision without undue delay.

Implementation Timetable including Future Decisions and Scrutiny

The Council's Business Plan is due to be reviewed again in March 2019 at which point recommendations 1 and 2 can be implemented.

All the other officer recommendations can be implemented over the course of the next 6 months, to link in with the normal timetable for reporting back to the Scrutiny Management Board on the implementation of scrutiny panel recommendations, or as described in the officer recommendations themselves.

A Cabinet response to the recommendations will be fed back to the Scrutiny Management Board, indicating what (if any) action it proposes to take. The Scrutiny Management Board will review the implementation of any Cabinet decisions at an appropriate time, usually after 6 months.

Report Implications

Implications are as set out in both the Panel report and in officer responses.

Key Decision:	No
Background Papers:	Detailed in the Panel's Report as agreed by the Scrutiny Management Board (Annex 1).
Officer to contact:	Nadia Ansari Democratic Services Officer (01509) 634502 Nadia.ansari@charnwood.gov.uk

Part B

Background

1. At its meeting held on 24th January 2018, the Scrutiny Management Board resolved to establish the Five Year Housing Land Supply Scrutiny Panel.

2. The Panel's first meeting was on 20th March 2018. The Panel concluded its business at its fifth and final meeting on 3rd October 2018.

3. The Scrutiny Management Board considered the Panel's report at its meeting on 24th October 2018 and resolved that the findings and recommendations of the Panel be submitted for consideration by the Cabinet, with clarification to the recommendations made. The report agreed by the Scrutiny Management Board for submission to Cabinet is set out at Annex 1.

4. Not requiring action by the Cabinet were a further recommendation (relating to addition of a matter to the Scrutiny Work Programme) and 4 conclusions agreed by the Panel. For information, these are set out at Annex 2, together with any officer response. The Scrutiny Management Board agreed that it was sufficient for the conclusions to be considered by the Head of Planning and Regeneration as operational management matters.

Appendices

Annex 1	Report of the Five Year Housing Supply Scrutiny Panel (version includes the Scrutiny Management Board's clarifications to the recommendations made).
Annex 2	Summary of recommendation and conclusions made by the Panel which do not require action by the Cabinet, together with any officer response (for information).

ANNEX 1

REPORT OF THE SCRUTINY PANEL: To what extent can Charnwood Borough Council show a Five Year Housing Land supply?

Foreword by Councillor Seaton, Chair of the Scrutiny Panel

The welfare of its residents is one of the key concerns for Charnwood Borough Council and the Councillors who preside over it. The lack of available housing in the Borough has become an increasing concern which is why this scrutiny panel was established, to investigate the problem and make recommendations going forward.

This Panel was tasked with scrutinising how effective the current method of calculating the five year housing land supply is and what the current situation is with local developers bringing sites to completion. The Panel has taken evidence from a number of witnesses who have differing views on the barriers to development but a consensus that everyone should be working together to move forward.

This report sets out the findings and recommendations of the Five Year Housing Supply Scrutiny Panel which sought to gain information into what the current position is with the land supply and what can be done to bring more development forward.

The Panel wishes to acknowledge and thank all those who acted as witnesses or provided written evidence to assist the Panel with its deliberations.

1. Background

At its meeting on 24th January 2018, the Scrutiny Management Board (SMB) resolved that a Scrutiny Panel be established to scrutinise and evaluate the Council's five year housing land. The Panel's first meeting took place on 20th March 2018. The Panel concluded its business at its final meeting on 3rd October 2018.

2. Panel Membership

Chair: Councillor Seaton
Councillors Gaskell, Hamilton, Hayes(part), Pacey and Snartt.

NOTE: Councillor Taylor was an original Panel member and appointed by SMB as the Chair but resigned following her appointment to Cabinet.

3. Terms of Reference and Reason for Scrutiny

The Panel's Terms of Reference, agreed by the SMB on 24th January 2018 were as follows:

"The Panel should consider the national context of housing supply and investigate the reasons why the Local Planning Authority is unable to demonstrate a five year housing land supply, in conjunction with other local authorities in Leicestershire, and identify what can realistically be achieved.

Following the fact finding stage, the Panel would then draw on good practices from elsewhere and consider if there are any areas for improvement or change, and whether they sit with other policies, including national policies, and practices within the Council."

The Scope Document for the scrutiny review undertaken by the Panel is attached at **Appendix 1**. This sets out the above Terms of Reference and Reason for Scrutiny. The document outlines the position at the conclusion of the Panel's work and, therefore, includes additional stakeholders and resources identified by the Panel as its work progressed, notes added to assist the Panel and a summary of the progress made by the Panel which was reported to meetings of the Policy Scrutiny Group.

The Panel were also aware of the sporadic nature of development throughout the Borough in their role as Ward Councillors and as members of the Plans Committee. A table is attached at **Appendix 2** detailing the total number of developments across the Borough to date, both large and small and does show the varying level of development that has taken place.

4. Evidence, Stakeholders and Witnesses

The Panel received information from the following stakeholders and witnesses:

- Local housing developers and the Commercial Estates Group (CEG) who provided their view and opinion of the current position regarding the Five Year housing supply.
- Councillor Terry Richardson, Leader of Blaby District Council who provided his viewpoint.
- Council's Planning Officers and the Lead Member for Planning who gave their viewpoint on the situation.

The Panel received information from Council officers as follows:

- Meeting 1 (20th March 2018) – Introduction from the Council's Planning team on the current situation regarding the Five year housing land supply, the history and the trajectory for the future.
- Meeting 5 (5th September 2018) – The Lead Member for Planning, the Group Leader for Plans, Policies and Place and the Principal Planning Officer attended the meeting to answer the Panel's questions and give their opinions.

The Panel considered a briefing note from Councillor Hamilton summarising the progress of other local authorities around the country in meeting the Five year housing supply.

The Panel also received a written response from Leicestershire Highways Authority in their role as a partner organisation.

There was also a written submission from Melton Borough Council detailing their situation regarding their Five Year housing supply and their attempts to improve it.

The Panel were given a copy of the revised National Planning Policy Framework (NPPF) to enable them to see the updates made since the last Framework was published.

Technical Support was provided to the Panel by:

Richard Bennett – Head of Planning and Regeneration
David Pendle – Team Leader for Plans, Policies and Place
Richard Brown – Principal Planning Officer

The Panel wishes to thank all stakeholders, witnesses and officers for the assistance provided with its work.

5. Summaries of Panel Meetings

Full details of the information provided by witnesses and the issues considered by the Panel are detailed in the notes of the Panel's meetings listed in Background Papers section of this report, also attached at **Appendix 3.**

6. Equality Impact Assessment (EIA)

The Improvement and Organisational Development Manager stated that the need for an Equality Impact Assessment would be considered following the final submission of the report.

7. Key Findings

The Panel obtained evidence from a range of sources both internal and external as described in section 4 above.

The following key findings are set out in sections linked to the evidence the Panel received which led them to those findings.

<u>Key points from the local developers:</u>

(i) The working relationship between the local developers and the Council's Planning officers was described as challenging at times. It was felt that the use of agency workers recently had caused some continuity issues with a lack of suitable handover and lack of knowledge. Resolution of the staffing/ recruitment issue was considered important by all.

(ii) Pre-start conditions were identified as a key delay in the development process. It was felt that some conditions could be dealt with later on in the process to allow development to commence on site. It was also felt that there was a large number of pre-start conditions requested which were not always necessary.

(iii) Reserve matters were cited as another issue causing delays. There was a suggestion that the details could be discussed in a wider forum to allow for all interested parties to air their views and come to an agreement quicker. It would also allow for a more general discussion about what was expected so there could be a level of continuity throughout the design process for every site.

(iv) A lack of labour force and materials were cited as an issue for local companies. It was part of the planning and development process to ensure materials were available for the sites and there were enough house builders to build in order to meet set deadlines. This was believed to be a nationwide problem so the search for labour and materials was competitive.

(v) Larger sites were identified as causing more problems due to their size and the surrounding problems such as infrastructure requirements. Larger developments could require schools, shops, open spaces and healthcare which were costly and could delay progress. Utility works such as gas and electricity were also needed as well as input from the Highways Authority. All of these factors added to the complexity of developing a larger site.

(vi) Disagreement between the Council officers and local developers over the proposed housing mix was cited as causing a delay to the process. This was due to the Council wanting to meet the needs of the residents on the housing waiting list versus the most profitable house sizes for developers.

(vii) A number of communication issues were raised between the developers and officers as well as with local partner organisations. The Panel suggested that they could act as intermediary to help combat some of the problems.

<u>Key points from Councillor Richardson, Leader of Blaby District Council:</u>

(i) Blaby Council was taking a different approach to calculating their Five year housing supply and using the Liverpool model instead of the preferred Sedgefield model. The reason being that they could spread out the requirement over a period of time and plan developments in a timely manner. There was also a lot of training provided for officers and the Plans Committee to ensure an understanding of the model used and the process involved. This helped the committee to present robust decisions.

(ii) There was a lot of time and effort put into the pre-application process to ensure that agreements were in place before the development began. The likelihood of a successful agreement was down to good communication on both sides and an agreement of the shared outcome.

(iii) There was a national demand for Planning Officers which meant that the Council was experiencing difficulty in recruiting. They were combatting the problem by endeavoring to provide a variety of experience for officers as well as good terms and conditions to ensure retention. There was also more money from the planning fee income being spent on employing officers to track the Five year supply. The Economic Investment Manager at Blaby was tasked with managing the Five year supply and reporting on any changes.

(iv) Community engagement was cited as a strong element in creating successful developments. The Council aimed to create a good community feel to every development to ensure that the residents were engaged and took ownership of their area. This was proving to be successful.

(v) Councillor Richardson reiterated the importance of good communication and engagement between partners, officers and developers to create successful developments. There were good examples of working together to create successful developments such as New Lubbesthorpe.

Key points raised by Charnwood Council officers

(i) The Council was using the Sedgefield method for calculating the Five year housing supply in accordance with government guidance. The government preferred this method as it required any historic under supply in the delivery of homes to be added to the Five year housing requirement, rather than being spread out and moved towards the end of the plan period. Using the government's preferred approach meant that the Council could be confident that the housing supply calculations could withstand scrutiny at appeals.

(ii) Although the Planning team was tracking the Five year housing supply and reporting it to the Local Development Framework Project Board and to members of Plans Committee, the figures were not being scrutinised by any Council committees. In time, the figures would be challenged through the appeals process or by public examination of the local plan which would scrutinise the figures and test the Council's defence. It would only be through one of these processes that the figures could be confirmed or rejected.

It was highlighted by the Panel at this point that a level of scrutiny was needed to ensure that the Five year housing supply figures were monitored and scrutinised as necessary.

(iii) The biggest issue cited was getting the developers to start building. The planning permissions had been granted but work on the site was not commencing. This was causing frustration for the Council as it was causing delays and the Council was not meeting its housing requirements. Communication was highlighted as a problem by the developers and the officers acknowledged that there had been staffing and recruitment issues which had contributed to this although they were endeavouring to resolve this. There was a suggestion that the developers had their own business agenda which affected the timing and pace of progress on developments which was beyond the control of the Council and had the potential to add to the delays.

8. Linking Key Findings to Panel's Terms of Reference

The Panel reviewed its key findings to determine whether the issues identified in its Terms of Reference and set out in section 3 above have been adequately considered.

The Panel used the evidence it received from the Planning Officers to clarify the stage of development for each of the major sites. It also confirmed this with the local developers and clarified any areas of slippage.

The Panel interviewed the Leader of Blaby District Council as well as receiving written responses from Melton Borough Council and Councillor Hamilton providing information on local authority approaches across the country, to allow the Panel to investigate the national situation regarding the five year housing supply as well as gather examples of good practice which could be applied to this Council.

Interviewing the local developers allowed the Panel to identify barriers to development and highlight areas for improvement. This was reiterated when they interviewed the Council Officers who provided their opinion on the situation.

The interviews provided a good basis to create recommendations for what could realistically be achieved by the Council. This was supported by the background information supplied and the responses gathered from Leicestershire Highways Authority and Melton Borough Council.

9. Recommendations and Panel Observations Not Requiring Further Action

9(a) Panel Observations Not Requiring Further Action

The Panel wishes to draw the Board's attention to the following observations which it considers do not require further action.

1. That the Panel believes a robust exit strategy should be in place to alleviate confusion and minimise delays when a member of staff leaves. This refers to project handover and IT tasks such as deleting email accounts and communicating any staff changes to Members as well as officers.

2. Due to the differing viewpoints between the Council officers and local developers it was felt that communication on both sides could be improved, mostly at the pre-application stage where the development could be talked through and agreed.

3. The Panel was reassured to hear that the Council was using the Government preferred model for calculating the five year housing supply.

4. The Panel welcomed the changes to the revised National Planning Policy Framework as it has improved the Council's position regarding its five year housing supply.

10. Recommendations Requiring Further Action

The Panel wishes to make the following recommendations to the Board:

1. That the Council's Business Plan be amended to include the five year housing supply figure as one of the Council's Key Performance Indicators (KPIs).

2. That the Council's Business Plan be amended to include the various deadlines by which planning applications of different types should be determined as KPIs.

3. That the Chair of the Panel and the Lead Member for Planning to write a letter to Government reinforcing the need for enforcement sanctions for non-completion of developments.

4. That a best practice review of the Council's processes for dealing with section 106 agreements, reserved matters applications and pre-commencement conditions be completed to identify any areas of improvement.

5. That the current review of the Core Strategy be completed in accordance with the timetable set out in the Local Development Scheme agreed by the Cabinet most recently on 15th March 2018.

<u>Reasons</u>

1. To ensure the figures are reported and monitored corporately and by the Performance Scrutiny Panel on a regular basis.

2. To ensure that the figures are reported and monitored corporately and by the Performance Scrutiny Panel on a regular basis

3. To reiterate the need for more powerful sanctions for non-completion and delayed developments.

4. To ensure that those processes are streamlined and speeded up, therefore enabling permitted developments to begin more quickly, and to reassure Members that the Council is following best practise in relation to its processes.

5. To ensure that it remains the most relevant for the residents of Charnwood and that the review is completed in a timely manner.

10. Background Papers

Scope Document (Appendix 1)
Development Completion List (Appendix 2)
Agenda Papers and Notes of Panel meetings available on the Council's website at:
https://www.charnwood.gov.uk/committees/five_year_housing_supply_scrutiny_panel

Meeting 1 - 20th March 2018
Meeting 2 - 18th April 2018
Meeting 3 – 6th June 2018
Meeting 4 – 5th September 2018
Meeting 5 – 3rd October 2018
Notes of Panel meetings 1-4 also attached (Appendix 3)

Information considered by the Panel as detailed in Paragraph 4 of this report and available on request.

Charnwood

SCRUTINY REVIEW: SCOPE DOCUMENT

REVIEW TITLE: Five Year Housing Supply

SCOPE OF ITEM / TERMS OF REFERENCE

There is a need to explore upcoming developments in Charnwood, including sites at North East Leicester, West of Loughborough and North of Birstall to find out the stages of development and how soon they are to be built (and any slippage).

The Panel should consider the national context of housing supply and investigate the reasons why the Local Planning Authority is unable to demonstrate a five year housing land supply, in conjunction with other local authorities in Leicestershire, and identify what can realistically be achieved.

Following the fact finding stage, the Panel would then draw on good practices from elsewhere and consider if there are any areas for improvement or change, and whether they sit with other policies, including national policies, and practices within the Council.

REASONS FOR SCRUTINY

To clarify timescales and current position of the three strategic sites.

To clarify and understand reasons for slippage.

To understand obstacles that exist to obtaining a five year land supply.

To look at measures needed to keep strategic balance in line with Core Strategy Policy SC1 and the Defined Settlement Hierarchy.

To provide public reassurance that scrutiny is looking at the matter.

Note: Background information to the request for this panel was submitted by Councillor Snartt and attached to the draft scope document considered by the Scrutiny Management Board at its meeting on 24th January 2018.

MEMBERSHIP OF THE GROUP

Chair – Councillor Taylor. Other members TBC.

WHAT WILL BE INCLUDED

Position Statements from Local Planning Authority and Developers involved with Strategic Development Sites.

Gaps and obstacles in the planning process to maintain a five year supply. Understand communication links and meeting outcomes between the Local Planning Authority and Developers. Analysis of current position with Strategic Development Sites. Recommendations to maintain the Local Planning Authority's five year supply.
WHAT WILL BE EXCLUDED
Planning processes that do not focus on maintaining a five year supply.
KEY TASKS * * including consideration of efficiency savings
Gathering views of Leicestershire councils. Interviewing witnesses, including regarding national policy. Interviewing Charnwood planning officers. Meeting with the Growth Advisory Group Compiling information around engagement processes with developers and other associated procedures and processes.
STAKEHOLDERS, OUTSIDE AGENCIES, OTHER ORGANISATIONS *
Strategic Director Charnwood Borough Council Lead Member Planning Charnwood Borough Council Head of Planning Charnwood Borough Council Developers of strategic sites North East of Leicester, West of Loughborough and North of Birstall. (e.g. William Davies, Davidsons, David Wilson Homes, Persimmon Homes) Leicestershire County Council Highways

EQUALITY IMPLICATIONS	
Is an impact needs assessment required? – to be considered at the Panel's penultimate meeting	
LINKS/OVERLAPS TO OTHER REVIEWS	
None	
RESOURCE REQUIREMENTS	
Support from Democratic Services can be accommodated.	
REPORT REQUIREMENTS (Officer information)	
None (at this stage)	
REVIEW COMMENCEMENT DATE	**COMPLETION DATE FOR DRAFT REPORT**

* Key tasks and stakeholders may be subject to change as the review progresses.

PROGRESS OF PANEL WORK

MEETING DATE	PROGRESS TO DATE

REPORT SUBMITTED TO SCRUTINY MANAGEMENT BOARD
The Panel should aim to complete its work within 6 months and submit its report to the SMB meeting in Autumn 2018.

TOTAL DEVELOPMENT COMPLETIONS 2011 – 2018 INCLUSIVE	
LARGE + SMALL	**Parish**
280	Anstey
1	Barkby/Beeby
230	Barrow Upon Soar
614	Birstall
2	Burton on the Wolds
0	Cossington
0	Cotes
60	East Goscote
204	Hathern
2	Hoton
1392	Loughborough
111	Mountsorrel
4	Newtown Linford
0	Prestwold
167	Queniborough
237	Quorn
4	Ratcliffe on the Wreake
57	Rearsby
579	Rothley
9	Seagrave
227	Shepshed
443	Sileby
2	South Croxton
4	Swithland
401	Syston
1	Thrussington
6	Thurcaston & Cropston
312	Thurmaston
0	Ulverscroft
1	Walton on the Wolds
6	Wanlip
30	Woodhouse
20	Wymeswold
Total: 5406	

Appendix 3

FIVE YEAR HOUSING SUPPLY SCRUTINY PANEL - ACTION NOTES

MEETING 1: 20th March 2018

ATTENDED BY: Councillors Hamilton, Hayes, Seaton, Snartt and Taylor (Chair).

Officers: R. Bennett, D. Pendle, K. Widdowson, N. Ansari

APOLOGY: Councillors Gaskell and Pacey

MATTERS CONSIDERED AT THIS MEETING:

INFORMATION PROVIDED BY THE HEAD OF PLANNING AND REGENERATION
In addition to the information contained within the report received by the Panel, the following additional information was stated: o The monitoring of the 5 year housing supply is carried out by the planning team. • The Council's core strategy is reviewed annually in relation to the o expected delivery times of the projects. The 5 year supply plan is based on the outcome of the review. o There is consideration given to sustainable development and creating a balance within the proposed schemes. • The annual statement published shows the Council's current position o regarding their own land supply to highlight current assets. o In terms of what was included in the 5 year land supply it had to be developments that had a reasonable prospect of being built in the next 5 years. Any barriers to the building process need to be considered.
ISSUES RAISED/DISCUSSED AT THIS MEETING:
In addition to the discussions referred to above, Members expressed the following views: • Clarity was given regarding the level of permissions given for planning applications versus the trajectory of development taking place. • The Panel expressed their concerns that the developers were holding up progress. • The Panel agreed to invite one of the investment companies CEG to one of the Panel meetings to talk about their involvement in the development process and the highlighted role of secure infrastructure.

ACTIONS	
Members of the Panel were each given a task or research to complete to help gather information: Councillor Seaton – contact an identified university researcher and the contact at CEG to ask about attending one of the Panel meetings. Councillor Snartt – contact local councils to ask about their experiences and attending one of the Panel meetings to present and answer questions. Councillor Taylor – contact local PHD students to attend one of the Panel meetings to talk about their research. Councillor Hamilton and Councillor Hayes – research best practise around the country for comparison. *Action for the officers:* Provide the permission end dates for the 3 SUE sites. Provide the original submissions from the developers of the 3 sites. The Democratic Services (DS) Team advised they would ask if any other DS Teams were scrutinising the 5 year supply and could provide assistance. The DS Team to contact the local developers and invite them to one of the Panel meetings to present their view of the current situation.	
Timetable for Review	It was agreed that information be considered at future meetings as follows: Wednesday, 18th April 2018: Wednesday 9th May 2018: Wednesday 6th June 2018: Wednesday 4th July 2018:

FIVE YEAR HOUSING SUPPLY SCRUTINY PANEL - ACTION NOTES

MEETING 1: 18th April 2018

ATTENDED BY: Councillors Gaskell, Hamilton, Hayes, Pacey, Seaton, Snartt and Taylor (Chair).

Officers: K. Widdowson, N. Ansari

WITNESSES: Developer 1 (D1)
Developer 2 (D2)
Developer 3 (D3)

1. APOLOGIES: Developer 4

2. DECLARATIONS OF INTEREST: Councillor Snartt declared that his grandson worked for David Wilson homes who were referred to at the meeting.

MATTERS CONSIDERED AT THIS MEETING:

WITNESS INFORMATION PROVIDED BY LOCAL DEVELOPERS

1) Would you outline the development site/sites within Charnwood Borough you are involved with and are there any other developers involved on these sites?

D1 – Garendon Park SUE, Grange Park, Hathern site, Lodge end in Loughborough, Rothley. All developments were either near completion, under development or granted permission. Very active in the local area.

D2 - Currently working on the North East SUE as the promoter and master developer, working with the principal land owner. Also have 3 housebuilder partners involved on the site: Davidsons, David Wilson Homes and William Davis.

D3 - Actively involved in Charnwood with sites at Barrow Upon Soar, Shepshed and Anstey all under construction and current applications for further sites in the area such as Birstall and Rearsby.

2) How does your experience of working in Charnwood compare to that elsewhere in the country? In terms of the Council and the Planning Team?

D1 - Their experience of working with Charnwood was very comparable to the rest of their local authority contacts. There were some delays that were encountered but no more than elsewhere. Some of the delays were due to late comments from officers but other delays were due to stakeholders such as the highways authority and the land drainage authority.

D2 – working with Charnwood was similar to some other local authorities with comparable geographical character and generally there was a constructive relationship with officers from application through to development stage. Recent experience with contract agency officers had been mixed and it was felt that they received more robust decisions from permanently employed officers as they knew the projects and politics better.

D3 - The working relationship was described as challenging and staff continuity was identified as an issue, although appreciated that it was a problem nationally. It had caused delays due to lack of contact from officers and delays in dealing with planning applications. Lack of continuity was mentioned as officers were replaced and the developers were not notified as well as difficulty in contacting officers which was sometimes due to the same issue. Resolution of the staffing issues was considered important to move forward with developments.

3) In your view, how was the initial planning process carried out and are there any outstanding issues, especially pre-start conditions placed during the planning cycle?

D1 - There were also some issues with pre-start conditions in terms of the way some conditions were phrased as pre-start and perhaps some conditions could be discussed at a later date to allow progress on site, for example sign off on lighting. It was also identified that developers often don't see conditions until the agenda for Plans Committee is published which meant there was a reluctance to discuss issues in a timely manner.

D2 - There were a limited number of pre-start conditions that had been attached to the site plan which was cause for ongoing discussion. Generally well placed to discharge pre-start conditions. The permission process allowed some conditions to be discharged before others and allowed progress on the site.

D3 - Conditions were seen as a big issue which needed to be addressed during the planning process. The need and reason for so many conditions and how they were controlled was identified as problematic, for example some conditions needed to be agreed before any progress could be made onsite. It was felt that some details could be requested and agreed at a later stage to allow progress to be made on the site.

4) What are the obstacles, if any, stopping your company starting development on site?

D1 - A particular example was given in relation to the Garendon East site. There had been a delay in getting the section 106 agreement signed due consent being given for the reserve matters and technical details such design and place making. It was felt that those details (reserve matters) could be discussed in a wider capacity to understand what the planning team wanted to see so that there was a level of continuity throughout the design process. This would

eliminate a perceived unnecessary layer of process.
Although there had been change of officers on sites there was no major concern as there had been a degree of overlap. The Panel was advised that the planning team wanted to arrange a community group going forward for community engagement purposes. This was welcomed but the group needed to be tightly managed as there was a need to focus on delivery instead of processes.

D2 – The ideal timeline was outlined for the development of the site (2019/20 for activity on the site) but the Panel was advised that the process needing speeding up as time had been lost due to delays on reserve matters. It was however pointed out that the site was in a stronger position now due to a stronger officer team and more commercially aware officers. It was felt that strong officers with knowledge of the area and the projects were particularly important on larger sites. Progress had also been made with the highways authority.

D3 - Dealing with the local planning authority was highlighted as an obstacle as well as technical details being approved by the County Council, the highways authority and Severn Trent. These were significant obstacles which were not always appreciated as such. Agencies needed to be working together to play their part, for example better working between officers and developers. Difficulty contacting officers by email, phone or trying to arrange a meeting was also cited as one obstacle to the process. The Panel advised that they as members could help with the communication issues and could be used to help air concerns as well as provide a response.

5) Are there any other obstacles outside the planning process contributing to works starting, e.g. materials and labour shortages?

D1 - Supply of materials was an ongoing concern as the developers could not guarantee the supply and there needed to be a constant management process to ensure that delivery dates were met. Agreeing material changes with planning officers could cause delays and sometimes it was down to officer discretion whether they were agreed although non-material amendments being agreed were not viewed as a concern. It was seen as more of an issue for smaller sites as larger sites could order sufficient quantities to meet demand.

D2 – dwelling sites have increased significantly and there is a need to prepare the site more before it is sold to the developers and created more work for the business. There was also a limit of local house builders which meant that choice was limited.
There had been a loss of time working on the site due to getting reserve matters signed off and a total of approximately 2 years had been lost due to various delays. Some of the delays such as the agreement of the section 106 and County wide issues had caused delays to the site which meant that the current deal was agreed on a conditional basis and the site was sold using an outline of a plan. It was noted that this was increasingly the case with sites nationally.

D3 - There was a labour and materials supply issue and changes needed to be made in order to meet the requirements of the site. It was felt that directly employed labourers tended to show more loyalty and as a family run business there were no issues retaining staff. Officers had been understanding to issues so far although there was a lack of consistency. There were not however the difficulties that larger organisations faced with labour shortages and material supplies.

6) In your view, are there any complex issues with these larger sites that are delaying construction e.g. infrastructure, highways?

D1 - Larger sites were identified as being more complex as they require larger infrastructure investment and issues with power supply and capacity. The highways authority was identified as causing concern in terms of issuing constraints.

D2 - As sites got bigger they demanded more infrastructure and planning (e.g. highways, sewage and schools). There was some discrepancy between creating larger sites and developers wanting to be involved in smaller sites where they had more control. It was felt that more needed to be done to create a site which encouraged house builders which would help speed up development. The finances involved in developing a site were mentioned as larger sites did require more initial investment which was expensive to the developer. It was proposed that limiting early infrastructure would help as progress could be made whilst further details were agreed.

D3 - Infrastructure was identified as a problem on larger sites as well as viability issues when there were different opinions on the design of the site. Larger sites commanded larger infrastructure which created a higher burden in terms of supply but also cost and legal agreements. Smaller sites could be delivered quickly but there was less scope as the demand for larger sites seemed to grow. The benefits of creating smaller sites were pressed upon the Panel.

7) Are there any other areas of concern that, in your view, are delaying construction we have not touched on?

D1 - Discussions and disagreement over the proposed housing mix for sites can delay development. There was a suggestion that there should be round table discussions between the Council and the industry about housing mix preferences to agree what should be built which would be beneficial to all. The market demand for larger properties (4/5 bedrooms) was prevalent but was conflicted with what the Council required. An agreement through the round table discussions could assist the viability of the site. William Davis felt it was a burning issue.

D2 - It was felt that major progress had been made as the construction stage was nearing and it was hoped that there would be a smooth transition and delivery of the site. Long term development was already in mind to ensure sustained delivery. There were some outstanding issues which needed officer and Councillor support and the Panel were encouraged to speak to the City Council and arrange a discussion meeting.

D3 - A proactive development control service was considered the best way to ensure sites developed smoothly. The housing mix of sites was identified as a cause for concern where Councils were trying to influence the mix of dwellings proposed. It was felt there needed to be flexibility on agreeing the preference for house sizes which would satisfy both parties although the developers were more in tune with the market demand.
ISSUES RAISED/DISCUSSED AT THIS MEETING:
• Continuity with officers regarding queries and working on projects. • Problems with the highways authority putting constraints onto developments • Pre-start conditions slowing down progress on the site • Supply of materials being a concern • Infrastructure being an issue with larger sites • Agreeing the housing mix for sites • Members being used to help resolve problems
ACTIONS
Democratic Services Team: • *Email the list of questions to Developer 4 and other local developers to get further responses.* • *Invite the highways authority to the next meeting to answer questions from the Panel on the issues raised* • *Circulate the action notes to the Panel to formulate the questions for the next meeting.*

Timetable for Review	It was agreed that information be considered at future meetings as follows: Wednesday 9th May 2018: Wednesday 6th June 2018: Wednesday 4th July 2018:

FIVE YEAR HOUSING SUPPLY SCRUTINY PANEL - ACTION NOTES

MEETING 1: 6th June 2018

ATTENDED BY: Councillors Gaskell (Chair), Hamilton, Pacey, Seaton, Snartt.

Officer: N. Ansari

WITNESSES: Councillor Terry Richardson – Blaby District Council

1. APOLOGIES: Councillor Hayes

2. DECLARATIONS OF INTEREST: None

MATTERS CONSIDERED AT THIS MEETING:

WITNESS INFORMATION PROVIDED
Councillor Richardson explained the current situation at Blaby District Council regarding the 5 year housing supply and made the following points: • Currently using the Liverpool model to calculate the housing supply. There was some pressure to use the Sedgefield but the Council had a robust policy in place to defend planning applications and put sufficient time and effort into ensuring that the lack of 5 year housing supply could not be used as a reason to refuse an application. • A lot of time and effort was also spent on pre-applications and talking to developers to agree on how a development would progress. • Communication was seen as important as it created understanding and ultimately success for all parties involved. It was good to engage the developers as they understood the look and feel of the developments and what would be attractive. • Extensive training was provided for the Council's Planning Committee to ensure they were sufficiently informed to make decisions. As well as the standard training master classes were offered for members which were well received. • An example of a development in New Lubbesthorpe was given to explain how the development worked from start to completion. The infrastructure had been provided by the land owner who wanted to create a legacy for the area and which provided an advantage for developers who could start work quickly. • There were dedicated officers at the Council working on the development as well as interacting with the highways authority and a community worker onsite who generated a community feeling which could be sold to potential owners. There was a cohesive approach to the development which helped towards the success. • There was an issue nationally with losing Planning Officers to the private sector but the Council believed they offered good scope and experience for its employees to retain staff. When officers did leave the word of

mouth was positive for a Council that offered support and training so recruitment was not an issue.

- There was a good working relationship with the County Council which was in part due to understanding their limitations and to compromise to make things work. Talking to County was always seen as a challenge and more needed to be done to bring the District Councils and the County Council together.
- One of the initiatives set up was to create a trust for the residents on the development currently paying a service charge. The idea was to create a community feel to the development and was proving popular.
- The idea of community was thought to be particularly important for new developments. Councils should be creating a vision for their area that would be part of the Strategic Growth Plan. Councils also needed to be more commercial but still ensure that developments met the needs of the residents.
- Rural exception sites were used as a means of meeting the housing supply. Seed funding was provided by the Council to help establish one in the local area which could provide housing for local residents.
- There was an ongoing calculation of the housing supply to take into account the start and completion of developments and to ensure it was up to date. The calculations were also used for planning applications and appeals so it was necessary to have the figures available. The Council had employed an Economic Investment Manager to manage the developments and oversee the housing supply. The salary for the post was paid for out of the increased planning fee income which was re- invested into the department.
- The Lead Member for Planning was more involved in supporting the team rather than being actively involved in the development process. They also attended the Cabinet meetings every 6 weeks where they developed an understanding of each member portfolio and gave support to upcoming projects.

Councillor Richardson's main point was the importance of communication with partner agencies and developers to ensure that developments are successful for the residents and create a community that will thrive.

ACTIONS

Democratic Services Officer to invite the Lead Member, Strategic Director of Housing, Planning, Regeneration and Regulatory Services and the Head of Planning to the next meeting.

Timetable for review – it was agreed that information be considered at future meetings as follows: Wednesday 4th July 2018.

FIVE YEAR HOUSING SUPPLY SCRUTINY PANEL - ACTION NOTES

MEETING 1: 5th September 2018

ATTENDED BY: Councillors Seaton (Chair), Hamilton, Hayes, Snartt.

Officers: K. Widdowson and N. Ansari

WITNESSES: Councillor Eric Vardy – Lead Member for Planning, Inward Investment & Tourism Strategy

David Pendle – Group Leader for Plans, Policy and Place

Richard Brown – Principal Planning Officer

1. APOLOGIES: Councillors Gaskell and Pacey

2. DECLARATIONS OF INTEREST: None

MATTERS CONSIDERED AT THIS MEETING:

WITNESS INFORMATION PROVIDED
Councillor Vardy gave an opening statement to the Panel about the current state of the five year land supply in the area and highlighted the following points: o Local Planning Authorities are required to identify a supply of deliverable land to create a minimum of five year's land supply in line with the corporate plan. o National guidance requires a buffer to be added to the five year housing supply figure based on past performance although the measuring system o has changed. This has meant that the Council have changed from being an under developing Council and having to add 20% to the housing requirement to having a record of delivery and having to only add 5%. o The Council has continued to work with developers to bring new homes into action but this has not been easy as the developers have not met the timetables specified. Progress on the three main urban expansions has been slow and stalled. Officers and the Lead Member have met with the representatives of the developers to try and fix delays but the delivery assurances provided were not met. o Senior officers and members have also met with government ministers, MP's and Homes England to try and influence government policy. o The pressure for growth remains ongoing and is a key component of the National Planning Policy Framework. The Panel then asked the following questions with the following responses:

1. What method do we use to calculate the five year housing land supply and why?

The Council use two different methods to calculate the housing requirement. In accordance with National practise and the Council's adopted plan 820 homes were identified as the requirement. The rate of build was also checked to see what the undersupply was and whether the Council was under delivering or delivering at the rate expected.

In relation to the model it was noted that Blaby use the Liverpool model which spreads out the housing requirement whereas the Sedgefield model deals with the requirement at the beginning of the process. The Council use the Sedgefield model in line with government advice to significantly boost house building. This model directs the Council to deal with the issue of the housing supply now rather than spread out the problem over a period of time. For example Blaby use a version of the Liverpool model which means that for any appeals they do not count some building projects which they did not expect to have started yet. Charnwood Borough Council use a different approach where the under supply is addressed now and a plan put in place to achieve the five year supply required. This approach is used by the majority of Councils and is supported by the planning inspectorate.

2. When and how often is the five year land supply scrutinised and by which committee?

The five year land supply had been to one scrutiny panel at the time when the Core Strategy was being created but not to any scrutiny panels recently. It was explained that the figures were challenged through the planning appeals process and the results used to reinforce the figures and ensure the Five year supply position is robust.

There was a consensus that scrutinising the land supply would be beneficial and it was suggested that performance targets could be reviewed by the Performance Scrutiny Panel.

3. Why do the Council only calculate the five year housing land supply annually when it seems that other Council's calculations are ongoing?

It is common practise to produce an annual statement, in line with National guidance detailing the Council's land supply position. In the meantime the Planning officers track the position throughout the year and on a quarterly basis to review the situation and check the direction of travel which can help when making decisions. Getting accurate figures can be time consuming but it is important to show the trend over the year. The statistics are already published for the Plans Committee on a regular basis and given to partners but they could be produced on a quarterly basis for Member's benefit.

4. Does the Lead Member have confidence that the Council can maintain a five year housing land supply?

The biggest problem is getting the developers to build. There are a lot of planning permissions granted but work is not commencing onsite. The Council

Lead Member and officers are trying to get the government to introduce some enforcement powers for developers who do not meet their deadlines. Ideally legislation is needed and the Council have advised the local MP's who can add some weight to the proposition.

Is the issue down to the developers?

There have been issues over the lack of resources available, building site selection and quality of development and various issues with the developers which have halted production onsite and caused concerns.
A three stage process was outlined to the Panel of the Council releasing land through a local plan, the Plans Committee giving permissions to start building and the developers taking over the sites to start building, which is where the delays were occurring. The Council's role was to keep control of the sites by managing the release of sites and by having sufficient permissions to ensure the five year supply remains.

5. Does the Lead Member have confidence that the current 5.9 land supply calculation will stand up to scrutiny if challenged?

There was a rigorous defence in place but no one was sure until it was tested. The judgement would be based on their figures, the buffer in place and the development rates. There was also little room for manoeuvre on the deliverable sites as they had already been through enquiries and the public inspectorate. The appeals panel could not ignore new information and new government guidance regarding the build out rates but the local authority was still penalised over non-completion of sites.

6. What is the current state of the three major sites and what are the current obstacles going forward?

The three deliverable sites are based at Garendon Park in Loughborough, Thurmaston and Broadnook which was proving the most difficult to progress. The main obstacle with the Garendon Road site was the section 106 agreement which was signed in July and now going through the reserve matters process, agreeing the details of the planning application before the sign off. The Thurmaston site appears to be slightly behind with the planning process.

Broadnook has caused a lot of frustration due to concerns over the quality of plans received from the developer and the same concerns were true for the Garendon site as the progress has been very slow.

Action: the planning team to update the Panel on the progress of the three sites.

7. There was a viewpoint from the developers that communication between the officers was poor. Do you have a reason as to why this might be?

There were still monthly meetings with developers and handovers by the team leaders so the department was doing everything it could to keep progress going.

It was acknowledged that there have been issues with staffing and recruitment but the Planning department had been through a restructure which was hoped to address some of the problems.

It was suggested that the developers were addressing their own agenda and their responsibilities to their shareholders which did not necessarily match those of the Council officers.

8. How has the relationship with local partners developed and what can be done to improve it?

There were some delays caused due to the relationship with Leicestershire County Council and the Highways Authority being strained although it was understood that resources were stretched on both sides causing frustration.

The Development Team's approach was that more preparatory work was done in advance and the steering group were involved in an effort to solve strategic barriers. At working level the partnerships do exist and are good working relationships as everyone is working towards the same goal.

9. The developers raised concerns over delays agreeing the section 106 agreements. What is your view on this?

Section 106 agreements were by nature complicated agreements. Although some of the timescales were thought to be realistic there had been some delays, in one instance due to the landowner but also due to the development progress. The dates for development are agreed and some slippage time built in but there have still been delays.

10. Are there any other obstacles outside the planning process that you feel contribute to delays moving forward?

There were a number of obstacles involved which included the weather, industrial problems, lack of skilled labour force and materials, to name a few.
There can also be delays at the start of the progress agreeing sale prices for the land and getting developers on board. Developers also have their own agenda and the situation can change over time in terms of good and bad investments.

Any public enquiries had an impact as they could change the process for development part way through. There could also be changes to agreements due to service requirements such as schools, utilities and highways. From inception to end build there were any number of problems that could arise.

ACTIONS

- Democratic Services Officer to draft the notes from the meeting and compile a draft report for the Panel.

Timetable for review – it was agreed that information be considered at future meetings as follows: Wednesday 3rd October 2018.

Panel Recommendation to the Scrutiny Management Board and Reason	Officer Responses (if any)
That, if the Council’s housing land supply falls below 5.5 years, a quarterly report is provided to the Performance Scrutiny Panel and the Lead Member attend Performance Scrutiny Panel to explain what actions are in place to return the five year housing supply to a satisfactory level. *REASON: To ensure that the figures are scrutinised by the Panel on a regular basis and any action can be taken if required.*	**Response of the Head of Planning and Regeneration** *The Government consulted on the action that should be taken by Council’s to address shortfalls in supply and the delivery of homes through the Housing White Paper. Having considered the options the Government published a revised NPPF in July 2018 which requires authorities to prepare an Action Plan where housing delivery falls below 95% of the housing requirement. That Action Plan could be prepared under the Head of Planning and Regeneration’s delegated authority if the proposed action can be delivered within resources or considered by Cabinet where it required additional resources or a change in policy.* *Notwithstanding that the Government has opted for the regime referred to above, it is possible for additional scrutiny to be applied to the Housing Land Supply through the Performance Scrutiny Panel. However, it shold be noted that the Government has promoted annual supply statements owing to mid-year positions being time-consuming and unreliable given the arbitrary approach taken to annual housing need at the mid-year points. The Council would undoubtedly be subject to scrutiny on five year land supply through statutory appeal processes if the land supply were at 5.5 years due to the attraction to the development industry to challenge that figure. Whilst the scrutiny to be brought by Performance Panel might have a different scope or intention it should be borne in mind that this would be an additional burden on the local planning authority at a time when resources would be being directed towards managing appeals, therefore adding to competing priorities and requiring additional resources or re-directing from other*

	processes. **Recommendation of the Head of Planning and Regeneration** *That no further action is taken.*

Panel Conclusions not Requiring Further Action	Officer Responses (if any)
Conclusion 1. That the Panel believes a robust exit strategy should be in place to alleviate confusion and minimise delays when a member of staff leaves. This refers to project handover and IT tasks such as deleting email accounts and communicating any staff changes to Members as well as officers. The Head of Planning and Regeneration has been asked to consider this as an operational management matter.	*Noted. The Planning and Regeneration Service currently prepares exit strategies and action based transition plans to manage staff changes.*
Conclusion 2. Due to the differing viewpoints between the Council officers and local developers it was felt that communication on both sides could be improved, mostly at the pre-application stage where the development could be talked through and agreed. The Head of Planning and Regeneration has been asked to consider this as an operational management matter.	*Noted. The Planning and Regeneration Service currently seeks project managed programmes of activity from developers in order to help with resource planning and also advocates the use of the pre-application process.* *It may be noted that delays are often incurred in the pursuit of appropriate development proposals due to the local planning authority seeking policy compliant schemes which will deliver Cabinet's vision and expectations for Charnwood. Officers are of the view that in this regard the issues raised in conclusion 2 are not purely about*

Panel Conclusions not Requiring Further Action	Officer Responses (if any)
	communication, which is considered on the whole to be reasonable, but rather about agreement in that respect.
Conclusion 3. The Panel was reassured to hear that the Council was using the Government's preferred model for calculating the five year housing supply.	*Noted.*
Conclusion 4. The Panel welcomed the changes to the revised National Planning Policy Framework as it has improved the Council's position regarding its five year housing supply.	*Noted.*

CABINET – 15TH NOVEMBER 2018

Report of the Head of Strategic Support

ITEM 7 MANAGEMENT OF PUBLIC OPEN SPACE – RECOMMENDATIONS OF SCRUTINY MANAGEMENT BOARD

Purpose of Report

To consider the recommendations of the Scrutiny Management Board arising from the recommendations of the Policy Scrutiny Group relating to the management of open spaces (which arose during the Group's consideration of the Open Spaces Strategy), alongside officer advice and recommendations in response, with a view to the Cabinet deciding which recommendations it wishes to agree, if any.

Recommendations and Reasons

Set out below is each recommendation and reason of the Board, followed by the officer advice and recommendation in each case.

Board Recommendation 1

That the Cabinet be asked to note that the fact that developers could choose not to offer open spaces for adoption by the Council and the increasing use of management companies to manage open space on developments as an alternative to adoption by the Council were of concern to the Policy Scrutiny Group.

Reason

To draw the Cabinet's attention to an area of concern.

Response of the Head of Cleansing and Open Spaces

No comment.

Officer Recommendation 1

That the Cabinet decides whether it wishes to note this matter.

Board Recommendation 2

That the Cabinet be asked to also note that the Policy Scrutiny Group identified the following particular issues with the operation of the management company model in addition to its general concerns:

- the service charges that were levied by management companies could be significant for local residents affected by them;
- there could be a lack of transparency in the way in which service charges were increased;
- there was no consideration of ability to pay when service charges were levied;

- there was evidence that maintenance work was of low quality in some cases.

Reason

To draw the Cabinet's attention to an area of concern.

Response of the Head of Cleansing and Open Spaces

No comment.

Officer Recommendation 2

That the Cabinet decides whether it wishes to note this matter.

Board Recommendation 3

That the Cabinet be asked to draw the attention of local MPs and the Government to the issues identified above so that a change in the law could be considered to require developers to offer areas of open space to local authorities for adoption.

Reason

While acknowledging that the current system could only be altered through a change in the law, to request that the Cabinet seek to influence Government policy regarding the matter.

Response of the Head of Cleansing and Open Spaces

The current Open Spaces Strategy states that the Council will continue to seek alternative funding mechanisms to minimise the long-term impact on the Council Tax payer.

This Council's current policy for the adoption of open space requires developers to pay a commuted sum that equates to the cost of 20 years maintenance. The calculation period for the commuted sum varies between local authorities. Some local authorities effectively refuse to adopt any new open spaces regardless of the payment of a commuted sum.

Most, if not all, developers are willing to offer open space for adoption by the Council; however, many are unwilling to pay the commuted sum and elect to establish a Management Company to oversee and arrange the ongoing maintenance. The costs of maintenance are recovered from local residents through a service or management charge.

In the current financial climate, and with the expected rate of housing growth, it is not viable for the Council to adopt new open spaces without a commuted sum, or with a change to the calculation methodology that leads to the commuted sum being reduced.

The concerns identified by the Policy Scrutiny Group, as set out in recommendation 3 and the reason, are ones that are not within the Council's powers to address and would require a change in legislation.

Officer Recommendation 3

That the Cabinet decides whether it wishes to take the action set out.

Background

In accordance with the Scrutiny Work Programme and given the Group's remit to engage with reviews of Council policies and undertake scrutiny of those policies, the Policy Scrutiny Group, at its meeting on 25th September 2018, considered a report updating the Group on work to deliver the adopted Open Spaces Strategy 2013-2028 and the need to produce a revised Strategy and action plan. Arising from its scrutiny of the matter, the Group considered the issue of responsibility for the maintenance of open spaces on new developments and the increased use of management companies for this as an alternative to offering the land for adoption by the local authority. Following its scrutiny of the matter, the Policy Scrutiny Group asked the Scrutiny Management Board to make the above recommendations to the Cabinet, which the Board supported at its meeting on 24th October 2018. An extract from the minutes of the meeting of the Policy Scrutiny Group setting out the Group's consideration of the issue is attached as an Annex to this report.

Policy Justification and Previous Decisions

Scrutiny Committee Procedure 11.12 sets out the procedure by which a report of a scrutiny committee should be considered by the Cabinet.

Implementation Timetable including Future Decisions and Scrutiny

The Council's Open Spaces Strategy is currently being reviewed, and updated Playing Pitches, Open Spaces and Built Facilities Strategies are due to be considered by the Cabinet at its meeting on 13th December 2018.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no financial implications associated with the recommendations of the Scrutiny Management Board.

Risk Management

There are no specific risks associated with the recommendations of the Scrutiny Management Board.

Key Decision:	No
Background Papers:	None
Officer to contact:	Michael Hopkins Democratic Services Officer (01509) 634969 michael.hopkins@charnwood.gov.uk

ANNEX

MINUTE EXTRACT

POLICY SCRUTINY GROUP
25TH SEPTEMBER 2018

“17. OPEN SPACES STRATEGY

A report of the Head of Cleansing and Open Spaces, providing an update on work to deliver the adopted Open Spaces Strategy 2013-2028 and the need to produce a revised Strategy and action plan, was submitted (item 8 on the agenda filed with these minutes).

The Head of Cleansing and Open Spaces and the Policy and Green Spaces Development Manager assisted with consideration of the item and provided the following responses to issues raised:

(i) There was no requirement for developers to offer open spaces to the Council for adoption. For the Council to adopt an area of open space the developer was required to pay a commuted sum equivalent to 20 years of maintenance costs which would be secured through a Section 106 Agreement. It was becoming more common for developers to choose to transfer open spaces to a management company which could levy a service charge on residents to cover the cost of maintenance. Service charges could also be levied to fund the cost of maintenance of other communal facilities such as lighting, parking and unadopted roads.

[part of minute omitted]

The following comments were made by members of the Group:

(i) The levying of service charges for the maintenance of open spaces could come as a shock to residents. There were also concerns regarding the way in which service charges increased and the quality of the work that was undertaken to maintain some open spaces managed in that way.
(ii) It would require a change in the law to require developers to offer open spaces to councils. Given the increasing use of management companies rather than adoption by councils and concerns about that model it would be appropriate for the Borough Council to ask the Government to consider amending the law.

RESOLVED

1. that the report be noted;

2. **that it be recommended to the Scrutiny Management** that the following recommendations be submitted to the Cabinet in respect of the Open Spaces Strategy:

a) that the Cabinet be asked to note that the fact that developers could choose not to offer open spaces for adoption by the Council and the increasing use of management companies to manage open space on developments as an alternative to adoption by the Council were of concern to the Policy Scrutiny Group;

b) that the Cabinet be asked to also note that the Group identified the following particular issues with the operation of the management company model in addition to its general concerns:

- the service charges that were levied by management companies could be significant for local residents affected by them;
- there could be a lack of transparency in the way in which service charges were increased;
- there was no consideration of ability to pay when service charges were levied;
- there was evidence that maintenance work was of low quality in some cases;

c) that the Cabinet be asked to draw the attention of local MPs and the Government to the issues identified above so that a change in the law could be considered to require developers to offer areas of open space to local authorities for adoption.

Reasons

1. To acknowledge the information received.

2. To draw the Cabinet's attention to an area of concern and, acknowledging that the current system could only be altered through a change in the law, to request that the Cabinet seek to influence Government policy regarding the matter."

CABINET – 15TH NOVEMBER 2018

Report of the Strategic Director of Corporate Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 8 MEDIUM TERM FINANCIAL STRATEGY 2019 - 2022

Purpose of Report

To bring forward a Medium Term Financial Strategy (MTFS) for consideration by Cabinet and recommendation to Council.

Recommendations

That it be recommended to Council that the MTFS 2019 to 2022, attached as an Appendix, be approved.

Reasons

To identify the financial issues affecting the Council and the Borough in the medium term in order to provide a base for priorities to be set and to inform the Council's budget setting process.

Policy Justification and Previous Decisions

The MTFS is prepared annually and is the key document for medium term financial planning within the authority. It is one of the Council's core strategies and helps the Council identify its priorities and set targets for what we plan to achieve.

The Draft MTFS was approved for consultation by Cabinet at their meeting on 13th September 2018 (minute ref: 36), and was scrutinised by the Budget Scrutiny Panel on 2nd October 2017 and this final version will be available for scrutiny by the Overview Scrutiny Group on 12th November 2018.

If agreed by Cabinet, this MTFS will go to full Council for approval on 21st January 2019.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management

There are no direct risks associated with the decision Cabinet is asked to make in respect of this report.

Key Decision:	Yes
Background Papers:	None
Officer to contact	Simon Jackson Strategic Director of Corporate Services 01509 634699 simon.jackson@charnwood.gov.uk

Part B

Background

1. The draft Medium Term Financial Strategy (MTFS) 2019 to 2022 was considered by both Cabinet and the Budget Scrutiny Panel on 13th September and 2nd October 2018 respectively.

2. The Budget Scrutiny Panel made a number of comments and observations in respect of the draft MTFS 2019 to 2022 and asked that the Lead member for Finance & Property consider the matters raised and respond to the Panel with his comments and views thereon.

3. The various issues raised for consideration by the Panel are set out in the minutes of that meeting.

4. This final version of the Medium Term Financial Strategy was updated in October 2018. In this version it has been possible to gain a little more certainty around the New Homes Bonus award for 2019/20 and some refinement of the projections for the ongoing costs of the environmental Services contract has been undertaken. Following recent budget monitoring reports it has also been deemed appropriate to revise the potential level of savings that can be achieved in future years in respect of identified underspends.

5. In summary the financial projections now show:

   - 2019/20 will see £1.097m use of reserves (including a £0.2m adjustment to the collection fund) assuming that £0.5m of transformation and efficiency savings can be delivered
   - 2020/21 will see a further £0.526m use of reserves assuming that £0.7m of transformation and efficiency savings can be delivered]
   - 2021/22 will see revenues exceed expenditure by £0.073m, therefore adding this amount back into reserves, assuming that £1.0m of transformation and efficiency savings can be delivered.

6. Over the three year MTFS period this would imply a net use of reserves of £1.550m, with the Council reaching a stable-state financial position in the final year of the MTFS.

7. Whilst the MTFS has been compiled having regard to available information, the level of uncertainty within the financial projections is particularly significant, due principally to outcome of the government's Fair Funding review, due for completion in the latter part of 2019, and the new local government funding regime likely from the 2020/21 financial year.

8. It is worth reiterating the MTFS is not the actual budget (which has to be approved by the full Council) and no assumption, analysis or projection should be construed as any decision which would constrain the Council's budget setting process.

Appendix

Charnwood Borough Council Medium Term Financial Strategy 2019 – 2022

FINAL – OCTOBER 2018

Charnwood Borough Council

Medium Term Financial Strategy

2019 – 2022

Table of Contents

VERSION CONTROL

Version	*Author*	*Comments*
0.0	Simon Jackson	Initial draft (August)
0.1	Simon Jackson	Initial draft – continued (August)
1.0	Simon Jackson	Final SJ version – 17 Aug 2018
1.1	Clare Hodgson	Minor amends – 21 Aug 2018
2.0	Simon Jackson	Update – October 2018
2.1	Simon Jackson	Update – refined – 23 October 2018

1. Foreword

Mahatma Ghandi is reported to have said "*The future depends on what you do today"*. Here at Charnwood we are laying strong financial foundations for our future which include investing in the local economy and reviewing our treasury strategy in order to be less dependent upon central funding, as well as developing transformation and efficiency plans to ensure we make the most of the resources we have available.

Autumn is the time that we reflect on the Council's financial position and consider our prospects in the medium term, with the outcome of this process set out in the Medium Term Financial Strategy. I am pleased to share this edition of our Strategy and hope that it provides a sense of the financial opportunities, uncertainties and challenges facing the Council in the next few years.

The Council remains in a sound financial position with good levels of financial reserves. We have a history of prudent financial management and our expenditure remains under control. However, if there is one message that we should draw from this year's Medium Term Financial Strategy it is that there is no room for complacency.

It is generally accepted that public finances are limited whilst demand for public services is increasing. Nationally, local government competes for resources with the likes of the NHS, Ministry of Defence and Department for International Aid, in an environment where economic growth – and the associated tax revenues - is uncertain. Within the local government sector there is evidence that some services, such as adult and children's social care, are under stress and there is lobbying from certain groups of local authorities to secure additional funding in these areas. We have also seen the financial failure of one major local authority and reports suggesting that others are on the brink. The outcome of the government's 'Fair Funding review' which is due in late 2019 and has the potential to create a material impact on local government funding from the 2020/21 financial year is therefore of fundamental interest to all within the sector.

Moving forward, an increasing proportion of our revenue will be generated locally and this offers us an opportunity to contribute to, and benefit from, economic growth across the Borough, particularly that arising from housing growth and our Enterprise Zone sites. However, this opportunity comes with a complex web of rules and restrictions which increase our funding risks and limits the quantum of income we are able to retain for local service delivery and investment. And as I note previously, the Fair Funding review could materially alter our financial position. Combined with the usual inflationary pressures on our costs and increasing demand for our services, such as those arising from the roll-out of Universal Credit and new responsibilities arising from the Homelessness Reduction Act, taking a forward look at our finances is, as ever, a challenging task.

There are a wide range of potential outcomes that could occur in the period and the revisions that have been made to reflect more up to date information on our housing numbers, adversely affecting our New Homes Bonus, are illustrative of the estimation challenges we face. Generally, but in particular within the current climate, new information which may have a significant impact on our finances arrives on a regular basis and although the preparation of the MTFS is an annual exercise, in reality we keep our financial position under review on an ongoing basis.

Finally, it is important to stress that the numbers presented within the MTFS *do not* represent the budget – publication of these numbers does not in any way constrain the budgetary decisions we will make for the 2019/20 financial year – but clearly the MTFS projections provide food for thought as we move forward in the budget setting process.

Councillor Tom Barkley

Cabinet Lead Member for Finance

October 2018

2. Executive summary

This Medium Term Financial Strategy considers the financial outlook for Charnwood Borough Council ('Charnwood', or the 'Council') for the three financial years 2019/20, 2020/21 and 2021/22. The document's focus is on the 'General Fund'; certain aspects of the Housing Revenue Account are also discussed but the outlook for this is dealt with separately within the 30 year Housing Revenue Account business plan.

At the core of this document are the financial projections for these three years which show the funding challenges during this period. The numbers set out the challenge in three elements:

1. The core financial projections based on known changes to funding streams and the cost base *and* assuming no management action is taken to otherwise mitigate funding shortfalls

2. Indicative projections of the impact of Council efficiency and transformation projects and initiatives that aim to bridge the funding gaps

3. Funding shortfalls for which other efficiency and transformation will be required, or where reserves will be required to balance the budget

In summary the financial projections show:

- 2019/20 will see £1.1m use of reserves (including a £0.2m adjustment to the collection fund) assuming that £0.5m of transformation and efficiency savings can be delivered]

- 2020/21 will see a further £0.5m use of reserves assuming that £0.7m of transformation and efficiency savings can be delivered]

- 2021/22 will see revenues exceed expenditure by £0.1m, therefore adding this amount back into reserves, assuming that £1.0m of transformation and efficiency savings can be delivered

Over the three year MTFS period this would imply a net use of reserves of £1.550m, with the Council reaching a stable-state financial position; ie. expenditure would be matched to income. If achieved, this outcome would be acceptable, but, as the paragraphs below outline, this will require a certain amount of fortune alongside the concerted efforts of both Members and officers of the Council.

Health warning

The numbers presented above come with a very significant health warning. Whilst prepared with all information available, the outcome of the government's Fair Funding review, due for completion in the latter part of 2019, could result in a fundamental reset of the Council's funding base. This review will inform the future share of business rates that the Council is able to retain under the prospective new business rates retention scheme (due for implementation from 2020/21) and, in particular, the future of the New Homes Bonus Scheme which currently generates around £4m per annum for the Council. Further discussion and scenario modelling of different scenarios for New Homes Bonus are set out in the body of this document but suffice to say, ***the financial projections for the latter years of the MTFS (2020/21 and 2021/22) therefore carry a significant risk.***

Other risks

Beyond the fundamental funding uncertainty the projections above also contain other inherent risks, principally that the Council experiences unavoidable 'service pressures', or is unable to deliver the transformation and efficiency plan (or generate equivalent savings).

This final version of the Medium Term Financial Strategy was updated in October 2018. In this version it has been possible to gain a little more certainty around the New Homes Bonus award for 2019/20 and some refinement of the projections for the ongoing costs of the environmental Services contract has been undertaken. Following recent budget monitoring reports it has also been deemed appropriate to revise the potential level of savings that can be achieved in future years in respect of identified underspends. Overall, however, there are inevitably significant gaps in our knowledge of our circumstances in the future and in particular, the outlook for 2020/21 and 2021/22 will remain very uncertain.

Budgetary approach for 2019/20

It is true to say that the Council has good levels of revenue reserves and there is no requirement to make any 'knee jerk' decision involving immediate cuts to services. But, although sometimes masked within the budget outturn reports, – due to the necessary timings of the originating budget reports and the estimates contained therein - is the fact that the Council is now starting to utilise its reserves. This is apparent from the latest set of financial statements which show that in total, the General Fund revenue reserves (comprising the Working Balance, the Reinvestment Reserve and others) fell from £12.6m on 31 March 2017 to £11.2m on 31 March 2018. So whilst the Council does have the resources to adapt our service offering to reflect future financial realities, this will require proactive planning and effective implementation of these plans. There is no room for complacency.

The budgetary approach proposed is therefore that budgetary targets will be set, informed by the MTFS, that will require the total cost of services to be constrained within an overall affordability envelope.

3. Introduction

The Medium Term Financial Strategy (MTFS) takes a forward look at the political, economic and regulatory environment facing the Council and uses these to create a high level financial model of future potential revenues and costs.

This model is used to identify potentially significant funding surpluses or shortfalls that may arise in the medium term, and to inform the Council's budget setting process. It takes into account existing expenditure patterns together with identified and material cost pressures. The model also incorporates projected savings and efficiencies from the implementation of existing strategies, policies and projects to attempt a holistic view of the Council's future financial position.

In order to balance the desire to take a long term view of the Council's financial future, and the limits on our ability to create meaningful forecasts over such a period, the MTFS has been developed to cover three years, from 1 April 2019 to 31 March 2022.

The purpose of this document can be summarised as follows:

- Outline the principal factors that will influence the availability of the Council's financial resources in the medium term

- Inform and define the medium term service delivery plans of the Council in financial terms

- Inform the budget setting process for the 2019/20 financial year

- Provide the financial basis for the Council to decide its corporate priorities for future years.

This is a high level strategic document which summarises plans over the medium term as they currently stand, based upon current information, projections and assumptions. As additional updated information becomes available these plans will be subject to change and a comparison of the previous MTFS to this document will reflect such changes. In this document a certain amount of detailed budgetary information is presented but this should be regarded as indicative and illustrative. Whilst this document will inform the 2019/20 budget setting process, some of the figures quoted here will be amended and refined as more information comes to light and the 2019/20 budgets are developed.

It is worth reiterating what this document is not; it is ***not*** the actual budget (which has to be approved by the full Council) and no assumption, analysis or projection should be construed as any decision which would constrain the Council's budget setting process.

Scope of the MTFS

This strategy document concentrates on the General Fund, which deals with non-housing revenue items and derives its income from charges, government grants, council tax and business rates. The Housing Revenue Account (HRA) has its own business plan and both General Fund and HRA capital expenditure are subject to a three year programme which is reviewed separately from revenue items. However, the impact of capital investment and the HRA on the General Fund is considered as part of this strategy. The Council's finances are actively managed on an ongoing basis and the adoption of this strategy will require executive decisions to carry out any significant actions identified.

4. Political, economic and regulatory outlook

At the time of writing the political and economic outlook appears very uncertain. Within the United Kingdom politics and economics are dominated by the exit from the European Union scheduled for March 2019. The terms of this exit are not yet known and the possibility of delays in the process cannot be ruled out. Internationally, there is a trend of protectionism, resulting in increased barriers to trade, which may reduce global economic growth in the medium term. Analysis from PwC (a consultancy) published in July 2018 summarises the UK outlook as follows:

In our main scenario, we project UK growth to remain modest at around 1.3% in 2018 and 1.6% in 2019. This is due to continued subdued real consumer spending growth and the drag on business investment from ongoing economic and political uncertainty relating to the outcome of the Brexit negotiations.

The stronger global economy, and the competitive value of the pound, have boosted UK exports and inbound tourism, offering some support for overall UK GDP growth that should continue through 2018. However, the Eurozone economy has slowed recently and any further escalation of international trade tensions could dampen global growth in 2019 and beyond.

Service sector growth should remain modest but positive in 2018-19, while manufacturing also retains some positive momentum despite a slowdown in early 2018. But the construction sector has fallen back due to the weakness of commercial property investment and this looks set to continue.

From the Charnwood perspective the key concerns are how the wider political and macro-economic factors feed through into the availability of funding for the public sector, what proportion of this will be allocated to local government, and within this allocation – no doubt informed by the Fair Funding review – what the funding settlement for each Council will be.

Both the demand for the Council's services and its income streams are affected by the general economic health of the Borough, and the prevailing interest rate has a direct impact on interest receipts. Areas of deprivation do exist in the Borough but as a whole Charnwood is above averagely prosperous, with a ranking of 237 out of 326 English local authorities[1] (where '1' is the most deprived and '326' the least deprived local authority respectively). This relative prosperity is an important factor in the projected housing growth in the Borough, as evidenced in our draft Local (Development) Plan. If correct, the growth in housing will generate a significant part of

[1] English local authority Index of Multiple Deprivation 2015 (IMD average ranks – File 10; latest result available)

the Council’s total income over the next three years based on the current local government financing regime.

More detailed assumptions around the key individual components of the Council’s revenue streams and expenditure are set out in subsequent paragraphs of this Strategy.

5. Financial projections - overview

At the heart of this MTFS is the high level financial model. This is used to derive an estimate of the Council’s future revenues and costs and the associated impact on the Council’s reserves. Subsequent sections describe how the model has been developed and the key assumptions used, as follows:

- Local government financing regime: discusses the projected mix of council tax and government grant revenues over the period of the MTFS
- Treasury management and investment income: discusses the Council’s current approach to fund investment and projected levels of interest receivable, together with comments on envisaged future activities.
- Key operational assumptions: describes the derivation and key assumptions underpinning the projections of operational income and expenditure
- Existing financial resources and use of prudential borrowing: describes how revenue and capital expenditure of the Council may be financed over the period of the MTFS using reserves or prudential borrowing
- General Fund financial projections: presents the projected financial outlook for the Council over the period of the MTFS in tabular form

6. The local government financing regime

The Council’s funding is derived from a mixture of council tax receipts, new homes bonus payments, a share of locally collected business rates and direct government grant funding. A key continuing theme from the government has been the drive towards financial independence for local authorities and the move towards localism. In practice this means a reduction in levels of direct (formula) grant funding, offset by retention of a share of local business rates and other grant funding relating to housing growth. Development is currently underway around plans for local retention of business rates collected to be increased to 75% (compared to the current 50% retention scheme); it is envisaged, although not formally confirmed, that the new arrangements will be in place from the 2020/21 financial year.

Whilst the future arrangements for local retention of business rates are still somewhat uncertain there seems little doubt that the Revenue Support Grant will be eliminated with the final payments made in the 2019/20 financial year.

For Charnwood, the critical uncertainty is around the future of the New Homes Bonus which forms a major component of Council funding at present. Latest information released by the Government offers no assurances that this funding stream will continue beyond 2019/20 but no alternative approaches to the distribution of this funding pot have yet been proposed.

The principal features of the financing regime and key assumptions and sensitivities in respect of Charnwood are discussed in more detail in the following paragraphs.

Council tax

Anecdotal evidence suggests that there is resistance from local citizens to any significant increases in Council Tax. With this in mind, the Coalition government (2010 – 2015) introduced legislation requiring council tax increases above a certain level to be endorsed by the public through a local referendum and this restrictive approach has continued under the current Conservative administration. However, in recognition of increasing evidence that local authorities are struggling financially the Government has somewhat relaxed the limits at which a local authority would trigger a referendum and in recent years has allowed all District and Borough Councils to increase council tax by up to a maximum of £5 or three percent per band D property as well as allowing authorities with Social Care responsibilities an additional two percent increase on top of the standard cap that would have triggered a referendum. For the purposes of the MTFS, these limits are assumed to apply to District and Borough Councils for each of the financial years considered.

In comparison to other districts, Charnwood's council tax charges are still amongst the lowest in the country as the data from the Department of Communities and Local Government below illustrates:

Table1: Comparison of District Band D Council Tax Charges 2018/19

NATIONAL PICTURE	***Council Tax Band D***	***Rank (of 201)***	LEICESTERSHIRE AUTHORITIES	***Council Tax Band D***	***Rank (of 201)***
Lowest					
Breckland	£85	1	Hinckley & Bosworth	£127	14
West Oxfordshire	£94	2	**Charnwood**	**£139**	**23**
Hambleton	£104	3	Blaby	£158	54
			Harborough	£168	79
Charnwood	**£139**	**23**	North West Leicestershire	£173	90
			Melton	£197	133
Median			Oadby & Wigston	£218	165
South Holland	£178	100			
North Devon	£178	101			
East Staffordshire	£179	102			
Highest			** Calculation includes Band D and Share of Loughborough Special Rate (or Equivalent) spread across whole tax base*		
Weymouth & Portland	£301	199			
Preston	£305	200	*Source: MHCLG*		
Ipswich	£352	201			

Given Charnwood's low tax charge and future funding uncertainties it is assumed that Council Tax will increase by the maximum amount of £5 in all of the financial years covered by this MTFS.

The actual amount of Council Tax collected will also vary in line with the tax base, essentially the number of properties against which Council Tax is levied. The tax base for this purpose is expected to increase by 2% year on year over the period of this document. This assumption has been reconsidered for this October version of the MTFS given the lower than expected housing growth for the purposes of the New Homes Bonus calculation. However, given specific information relating to houses under construction (in mid-October 2018 some 800 houses were under construction, suggesting that a c1% increase in the council tax base will arise within the following four months) and the view that underlying housing growth remains strong, this assumption has not been amended.

Table 2: Projected Council Tax income tax increase

(Amounts £000)	*2018/19 budget*	*2019/20*	*2020/21*	*2021/22*
Assumed council tax income	6,502	6,917	7,347	7,791

Loughborough Special Rate

The town of Loughborough does not have the equivalent of a Town Council and the role that this organisation would fulfill is therefore undertaken by Charnwood Borough Council.

The Loughborough Special Rate is levied on the residents of Loughborough by the Borough Council and is used for activities specifically related to Loughborough town. This set of activities is comparable to those performed by Towns and Parishes and used by other Councils in equivalent situations. These activities have been validated by the Council and include maintenance of parks, cemeteries and memorials, management of allotments and costs associated with the Loughborough Fair and festive decorations. A full list of activities is set out in the Budget Book issued by the Council each year and available at:

https://www.charnwood.gov.uk/files/documents/2018_19_budget_book/2018-19%20Budget%20Book.pdf

For the purposes of the MTFS the Special Rate is assumed to have no increase in rate for any of the years included within the projections. This will have no overall effect upon the council tax income for the Council as a whole because (as stated below) the £5 cap includes increases to the Loughborough Special Rate. No changes to the items included in the Special Rate have been assumed[2].

It should be noted that for the purposes of assessing whether Council Tax increases are excessive when the government calculates the year on year level of increase for Charnwood, it includes both the main Borough charge and the Loughborough Special Rate. The projections show that even with no increase in the rate, actual income will increase in line with tax base increases.

Table 3: Projected Loughborough Special Rate income

(Amounts £000)	*2018/19 budget*	*2019/20*	*2020/21*	*2021/22*
No increase in rate, 2% expansion of tax base	1,194	1,215	1,237	1,259

Revenue Support Grant

Revenue Support Grant (or ‘formula’ grant) is (historically) allocated to each local authority by the government using an assessment of need based on the characteristics of population, geography and other sources of finance available to an individual local authority. The actual calculations are complex and opaque but a clear trend in the reducing value of this grant is apparent. The Council’s RSG reduced from £4.2m in 2014/15 to £3.0m in 2015/16, £2.1m in 2016/17 and £1.3m in 2017/18. The final two years of RSG are £0.7m for 2018/19 and £0.2m for 2019/20; beyond this year no RSG will be receivable.

[2] As noted in previous paragraphs it must be reiterated that assumptions made here in respect of Loughborough Special Expenses do not constitute a decision; in practice, both the Loughborough rate and the composition of Loughborough expenses could be amended should full Council conclude this was appropriate.

The RSG figures were given as a multi-year settlement therefore the figures shown below should not be subject to change.

Table 4: Revenue Support Grant

(Amounts £000)	*2018/19 budget*	*2019/20*	*2020/21*	*2021/22*
As notified	745	165	0	0

Local share of national non-domestic rates ('business rates' or 'NNDR')

From 1 April 2013 the structure of local government finance changed, with local authorities retaining a share of business rates collected in their area. The calculations are based on target rates of collection set by government and are somewhat complex, but result in Charnwood retaining around 9% of the total collected, equating to around £4.5m. Local authorities can increase their business rate income by growing the business rate take in their area; conversely, if collections fall then local authorities bear an element of risk.

Recent experience in Charnwood suggests a 'flat' picture with no material business rates growth envisaged over the period of the MTFS although in the medium term initiatives such as the development of the Loughborough University Science Park and Charnwood Campus and the inclusion of these in an Enterprise Zone are expected to offer some upside.

In comparison with other authorities Charnwood is comparatively less reliant on locally retained business rates and has relatively few single significant sites in respect of business rate valuations. For example, Charnwood is not the site of a power station, airport, major retail park (such as Fosse Park) or regional distribution centre (such as Magna Park). Some risk does exist however, principally around the long tail of outstanding rate appeals for which we would have to bear our share of lost revenue should those appeals prove successful. Additionally business rate income is now our second largest source of external funding.

The additional revenue from the envisaged 75% business rate retention arrangements may replace reductions in RSG and New Homes Bonus but may also come with additional responsibilities that give rise to additional costs. At this point in time it appears likely that the new arrangements will come into effect from 2020/21 but the details of this arrangement are still under development. Potentially of more import is the outcome of the Government's Fair Funding review which is due to conclude in 2019. This will inform the Government assessment of Charnwood's 'baseline funding need', around which the new business rate retention arrangements will be based.

Since the draft version of the MTFS was prepared, the Council has been party to a bid to participate in a 75% business rate retention pilot for 2019/20, in conjunction with other local authorities in Leicestershire. If successful, participation would almost certainly provide a one-off boost to the Council's budget in the 2019/20 financial year, perhaps in the order of £250k. It is likely that the outcome of the bid will be known in December 2018. Given that a similar bid proved unsuccessful in respect of the 2018/19 business rate retention pilots it has not been considered appropriate to amend the projections in respect of this matter.

In the absence of additional information this MTFS assumes that the Council's baseline funding level will remain in line with the current figure, and increase with inflation combined with the projected growth in business rates of 3.4% per annum. This is consistent with the assumption adopted in the previous version of the MTFS.

Table 5: Projected local share of business rates

(Amounts £000)	*2018/19 budget*	*2019/20*	*2020/21*	*2021/22*
As modelled	4,957	5,125	5,300	5,480

New Homes Bonus

The New Homes Bonus (NHB) was designed to provide an incentive payment for local authorities to stimulate housing growth in their area. The calculation is based on council tax statistics submitted each October and, up to 2016/17, a 'bonus' was payable for the following six financial years based on each (net) additional property using a standardised council tax Band D amount (this varies with the national average but is historically £1,500+ per property). In two-tier local government areas this payment is split in the ratio 20% to county councils, 80% to district councils.

The NHB scheme started in 2011/12, so 2016/17 was the first year in which the Council received a full six years funding. Up until 2016/17 the amount of NHB received grew naturally due to the cumulative funding effect since the scheme was introduced in 2011/12. From 2017/18 the mechanism under which NHB funding levels are determined changed. The number of years over which the funding is received reduced to five in 2017/18 then a further reduction to four years applied from 2018/19 onwards. Additionally a 'deadweight' growth upon which no bonus is payable ('deadweight' growth) was been introduced, further reducing future payments. The deadweight growth was set at 0.4% in respect of 2018/19; in future years it is suggested that this may be subject to change dependent on national affordability criteria but no information on any prospective change is available.

More fundamentally, as alluded to earlier in this document, there appear to be significant doubts around the future of NHB from the 2020/21 financial year. In recent weeks there have been suggestions that HM Treasury believe that the scheme has 'failed' in that it has not created any material growth in housing supply. At the time of writing there is no official word on any variation or alternative and the approach in the core MTFS projection is to assume that the scheme continues in its current format due to a lack of any more obvious assumption. However, some alternative scenarios are considered in subsequent paragraphs in this document.

Since the draft MTFS was prepared in the Summer, final numbers for housing growth in Charnwood, derived from the council tax system and reflected in the annual ‘CTB 1’ government return have become available. The growth shown was below the estimate implicit within the projection for NHB in respect of the 2019/20 financial year and it is therefore appropriate to reflect on the previous modelling and reconsider estimates for the 2020/21 and 2021/22 financial years.

Calculation of New Homes Bonus

In common with previous years, for 2019/20, the New Homes Bonus is calculated by comparing the number of houses on the council tax register, as reflected in the annual CTB 1 return completed in October 2018, to the equivalent return from 2017. The return includes the impact of both new houses and the net change in houses within existing stock that have become empty (or been reoccupied). This ‘raw’ number is then converted to Band D equivalent figure analogous to the calculation of the council tax base, and then adjusted by the ‘deadweight’ percentage described above. For the purposes of the projections in this MTFS the deadweight percentage of 0.4% (of the total council tax base) is used, being consistent with previous years; there is, however, no guarantee that this rate will remain unchanged.

Review of previous NHB modelling

The figures used in the draft (previous version) of the MTFS were based upon assumptions derived from historical information and internal estimates of housing growth informed by the extant Local Plan. The tables below (updated for the 2019/20 NHB figure now known) show the relevant data sets.

Table 6: Housing completions estimated: Five year land supply 2018 - 2023

	2018/19	*2019/20*	*2020/21*	2021/22	*2022/23*
Estimated completions	1,097	1,462	1,218	882	866

It should be noted that the above estimates relate to financial years so therefore the impact is lagged in respect to NHB – so the first six months of 2018/19 here relates to the second half of the year on which the 2019/20 NHB calculations are based. However, these estimates are consistent with recent growth data from the council tax base and suggest that an assumption of growth in housing in the range 1,000 to 1,250 for the purposes of NHB over the period of the MTFS is reasonable.

Table 7: Change in council tax register year on year, as aligned to NHB award years

	2014/15	*2015/16*	*2016/17*	*2017/18*	*2018/19*	2019/20
Additional properties (Band D equivalent)	626	727	569	901	1,153	953

Table 8: Charnwood New Homes Bonus 2013/14 – 2019/20

	2014/15	*2015/16*	*2016/17*	*2017/18*	*2018/19*	2019/20
Additional properties (adjusted for NHB calculation purposes)	626	727	569	642	877	686
Associated NHB (year) £000	733	878	716	829	1,198	964
Cumulative NHB (grant) £000	2,897	3,775	4,491	4,004	3,621	3,707

Following completion of the CTB1 return the number of additional properties for NHB purposes can now be calculated as 686. This is somewhat lower than the June (draft MTFS) forecast of 903 additional properties resulting in a lowered estimate of NHB receivable for 2019/20. The revised estimate of £3.7m cumulative NHB receivable for 2019/20 is some £300k lower than the equivalent June figure of £4m. It should be stressed here that whilst the number of additional houses in respect of the 2019/20 NHB calculation is now known the revenue figures remain estimated at this stage as the government has not yet confirmed other factors within the calculation, and in particular, the deadweight percentage that will be applied.

This revision to the NHB estimates has a significant impact on the overall model; in itself this equates to an adverse £300k in each year of the MTFS, implying an additional £0.9m use of reserves to 31 March 2022.

There is no doubt that the gross number of new houses appearing on the council tax register in the year to October 2018 was below expectations, but this shortfall was exacerbated by two other effects:

- An adverse mix effect; a high proportion of new houses were placed in lower council tax bands such that when converting to Band D equivalent
- The change in the number of empty properties within the existing housing stock (not connected with new supply)

For the 2018/19 NHB calculations the impact of converting properties to Band D had a small positive effect on the numbers – ie. the increase for the purposes of NHB was enhanced as the average additional property was in one of the higher council tax bands. For 2019/20 are seeing a reverse effect was experienced – there are relatively high numbers of lower council tax banded properties within the overall additions resulting in an adverse impact of about 34 properties. The impact of this mix effect in recent years is tabulated below:

Table 9: Estimated impact of the mix effect on NHB calculations 2016/17 – 2019/20

	2016/17	*2017/18*	*2018/19*	2019/20
Mix effect on conversion to Band D: favourable / (adverse)	(4)	(13)	22	(34)

Overall there are usually around 300 to 600 empty properties at any one time, a small number (<1%) in the scheme of the total number (c78,000) on the council tax register, but the net effect of movements in the context of NHB can be significant. At the point of the data cut there were 500 empty properties compared to 465 in October 2017. Therefore, an adverse impact of the equivalent of 35 houses can be attributed to this factor.

Given the revised estimate for 2019/20 and taking into account the above factors the following approach and assumptions have been adopted for the MTFS period.

1. The New Homes Bonus scheme will operate in its current format throughout the period of this MTFS.

2. The deadweight percentage will continue to be applied at 0.4% for each year of the MTFS.

3. Underlying housing growth in the Borough remains strong. The five year land supply numbers (estimated housing completions as per Table 6) are still considered valid, implying gross housing additions in the range 1,100 to 1,300 in the latter two years of the MFTFS period. Additional evidence for this are the latest figures from the planning team (October 2018) indicating that there are 800 houses under construction in the Borough suggesting (based on a typical 15-week construction period) that the 2020/21 NHB numbers will be in line with projections set out in the draft version of this MTFS.

4. The Charnwood Local Plan 2011 – 2028 Core Strategy (adopted in 2015) has an aspiration that the mix in housing developments be balanced to more match community need (policy CS3). Planning evidence shows a need to increase the number of smaller homes (two bedroom properties in particular) and this may explain why an increase in the proportion of council tax additions are lower banded properties compared to previous periods (despite developers generally pushing for larger homes). Whilst there is not necessarily a direct link between the size of a property and its subsequent council tax banding it does seem possible that the efforts to manage the mix of housing developments in recent years may have contributed to the adverse mix effect seen in respect of the NHB calculation.

5. Movement on net empty properties maybe positive or negative and (especially given a data cut at a point in time) the projections are not therefore adjusted for this effect.

Based on the above, the MTFS therefore assumes that:

- Projections for 2019/20 are adjusted for the actual numbers of net housing additions; net additional properties are therefore reduced from 903, as set out in the draft MTFS to 686

- Projections for 2020/21 and 2021/22 are still considered fundamentally reasonable given underlying housing growth (based on the land supply numbers gross additions in the order of 1,300 houses per annum could be expected) but are refined to reflect a likely adverse mix effect for the actual numbers of net housing additions; net additional properties are therefore reduced from 930, as set out in the draft MTFS to 900 for 2020/21 and from 958 to 925 in respect of 2021/22

The revised NHB projections for this MTFS period are tabulated below:

Table 10: Assumed growth in Housing and associated NHB grant receivable

	2018/19	*2019/20*	*2020/21*	*2021/22*
Net additional properties (draft MTFS - June)	877	903	930	958
Net additional properties (final MTFS - October)	877	686	900	925
Deadweight percentage applied	0.4%	0.4%	0.4%	0.4%
Standardised council tax rate	£1,591	£1,638	£1,687	£1,738
Associated NHB	£1,197k	£964k	£1,280k	£1,351k
Cumulative NHB	£3,621k	£3,707k	£4,271k	£4,793k
Cumulative NHB (draft MTFS)	£3,621k	£4,008k	£4,630k	£5,214k

(The projections for cumulative NHB are lower than for the draft MTFS by £301k, £359k and £421k for each of the years 2019/20, 2020/21 and 2012/22 respectively.)

Sensitivity of New Homes Bonus

The significant uncertainty around the future of NHB beyond 2019/20 means that this income stream can be regarded as particularly vulnerable. Loss of NHB may be mitigated through increased business rate retention if the Fair Funding review takes account of this income stream, either ‘permanently’ or through some temporary transition arrangements. Possible sensitivities include:

- NHB continues in current format but housing growth strengthens in latter years of the MTFS due to strong housing growth (thereby improving the financial outlook)
- NHB continues in the current format but the deadweight percentage is increased to fit HM Treasury affordability constraints
- NHB continues but the allocation between Districts and Counties is altered (say, from 80/20 in favour of Districts to a 50/50 split)
- NHB is discontinued from 2020/21 but funding due from previous years is continued
- NHB is discontinued but an alternative allocation of the total pot is paid out (in which case Charnwood, as a major beneficiary of NHB, would likely be a loser)
- NHB is discontinued in its entirety from 2020/21

The variation in Council funding under these alternative scenarios is tabulated below:

Table 11: Variation in NHB income under alternative scenarios

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*
FAVOURABLE			

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*
Stronger housing growth than projected in MTFS (1,000 net additional properties for 2020/21 and 2021/22)	0	135	239
(ADVERSE)			
Deadweight percentage altered by government to 0.6% in each year of the MTFS	(176)	(361)	(555)
Tier split altered – 50% allocation to Districts (80% under current rules)	0	(640)	(1,315)
No additional NHB from 2020/21 but NHB paid in respect of previous years	0	(1,280)	(2,631)
Revised distribution method is applied to the national NHB pot from 2020/21; Charnwood is allocated £3m (an arbitrary figure but one that broadly reflects what an 'average' allocation might look like) for latter years of the MTFS period	0	(1,271)	(1,793)
All NHB discontinued from 2020/21	0	(4,271)	(4,793)

7. Treasury management and projected investment income

The majority (currently 82%) of Charnwood's investments are short-term, mainly made up of cash deposited for short periods on money markets. The remainder are made up of loans to other local authorities for periods of up to 2 years and longer term holdings in property funds. In recent years these have had a value in the range of £39-56m at any point in time. Broadly, these amounts represent a combination of Council Reserves (such as monies earmarked to fund the Capital Plan), business rates and council tax collected on behalf of the County Council, local police and fire authorities, and parishes. The investment income generated from these balances remains an important source of funding for the Council despite the ongoing low level of interest rates.

In selecting its investments, the Council must balance the rates of return available whilst ensuring the security and liquidity of its investments. As a body that must take its stewardship of public money seriously, the Council adopts a prudent treasury management strategy. This strategy is subject to Council approval each year and aims to allow the Council's finance team appropriate levels of latitude in the day to day management of treasury operations within closely defined operational parameters.

The investment strategy is weighted towards security and liquidity of capital and, in general, it is envisaged that this approach will continue. However, this strategy assumes a continuation of the trend of recent years to seek increased returns through loans to other public sector bodies and investments in a wider range of financial instruments, such as property funds, in which the Council made an investment earlier this year. Therefore, whilst security and liquidity remain paramount, the Council is now adopting a more proactive approach and is accepting a slight degradation in risk and liquidity factors[34] in exchange for higher returns.

[3] Context here is important; the Council's investments can / will still be regarded as low risk within the range of all available financial investment opportunities

The Council retains the services of treasury consultants to assist in its investment management. Their modelling is reflected in the outlook for investment income set out in the table below. It should be noted that these figures assume a mix of investments in line with that of recent years, with the likely (small) increase in investment returns (reflecting expected increases in the base rate) offset by a small decrease in average cash balances under investment.

A more proactive approach to investment is expected to yield additional returns over and above those shown below; these are analysed separately for presentational purposes in Section 9 of this document, which covers the Council's transformation and efficiency plans.

Table 12: Investment income (interest receivable) projections

(Amounts £000)	*2018/19*	*2019/20*	*2020/21*	2021/22
Assumed returns	300	325	325	325

8. Key operational assumptions

The Council's 'Net Service Expenditure' is the total amount spent on services, offset by income associated with the provision of those services such as planning fees receivable, income generated by the Council's car parks, or service specific grant income. The basis of the Council's projected Net Service Expenditure for the purposes of the MTFS is the 2018/19 budget. Known 'one-offs' (income or expenditure arising in 2018/19 only) are removed and then the numbers are adjusted for a limited number of known contractual commitments.

Since the draft MTFS was prepared in June some additional refinement of the Environmental Services contract numbers has been possible and revised numbers are included in the table below. The impact in each year was favourable, principally due to movements in the RPIX index; the rate applicable for 2019/20 is now available and, at 3.3%, is lower than the 4% previously assumed for this year. For consistency this newly available figure is also assumed to apply in the latter years of the MTFS period. Compared to the draft MTFS prepared in June, the (favourable) differences are £64k in 2019/20, £150k in 2020/21, and £217k in 2021/22.

The principal adjustments to the 2018/19 budget are tabulated below:

Table 13: Principal adjustments to the 2018/19 budget made for MTFS purposes

(Monetary amounts £000 unless stated)	*2019/20*	*2020/21*	*2021/22*
Wages and salaries • 2% annual increases assumed in line with most recent pay settlement	+2% = 266	+2% = 274	+2% = 282
Payroll on-costs • 1% annual increases assumed reflecting requirement for	+1%	+1%	+1%

[4] Changes such as described have, or would, require Full Council approval of the Treasury Management Strategy

(Monetary amounts £000 unless stated)	*2019/20*	*2020/21*	*2021/22*
increased pension contributions	= 133	= 137	= 141
Specific contractual commitments:			
Member allowances • Linked to staff salary increases	7	7	8
Leisure contract • Includes more beneficial income terms in later years • Includes inflationary element	9	(35)	(44)
Environmental services contract (refuse collection and street cleaning) • Increases reflect ending of extension period in 2020 and requirement to replace refuse freighter fleet • Includes inflationary element • Amounts do not include additional efficiencies separately identified in transformation and efficiency plan (see Section 9)	294	910	1,301
Revenues & Benefits contract (council tax collections and housing benefit disbursements) • Savings reflect existing contract terms plus anticipated savings arising from cessation of existing contract in 2020 • Includes inflationary element • Amounts do not include additional efficiencies separately identified in transformation and efficiency plan (see Section 9)	(12)	(109)	(113)

Operating income

The Council generates income from various activities. For information the top five sources of income and the associated projections are tabulated below:

Table 14: Projected operating income

(Amounts £000)	*2018/19 budget*	*2019/20*	*2020/21*	*2021/22*
Planning fees	1,293	1.293	1.293	1.293
Garden waste collections (excludes additional amounts presented separately and identified in transformation and efficiency plan - see Section 9)	1,214	1,214	1,214	1,214
Off street car park income	910	910	910	910
Sales - general	682	682	682	682
Rents - general	628	660	660	660

Of note within these projections:

- A prudent view is taken of planning fees as it is believed that many major fee generating applications associated with the Core Strategy have already been submitted
- A similarly prudent view is taken of other fee income except that;

- The potential for the generation of additional fee income (principally related to garden waste collections) is reflected in the transformation and efficiency plan at Section 9.

Expenditure pressures

Additional expenditure may be unavoidable due to policy, legislative or commercial pressures. Other than set out above these service pressures are not included at this stage as these will form part of the more detailed annual budget setting process which requires a business case to be completed.

Table 15: Total amount – Net Service Expenditure

(Amounts £000)	*2018/19 budget*	*2019/20*	*2020/21*	*2021/22*
As modelled	18,221	18,592	19,515	20,345

9. Transformation and efficiency plans

Charnwood has a record of generating efficiencies through continuous improvement and is also engaged in a number of initiatives designed to transform the customer experience, existing ways of working, to increase returns on financial and non-financial assets, review pricing policies for chargeable services and to generate efficiencies. The Council's approach to transformation and the generation of efficiencies was discussed as part of the Peer Challenge process undertaken by the Council in March 2018. An agreed action was that the Council would be provide more information of these plans and in response a summary of these activities is set out below.

Treasury management

The Council has always sought to balance security and liquidity of financial assets against available financial returns. Although interest rates may finally be on an upward curve they remain at historically low levels and whilst remaining prudent, it is considered appropriate to widen the range of treasury activities to increase returns generated. This approach is a continuation of that adopted in recent years where the Council has started offering loans to other local authorities and investing in property funds.

Asset creation – Messenger Close

The Council is in the process of developing storage compounds at the 'brown field' Messenger Close site. The site is due for completion and occupation in 2018/19 and should be fully on-stream for the whole of the MTFS period.

Investment in commercial assets

Other Councils have invested in commercial assets, such as warehouses, hotels and retail units, with a primary objective of making a financial return. This approach naturally carries an element of risk, particularly if financed by borrowing, and there are technical constraints that may make investment returns less attractive than immediately apparent. Nonetheless, this is clearly an activity that should at least be considered by Charnwood and exploration of member risk appetite in this regard will be undertaken in forthcoming months.

Commercialisation – increased fees and charges

The Council reviews fees and charges on a regular basis. Whilst not all charges are set with a view to maximising revenue (as other policy considerations may mitigate against this) revenue generation is usually a major consideration. Over the period of this MTFS it is envisaged that, in particular, additional revenue will be generated through increasing charges for the garden waste collection service.

Commercialisation – new ventures

Initiatives are in progress to develop additional revenues through the introduction of a trade waste service and commercialising other services through joint venture (or similar) arrangements with neighbouring local authorities.

Major contract efficiencies

Charnwood has a number of major contracts for the delivery of services including refuse collection, street cleaning, revenues and benefits, maintenance of open spaces, and leisure centres. Two of these – covering environmental services, and revenues and benefits, are due for renewal in 2020 and it is envisaged that some reductions in the cost of the service, over and above the core expenditure assumptions noted in Section 8, can be achieved.

Transformation – accommodation

The Council has yet to take full advantage of new technology that enables 'agile working' a loose concept that could include increased levels of home working and hot desking. Successful implementation should yield cashable savings by reducing the accommodation footprint. Initial exploration of accommodation options is underway and achievement of savings within the MTFS period is realistic.

Transformation – efficiencies enabled through ICT

The existing On-line Customer Experience project seeks to enable and improve the ability of customers to transact with the Council digitally. Having invested in technology it is logical that this initiative, alongside other digital initiatives such as the Document Management and Digital Democracy projects should deliver efficiencies in ways of working.

Continuous improvement

Given the Council's record of continuous improvement – and of outturn underspends versus budgets – it is reasonable to assume further efficiencies at service level can be generated. Based on the level of net underspending at the end of Period 6 (some £500k for the general fund) the savings projected here have been increased by £50k per annum for each year of the MTFS.

The additional income generated or cashable savings deliverable from the above list is inevitably somewhat speculative, and plans and business cases will be refined as far as possible for the final version of this document. For the purposes of this draft MTFS the positive net financial impact of the Council's transformation and efficiency plans is tabulated as follows:

Table 16: Net positive impact of transformation and efficiency plans

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*
Proactive treasury management • Additional amount to that noted in Section 7 Table 12	25	25	25
Asset creation • Reflects full occupation of Messenger Close from 2019/20	15	15	15
Commercial investment • Speculative – assumes £1m generating 5% return in 2020/21 and £2m generating 5% return in 2021/22	0	50	100
Commercialisation – increased fees and charges • Major proportion to be generated through increased garden waste scheme revenues. Note – this revenue increase is based upon the existing charging structure in place at October 2018 • Additional amount to that noted in Section 8 Table 13	250	260	270
Commercialisation – new ventures • Principally trade waste	(10)	0	20
Major contract efficiencies • Includes Environmental Services, Open Spaces, Leisure and Revenues & Benefits contract opportunities • Additional amount to that noted in Section 8 Table 13	20	60	90
Transformation – accommodation • Speculative, but based on proposition that accommodation footprint will be reduced allowing the ICS building to be vacated	0	0	50
Transformation – ICT enabled new ways of working • 1x FTE cashable saving to be found in each financial year (to be managed through natural wastage)	30	60	90
Continuous improvement – service level efficiencies • Not specified but justified by history of underspends	150	230	300
Total	**480**	**700**	**960**

The figures quoted above should be regarded as indicative and illustrative only. Some refinement of the numbers has been carried for the final version of this MTFS, but in many cases will remain somewhat speculative. The key message here however is that should elements of the plan fail to deliver savings (or income growth) in line with those projected above, then other savings will need to be generated from other areas of the Council's operations.

10. Existing financial resources and use of prudential borrowing

Currently, Charnwood retains a number of reserves on its balance sheet, representing amounts that the Council may use to deliver or enhance Council services. Broadly, these are of three types:

- The General Fund balance that can be used to fund any type of expenditure
- Balances that may be used to fund any type of expenditure but which have been earmarked for specific uses by the Council
- Balances that are restricted in use by Government regulation that can be used to fund only specific types of expenditure, usually of a capital nature

There are also other balances on the Council's balance sheet created as a result of Government regulation or accounting rules. These balances are not available to fund expenditure of any type.

In recent years Charnwood has continued to invest in service delivery and the MTFS assumes that:

- The General Fund balance will be maintained at a level of not less than £2m in line with good practice
- Other reserves will be utilised or created during the period of the MTFS as appropriate; additionally, transfers between reserves may be deemed appropriate

As will be seen from the financial projections (Tables 17 and 18) Charnwood has a good level of reserves and even if no management action were taken to address the projected net funding deficit across the period of the MTFS, existing activities could be funded by reserves in the short term.

In addition, the Council could consider utilising reserves in the short term in order that services can be restructured in a cost effective and efficient manner giving a sustainable base for the future.

Growth Support Fund and Capital Plan Reserve

A Growth Support Fund has been established to support growth throughout the Borough. This fund is a revenue reserve and can be used for a variety of purposes, both revenue and capital. In addition, a Capital Plan Reserve has been created so that the Council can supplement its level of usable capital receipts. This reserve is for General Fund capital items only and is not constrained as to the schemes it can fund.

Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve represents the proceeds of asset sales available to meet future capital expenditure. The use of this reserve is restricted for application on items of a capital nature.

Within Charnwood a well-established process exists for the management of the capital plan. For the purposes of the MTFS we are therefore able to assume that sufficient resources exist, or will be generated, to finance all uncompleted schemes within the current Capital Plan. Funding required beyond this point will rely on the Council's ability to generate new receipts from asset sales, or funding from revenue and/or reserves or Prudential Borrowing, which is discussed below.

Use of Prudential Borrowing – General Fund

Charnwood has been able to avoid the use of borrowing in recent years. However, given the level of uncertainty over future funding streams for local government and the desire to stimulate the growth of the local economy, the possibility of raising funds for investment purposes through the use of prudential borrowing is likely to be considered during the period of this strategy document, particularly to finance commercial investments, as envisaged within the transformation and efficiency plan (see Section 9). The interest and principal payable on such loans will be an ongoing 'revenue' charge to the Council that would impact upon funds available for day to day service delivery therefore any such investment will be subject to strict criteria around economic regeneration and rates of return on investment.

Use of Prudential Borrowing for Housing

The Council will externally borrow, if necessary, to undertake works in line with its Housing Capital Investment Programme and 30 Year Housing Business Plan. Where feasible it will 'internally borrow' from the General Fund provided there are surplus amounts available for this purpose. These internally borrowed amounts will be at similar interest rates to those offered by the government's Public Works Loan board (PWLB).The Council retains all its Council dwellings rental income in order to service the HRA debt, pay for repairs and maintenance of the housing stock and for its housing operations generally. This borrowing, and any additional borrowing as mentioned above, is segregated from General Fund borrowing and so does not directly impact on the MTFS. Further details regarding the HRA are set out in the section covering the Housing Revenue Account.

11. Financial Projections 2018 – 2021

Table 17: MTFS financial projections

General Fund Expenditure	2019/20 £000	2020/21 £000	2021/22 £000
Net Service Expenditure	**18,592**	**19,515**	**20,345**
Interest Payable	240	240	240
Interest Receivable	(325)	(325)	(325)
	18,507	19,430	20,260
Transformation and efficiency plan	(480)	(700)	(960)
Total Net Expenditure	**18,027**	**18,730**	**19,300**
Financing Strategy			
Revenue Support Grant	(165)	0	0
Business Rates Funding	(5,125)	(5,300)	(5,480)
Council Tax Receipts	(6,917)	(7,347)	(7,791)
Loughborough Special Rate	(1,215)	(1,237)	(1,259)
New Homes Bonus	(3,707)	(4,271)	(4,793)
Deficit / (surplus) on Collection Fund	200	(50)	(50)
Total income	**(16,929)**	**(18,205)**	**(19,373)**
Total Net Expenditure from above	18,027	18,730	19,300
Funding shortfall / (surplus)	**1,097**	**526**	**(73)**
Implied use of / (addition to) reserves in year – Service Expenditure	897	576	(23)
Implied use of / (addition to) reserves in year – Collection Fund	200	(50)	(50)
Total Implied use of / (addition to) reserves in year	**1,097**	**526**	**(73)**
Cumulative use of reserves over period of MTFS	1,097	1,623	1,550

The impact of these projections on the Council's revenue reserves are set out below:

Table 18: Impact on Revenue Reserves

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Balances brought forward	8,480	7,383	6,857
Implied use of / (addition to) reserves in year for Service Expenditure	897	576	(23)
Implied use of / (addition to) reserves in year by Collection Fund	200	(50)	(50)
Balances carried forward	**7,383**	**6,857**	**6,930**
Analysis of revenue reserves			
Working Balances			
Reinvestment Reserve	586	586	586
Growth Support Fund	18	18	18
Capital Plan Reserve	2,081	2,081	2,081
Other Revenue Reserves	805	805	805
Total balances (as above	**7,383**	**6,857**	**6,930**

Additional notes on the financial projections

Council Tax support for Parishes: an explicit amount was included in the Revenue Support Grant at the inception of the local scheme of council tax support to passport on to town and parish councils as compensation for the reduction in council tax base that arose at that time. In subsequent years there has been no explicit notification of this grant within the RSG but Charnwood established the practice of passporting an amount to towns and parishes in the same proportion as originally created. However, given the elimination of RSG, there are no further funds to transfer.

Collection Fund: In any year the amounts of council tax or business rates actually collected will differ from that budgeted due to additions or removals of properties from the register, or non-collection of amounts billed. These surpluses or deficits are managed through the collection fund and (effectively) reflected in adjustments to precepts in subsequent years. For 2019/20 the impact of the collection fund deficit (mainly due to business rates) can be seen to increase the balance required from reserves by £200k. This figure is an estimate and is likely to change as updated information becomes available. The collection fund covers all of the Leicester and Leicestershire authorities and a period of three financial years, it is therefore very complex, difficult to project and figures are changing constantly. This is an issue nationwide not just in Leicester and Leicestershire.

12. Risk and sensitivities

There are major uncertainties for Charnwood arising from future developments in local government funding from the 2020/21 financial year. These - which are essentially linked – concern the outcome of the Fair Funding review and the future of the New Homes Bonus scheme which will impact the Council from this year. The potential range of funding outcomes is very wide such that other sensitivities within the MTFS projections are less significant in this context.

Table 11 considered potential shortfalls in grant funding arising from potential changes to the New Homes Bonus scheme. Selected scenarios are expanded below to illustrate the impact on the use of revenue reserves (no other changes assumed):

Table 19: Impact on reserve usage following reduction in NHB income under alternative scenarios

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*
Projected use of reserves – main Scenario	**1,097**	**526**	**(73)**
#1: Tier split altered – 50% allocation to Districts (80% under current rules)	0	640	1,315
Revised use of reserves under Scenario #1	**1,097**	**1,166**	**1,242**
No additional NHB from 2020/21 but NHB paid in respect of previous years	0	1,280	2,631
Revised use of reserves under Scenario #2	**1,097**	**1,806**	**2,558**
All NHB discontinued from 2020/21	0	4,271	4,793
Revised use of reserves under Scenario #3	**1,097**	**4,797**	**4,720**

Sensitivities can, of course, produce favourable as well as adverse effects. Whilst New Homes Bonus and the Fair Funding review provide a very uncertain backdrop to this version of the MTFS it is fair to also acknowledge potentially positive scenarios, such as a successful 75% business rates retention pilot bid, that could boost the Council's budget by (maybe) £250k in 2019/20, and a favourable outcome for Charnwood arising from the Fair Funding review. Overall, however, the downside risks remain significant.

13. Note on the Housing Revenue Account

The Housing Revenue Account (or HRA) is a ring fenced set of transactions that sit within the wider financial records of the Council. It had gross income of £22.4m in 2017/18 of which £21.0m was dwelling rents. Expenditure on management and repairs amounted to £10.7m whilst depreciation was £2.9m. A further £2.7m was required for interest payments on its debt and £2.5m was used to fund additional capital expenditure.

There is a surplus or deficit on the HRA each year which is added to the brought forward HRA balance. This balance should always be in surplus and at 31 March 2018 it was £617k against a target balance of £617k. There is an additional £6,982k in a new Housing Financing Fund, the purpose being to help militate against the financial pressures that national policy will place on the HRA in the medium-term.

There is still central government control of rental levels (including a 1% rent reduction) and certain other restraints on how the Council may manage its housing stock. The most recent 30 Year Housing Business Plan, which effectively represents the MTFS for the HRA, was approved by Council in November 2014. It is intended that this will be updated but this is currently on hold until the details behind the new national policy is published and its financial impact on the HRA quantifiable.

14. Reserve Strategy

As outlined above, from 2020/2021 onwards grant funding from central government is highly uncertain. The Council's strategy is to have a minimum of £3m in the working balance going into the 2020/21 financial year, giving at least £1.0m flexibility above the stated 'usual' minimum of £2m in order to give headroom to allow a controlled adaptation of services to match ongoing financial resources. Based on current projections, the working balance at 31 March 2021 will be £3.4m which is acceptable at this time. Further comfort can be drawn from the availability of other revenue reserves, which could also be used to support Council operations in a time of transition.

15. Monitoring, Delivery and Review

There are well established processes for the monitoring of budgets which include regular outturn reports to the Performance Scrutiny Panel and Cabinet. For example, Revenue and Capital Plan outturn reports are usually presented to Cabinet in the July following completion of the financial year. No additional monitoring is therefore deemed necessary. As discussed previously however, it is envisaged that there will be increased focus on identifying budget areas that show persistent underspending year on year.

CABINET – 15TH NOVEMBER 2018

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 9 TREASURY MANAGEMENT UPDATE – MID-YEAR REVIEW FOR THE 6 MONTHS ENDED 30TH SEPTEMBER 2018

Purpose of Report

This report reviews the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2018/19.

Recommendations

That it be recommended to Council to note this mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy, as shown in Part B.

Reasons

To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the Revised CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement, that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Treasury Management Strategy Statement, Prudential & Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly. This review is set out in the attached report as Part B. The Strategy for the year was approved by Council on 26th February 2018 (minute ref: 80.3).

Implementation Timetable including Future Decisions and Scrutiny

This report will be available for Overview Scrutiny Group on 12th November 2018, should they wish to consider it, and for the Audit Committee on 27th November 2018.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management

There are no direct risks arising from the recommendation in this report. Risks associated with the Treasury Policy etc in general are included in Part B.

Key Decision:	No
Background Papers:	None
Officer to contact:	Simon Jackson Strategic Director of Corporate Services 01509 634810 simon.jackson@charnwood.gov.uk Sarah Allen Senior Income Officer 01509 634819 sarah.allen@charnwood.gov.uk

Part B

Treasury Management Update – Half Year Ended 30th September 2018

Background

1. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; an overview of how the associated risk is managed; and the implications for future financial sustainability. A report setting out our Capital Strategy will be taken to the full Council, (or Cabinet, with responsibility retained by the full Council), in February 2019.

2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the role of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. Accordingly, treasury management is defined as:

   "The management of the local authority's borrowing, 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."

5. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead.
- Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

6. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management , and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

7. This is a mid-year report therefore there are no proposed changes to the Treasury and Capital Strategies at this point.

Economic Background

UK

8. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

9. Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

10. As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

11. In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

<u>USA</u>

12. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the

temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE

13. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

CHINA

14. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN

15. Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest Rate Forecast

16. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

17. The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary nor contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

<u>The Balance of Risks to the UK</u>

18. The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

19. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of

the EU and could spill over into impacting the euro, EU financial policy and financial markets.

- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

20. Upside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy Statement and Annual Investment Strategy update

21. The Treasury Management Strategy Statement (TMSS) for 2018/19, which includes the Annual Investment Strategy, was approved by Council on 26th February 2018 (Council Minute 80.3 2017/18). In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

22. There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

23. As shown by forecasts in paragraph 16, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

24. In the current economic climate it is considered not only appropriate to keep some investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using the Council's creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information. In addition, the Annual Investment Strategy allows the Council to invest in property funds and provide loans to other Local Authorities for a maximum of 2 years.

25. The approved limits within the Annual Investment Strategy were not breached during the six months ended 30th September 2018.

26. The average level of funds available for investment purposes during the half year was £51.52m. The majority of these funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

27. During the six months to 30th September 2018, the Council's interest rate earned on investments excluding property funds was 0.67% against a benchmark of 3 month London Interbank Bid Rate (LIBID) of 0.61%. This measure is used as a comparator because it allows comparisons with the Council's benchmarking group and matches the weighted average time period of the Council's current investments. Although the return rate is low, our performance can still be considered to be good as we exceeded the target rate.

28. The interest rate earned by the Council's property funds for Q1 was 1.8% This is a reasonable rate in comparison to the benchmark Q1 rate for property fund investments of 1.6% supplied by Link Asset Management.

29. The actual interest received to 30th September 2018 was £174k, against an annual budget of £300k so the Council performed above target in both percentage and actual returns for the six months. It is proposed to review the investment income budget as part of 2019/20 budget setting in light of the higher than budgeted returns being achieved.

New Borrowing

30. No new borrowing was undertaken during the half year and neither has the Council borrowed in advance of need during the six months ended 30th September 2018. Similarly, no debt rescheduling was undertaken during the half year.

Compliance with Treasury and Prudential Limits

31. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

32. During the financial year to date, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

Additional Information

33. New regulations are coming into force with regards to the operation and regulatory structure of Money Market Funds, as part of wider reforms aimed at strengthening the resilience of the financial markets. This involves funds being re-categorised as Variable Net Asset Value (VNAV) or Low-volatility Net Asset Value (LVNAV) funds. This should not present any issues in terms of the funds that the Council invests in as the important consideration is that the funds remain AAA money market fund rated.

34. **UK Banks ring-fencing** The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

35. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

36. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

37. **IFRS9 Accounting Standard** This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The impact on the Council is likely to be minimal as the Council's exposure is limited to the property fund investments and these are kept under constant review in terms of their value and relative performance.

38. The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known.

39. **Changes in risk appetite** The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

Appendices

Appendix 1: Prudential and Treasury Indicators as at 30th September 2018

Appendix 2: Investment Portfolio – Investments held as at 30th September 2018

Appendix 3: Glossary of Terms

APPENDIX 1:

Prudential and Treasury Indicators as at 30th September 2018

Treasury Indicators	2018-19 Budget £'000	30/09/18 Actual £'000
Authorised limit for external debt	96,000	81,190
Operational boundary for external debt	81,190	81,190
Gross external debt	81,190	81,190
Investments	32,603	51,630
Net borrowing	48,587	29,560

Prudential Indicators	2018/19 Budget £'000	30/09/18 Actual £'000
Capital expenditure – General Fund	**5,213**	**940**
Capital expenditure – HRA	**7,566**	**681**
Capital Financing Requirement (CFR) – GF	**-248**	**-248**
Capital Financing Requirement (CFR) – HRA	**81,820**	**81,820**
Annual change in CFR	**0**	**0**

In year external borrowing requirement	**0**	**0**
Ratio of financing costs to net revenue stream - GF	**-0.37%**	**-0.37%**
Ratio of financing costs to net revenue stream - HRA	**12.45%**	**12.45%**
Incremental impact of capital investment decisions:-		
Increase in council tax (band change) per annum.	**0%**	**0%**
Increase in average housing rent per week	**0%**	**0%**

For convenience a Glossary of Terms is provided at Appendix 3.

APPENDIX 2:

Investment Portfolio

Investments held as at 30th September 2018

Institution	**Maturity Date**	**Interest Rate**	**Principal**
		%	**£'000**
Loans to other local authorities			
Liverpool City Council	25/01/2019	0.70	2,000
Bournemouth Borough Council	27/09/2019	0.72	2,000
Bank deposits and Money Market funds			
Close Brothers	26/10/2018	0.80	2,000
Nationwide Building Society	12/11/2018	0.64	2,000
Sumitomo Mitsui Banking Corporation Europe	17/12/2018	0.78	2,000
Standard Chartered Bank	35 Day Notice	0.78	8,000
Bank of Scotland	95 Day Notice	0.80	8,000
Goldman Sachs International Bank	180 Day Notice	0.75	5,000
Santander	180 Day Notice	0.95	8,000
Federated MMF	1 Day Notice	0.70	7,000
Insight MMF	1 Day Notice	0.62	630
Property funds			
Lothbury Property Fund	N/A		2,500
Hermes Property Fund	N/A		2,500
Total			**51,630**

APPENDIX 3:

Glossary of Terms

Capital Financing Requirement

CFR is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

Operational Boundary

The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Gross External Debt

This is the total amount borrowed by the Council at a point in time. At 30th September 2018 the figure of £81,190 equates to £79,190k HRA and £2,000k market loan (General Fund).

Investments

The budgeted figure is the estimated average funds available for investment during the year. The actual figure is the total amount invested as at 30th September 2018.

Net Borrowing

Net borrowing is gross external debt less investments.

Ratio of financing costs to net revenue stream

This ratio looks at net interest payable as a proportion of revenue (broadly council tax and government grants in respect of the General Fund, rental income in respect of the HRA). Essentially, this is an indicator of the Council's ability to service its loans.

In this mid-year (and previously) interest receivable has exceeded interest payable for the General Fund producing a negative number for net interest payable and a somewhat odd looking negative ratio; this can be construed as indicating that the Council has no issues servicing General Fund loans at this time.