Charnwood

BUDGET SCRUTINY PANEL

This meeting will be recorded and the sound recording subsequently made available via the Council's website: charnwood.gov.uk/pages/committees

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To: Councillors Draycott, Gerrard, Miah (Chair), Parsons and Seaton (For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Budget Scrutiny Panel to be held in Committee Room 2 - Council Offices on Tuesday, 2nd October 2018 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

24th September 2018

AGENDA

1. APOLOGIES

2. MINUTES OF THE PREVIOUS MEETING 4 - 9

   The Panel is asked to confirm as a correct record the minutes of the meeting held on 26th July 2018.

3. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

4. DECLARATIONS - THE PARTY WHIP

5. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions were submitted.

6. DRAFT MEDIUM TERM FINANCIAL STRATEGY 2019-2022 10 - 38

A report of the Head of Finance and Property Services setting out the draft Medium Term Financial Strategy 2019 to 2022, which was agreed by the Cabinet on 13th September 2018, is attached.

The process for undertaking scrutiny of the budget agreed by the Scrutiny Management Board identifies the following issues for the Panel to consider:

- a review of the underlying assumptions
- a review of the implications of the calculations for efficiency plans and future budgets
- the policy background to and the rationale behind the draft being proposed. In particular, what scenarios had been considered, for example a strategy based on statutory requirements, a strategy based on maintaining services or a strategy based on providing additional services to meet the Corporate Plan, and the reasons for the option then chosen.

Possible outcomes of Panel discussion:

- recommendations to the Cabinet regarding changes to the Medium Term Financial Strategy, to be considered when the final version of the Strategy is submitted following consultation
- recommendations to the Cabinet regarding preparation of the draft 2018/19 budget.

7. FURTHER PANEL MEETING DATES 2018/19

Further meetings of the Panel in 2018/19 have been scheduled as follows:

- Wednesday 12th December 2018 at 6.00pm – to consider draft budgets for 2019/20
- Tuesday 8th January 2019 at 6.00pm – to consider the Panel's draft report.

SCRUTINY QUESTIONS

What topics to choose?

- What difference will scrutiny make?
- Is this an area of concern – public/performance/risk register?
- Is this a corporate priority?
- Could scrutiny lead to improvements?
- What are the alternatives to pre-decision scrutiny?

Pre-decision scrutiny

- What is Cabinet being asked to agree?
- Why?
- How does this relate to the overall objective? Which is …?
- What risks have been identified and how are they being addressed?
- What are the financial implications?

- What other options have been considered?
- Who has been consulted and what were the results?
- Will the decision Cabinet is being asked to take affect other policies, practices etc.?

Basic Questions

- Why are you/we doing this?
- Why are you/we doing it in this way?
- How do you/we know you are making a difference?
- How are priorities and targets set?
- How do you/we compare?
- What examples of good practice exist elsewhere?

BUDGET SCRUTINY PANEL
26TH JUNE 2018

PRESENT: The Chair (Councillor Miah)
Councillors Draycott and Parsons

Strategic Director of Corporate Services
Democratic Services Officer (MH)

APOLOGIES: Councillors Gerrard and Seaton
Councillor Barkley – Lead Member for Finance and Property Services

The Chair stated that the meeting was being recorded and that the recording would be made available on the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from the meeting, and the use of any such images or sound recordings was not under the Council's control.

1. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 3rd January 2018 were confirmed as a correct record and signed.

2. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

The following disclosure was made:

(i) by Councillor Miah – a personal interest in item 7 (Final Outturn for the Previous Financial Year) as he had been appointed by the Council to the Fearon Hall Community Association which was a recipient of funding through one of the schemes identified in the Capital Outturn report.

3. DECLARATIONS – THE PARTY WHIP

No declarations were made.

4. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

5. BUDGET SCRUTINY PROCESS 2018/19

The budget scrutiny process for 2018/19, agreed by the Scrutiny Management Board at its meeting on 28th March 2018, was submitted (item 6 on the agenda filed with these minutes).

The Strategic Director of Corporate Services assisted with consideration of the item and provided the following responses to issues raised:

(i) Each department was allocated a budget to spend and there was no policy to encourage underspends.
(ii) In previous years heads of service had been asked to identify savings within the financial year. However, that had not been the case in 2017/18 or 2016/17.
(iii) Budget management within the year was undertaken at the service level, directorate level and corporately. There could be unexpected pressures within the year but there could also be unexpected reductions in costs. The authorisations required to vire money between budgets to address those issues were set out in the Council's financial regulations and procedure rules.
(iv) The Council operated a managed salary savings budget to take account of the fact that when vacancies arose there would often be a period while the recruitment process was completed during which the post would not be filled. This was a corporate budget and did not have to be managed by individual services.

Members of the Panel made the following comments:

(i) It was expected that Cabinet members invited to the Panel's October meeting would be able to explain in detail the framework for setting the budget, including what decisions had been made, the reasons for those decisions and what options had been considered. Such explanations should address the different approaches applied to statutory services, added value services and their priority and self-sufficiency.
(ii) There continued to be significant underspends in the revenue and capital budgets. Those variances were much greater than the sensitivity analysis undertaken as part of developing the Medium Term Financial Strategy.
(iii) Underspends could be seen as cuts as the funding identified as necessary to deliver services was not being used. Underspends were apparent as soon as monitoring began each financial year and appeared to be part of the culture of the organisation.
(iv) The Council was in a much better financial position than many other councils but scrutiny needed to be rigorous. It was a concern that there had been a reduction in the Internal Audit Control Environment Assessment compared to previous years.
(v) The descriptions used for savings and pressures identified in the budget papers submitted to Council could be clearer to avoid significant changes being missed. Some significant reductions in services were not identified in the budget papers.

RESOLVED

1. that the budget scrutiny process agreed by the Scrutiny Management Board for 2018/19 be noted;

2. that the process agreed by the Scrutiny Management Board be amended so that the Panel's third meeting becomes a formal one at which scrutiny of the draft General Fund and Housing Revenue Account (HRA) budgets would take place;

3. that officers be asked to look at options for rescheduling the Panel's third meeting to a date later in December.

Reasons

1. To confirm the scope and details of the work of the Panel as set out by the Scrutiny Management Board.

2. To enable the Panel to have more time to prepare its report and consider its conclusions and recommendations at its fourth meeting.

3. To facilitate undertaking scrutiny of the draft General Fund and HRA budgets at that meeting.

6. FINAL OUTTURN FOR THE PREVIOUS FINANCIAL YEAR

Outturn information, in the form of the reports submitted to the Cabinet on 14th June 2018 regarding the General Fund, Housing Revenue Account (HRA) and Capital outturns for 2017/18 with additional information provided regarding the revenue outturn in 2016/17 to enable comparisons to be made, was submitted (item 7 on the agenda filed with these minutes).

The Strategic Director of Corporate Services assisted with consideration of the item and provided the following responses to issues raised:

General Fund

(i) The level of the Council's reserves relative to its size was not unusual. For some councils it was lower and for some significantly higher. The Council used guidance from CIPFA to determine a minimum level of the working balance reserve. That was calculated on the basis of six weeks of General Fund expenditure and came to £2million.

(ii) When setting the budget each year the outturn position of the Council's reserves at the end of the current financial year was not known and had to be estimated. In 2017/18 the starting point for the reserves was higher than had been budgeted and less reserves had been used during the year.

(iii) The Council's Medium Term Financial Strategy proposed that the Council would reach 2020, by which time there should be more certainty regarding local authority funding, with a working balance reserve of £2million plus a cushion of £1million. The Council had built up its reserves in the past but was now using them in accordance with that strategy.

(iv) The recent increase in the level of Council Tax enabled the Council to maintain services at the current level. Council Tax now contributed a greater proportion of the Council's revenue than previously as the overall level of Government grants had decreased. The slight increase in the level of income generated by services enabled the Council to keep pace with inflation.

(v) There had been an opportunity to carry out a feasibility study regarding the Council's accommodation options as a result of an underspend on other consultancy fees. The matter had been covered in a report to the Cabinet that was primarily concerned with the Limehurst Depot site. Prior to any options identified by the feasibility study being progressed they would be the subject of a further Cabinet report.

(vi) The Council's scheme of delegation and financial procedure rules set out the authority that officers had to make the decisions that were required to implement the financial plans set out in the budget. If officers did not have delegated authority then the decision would be taken by the Cabinet or Full Council as appropriate.

(vii) The virement rules could be used to manage under- and overspends on a service, directorate or corporate basis. Most of the Council's services were not subject to significant demand variation.

Housing Revenue Account

(viii) The rollout of Universal Credit had been slow and the impact to date on the provision for bad debt was small. The Council had plans in place to address the impact in Charnwood. Those plans included lessons that had been learnt from other councils where Universal Credit had been introduced earlier.

Capital Plan

(ix) The Ministry of Housing, Communities and Local Government had provided further confirmation that Disabled Facilities Grants funding should be forwarded to district councils.

(x) The slippage on General Fund capital projects which were delivered directly by the Council was generally low. There could be significant slippage on projects that were outside the Council's direct control, for example those funded by Section 106 funds. It had been recognised that there could be improvements in the budgeting and project management of schemes in the Capital Plan, especially regarding the timeframe for delivering projects.

Members of the Panel made the following comments:

General Fund

(i) Views were expressed both that the Council's current level of reserves was very high for an authority of its size and that the current level of reserves was useful because it enabled the Council to have more options in the future.

(ii) It was understandable if the public was concerned that the Council was increasing Council Tax and using reserves but not increasing services.

(iii) It was important that councillors were kept informed regarding significant initiatives that were started during the course of the year. Issues like a review of the Council's accommodation needs should not come as a surprise to councillors.

(iv) The outturn figures for 2016/17 also showed underspends which suggested that initiatives like the Charnwood Lottery and the removal of bring sites were not required. It was appropriate to consider whether services and assets continued to serve a purpose and provided value for money. It was important that there was joined-up thinking regarding what was needed and the impacts of proposed changes.

(v) It was important that when significant virements had to take place that they were identified early so that scrutiny could take place in a timely manner.

Housing Revenue Account

(vi) The increase in the provisions for bad debts was a concern. It would result in the Council having less income for its landlord function, including paying off the housing debt. The Housing Management Board was examining the issue. It was expected that the rollout of Universal Credit would result in the provision having to increase but that it would then reach a plateau.

Capital Plan

(vii) There had been a 30% underspend on the General Fund capital schemes budget. In previous years there had been greater slippage on the HRA capital schemes budget and less on the General Fund capital schemes budget. Those issues warranted an explanation and it was a concern that the outturn reports had not been scrutinised prior to them being considered by the Cabinet. It was recognised that there were difficulties in delivering projects which required fund-raising or other action from external organisations in order to complete them. However, the situation raised questions regarding how to deal with such variations in financial planning and scrutiny. That should form part of the questioning at the Panel's next meeting.

RESOLVED

1. that the information be noted;

2. that information be provided to members of the Panel regarding how the figure of £882,000 for the outturn contribution from the Capital Plan Reserve in 2017/18 is reconciled with other figures set out in the reports submitted to the Panel;

3. that details of the Fuel Poverty Scheme included in the Capital Plan be provided to Councillor Draycott.

Reasons

1. To acknowledge the information received.

2. To clarify how the figure was calculated.

3. To provide Councillor Draycott with further information about the matter.

7. FURTHER PANEL MEETING DATES 2018/19

Further meetings of the Panel in 2018/19 (to accord with the process for scrutiny of the budget agreed by the Scrutiny Management Board) had been scheduled, details of which were submitted.

RESOLVED

1. that further meetings of the Panel take place on the following dates, in accordance with decisions taken earlier in the meeting:

   - Tuesday, 2nd October 2018
   - A date in December 2018 to be determined and changed to a formal meeting
   - Tuesday, 8th January 2019;

2. that the Lead Member for Finance and Property Services be invited to the Panel's meeting scheduled for 2nd October 2018.

Reasons

1.&2. To confirm the arrangements for future meetings of the Panel.

Note

These minutes are subject to confirmation as a correct record at the next meeting of the Panel, which is scheduled for Tuesday, 2nd October 2018.

CABINET – 13TH SEPTEMBER 2018

Report of the Strategic Director of Corporate Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 14 DRAFT MEDIUM TERM FINANCIAL STRATEGY 2019 – 2022

Purpose of Report

To bring forward the Draft Medium Term Financial Strategy for consideration by Cabinet and scrutiny panels.

Recommendation

That the Draft Medium Term Financial Strategy, attached as an Appendix, be approved for consultation generally and for the purposes of scrutiny by the Budget Scrutiny Panel.

Reason

To identify the financial issues affecting the Council and the Borough in the medium term in order to inform the Council's budget setting process.

Policy Justification and Previous Decisions

The Medium Term Financial Strategy (MTFS) is reviewed 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.

Implementation Timetable including Future Decisions and Scrutiny

It is envisaged that this Draft Strategy will be scrutinised and an amended version be brought back to Cabinet on 15 November 2018 for recommendation to Council.

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:	No
Background Papers:	None
Officer to contact:	Clare Hodgson Head of Finance and Property Services 01509 634810 clare.hodgson@charnwood.gov.uk Simon Jackson Strategic Director of Corporate Services 01509 634699 simon.jackson@charnwood.gov.uk

Part B

Background

1. This Medium Term Financial Strategy (MTFS) considers the financial outlook for Charnwood Borough Council for the three financial years 2019/20, 2020/21 and 2021/22. This document, attached as an appendix to this report, is self- contained and includes an executive summary and introduction in its early sections to assist readers.

2. It should be stressed that the MTFS presented is a draft prepared in August 2018. In addition to reflecting feedback from the Budget Scrutiny Panel it is anticipated that the final version of the MTFS will be updated in the light of additional information as it becomes available through the autumn.

Appendix

Charnwood Borough Council Draft Medium Term Financial Strategy 2019 – 2022

APPENDIX

DRAFT – AUGUST 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

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 latest version 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 range of potential outcomes that could occur in the period and many of the assumptions and projections within this Strategy are arguable. I therefore look forward to receiving feedback and comments on the numbers presented which will help us develop a final version of this document and inform the budgetary process for the 2019/20 financial year.

Councillor Tom Barkley

Cabinet Lead Member for Finance

August 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 £0.9m use of reserves assuming that £0.4m of transformation and efficiency savings can be delivered

- 2020/21 will see a further £0.3m use of reserves assuming that £0.7m of transformation and efficiency savings can be delivered

- 2021/22 will see revenues exceed expenditure by £0.2m, therefore adding this amount back into reserves, assuming that £0.9m of transformation and efficiency savings can be delivered

Over the three year MTFS period this would imply a net use of reserves of £1m, with the Council reaching a stable-state financial position; ie. expenditure would be matched to income. If achieved, this outcome would be very 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 but which in a worse-case scenario could be discontinued. ***The financial projections for the latter years of the MTFS (2020/21 and 2021/22) therefore carry a significant downside 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 version of the Medium Term Financial Strategy was prepared in August 2018 for the purposes of consultation. In addition to reflecting feedback from the consultation process, a key action will be to obtain additional clarification on certain elements within the financial projections to provide a firmer basis for budgetary decisions for the 2019/20 financial year. As indicated above, however, 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 certainly 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 eating into 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.

As previously noted, 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.

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

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

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 is 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; complete elimination of this funding stream, if not otherwise replaced, would create a major financial challenge for the Council.

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

	Council Tax Band D	*Rank (of 201)*		*Council Tax Band D*	*Rank (of 201)*
NATIONAL PICTURE			LEICESTERSHIRE AUTHORITIES		
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.

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 noted below) the £5 cap includes increases to the Loughborough Special Rate. No changes to the items included in the Special Rate have been assumed.

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. Even at no increase in rate income increases 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.

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.

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. The amount of NHB received has naturally grown rapidly 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.

The figures used in this current MTFS are based upon assumptions derived from historical information and internal estimates of housing growth informed by the extant Local Plan. The calculations are also impacted by the total number empty properties within the housing stock on the effective date on which NHB is calculated; whilst the Council has a programme which seeks to bring empty housing stock back into use there is a stochastic element to this figure which creates a certain volatility in the amount of NHB receivable.

The housing growth in recent years has given rise to NHB as tabulated below.

Table 6: Charnwood New Homes Bonus 2013/14 – 2018/19

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

Historically, housing growth has been in the order of 0.75% to 1.5% of the council tax base but net additions in 2018/19 suggest that the projected housing growth in Charnwood, evidenced through the local plan and the numbers of new homes receiving planning permission, is starting to feed through onto the council tax register.

The calculation of additional properties giving rise to NHB is not performed until October but indicative figures from our council tax database suggest that in the order of 700 properties had been added to our council tax base in the period to 30 June 2018; pro rata this would suggest a net increase for the year in the range 900 – 1,000[2].

Data from Planning colleagues relating to the five-year housing supply shows the following:

[2] This number will be updated for the final version of the MTFS due at Cabinet in November

Table 7: 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 and that the impact is lagged in respect to NHB. However, these estimates correlate with recent data from the council tax base and indicate that current housing trajectory is around 1,000 net additions per annum.

For the purposes of the MTFS we have assumed 3% annual growth in net additional properties from the 2018/19 baseline, with a continuing 'deadweight growth' of 0.4% and with NHB rules remaining unchanged. The standard Band D council tax amount is assumed to increase by 3% year on year, in line with recent history.

Table 8: Assumed growth in Housing and associated NHB grant receivable

(Monetary amounts £000)	*2018/19*	*2019/20*	*2020/21*	*2021/22*
Net additional properties	877	903	930	958
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	1,197	1,266	1,338	1,414
Cumulative NHB	3,621	**4,008**	**4,630**	**5,214**

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. The reduction in Council funding under alternative scenarios is tabulated below:

Table 9: Reduction in NHB income under alternative scenarios

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*
Tier split altered – 50% allocation to Districts (80% under current rules)	0	669	1,376
No additional NHB from 2020/21 but NHB paid in respect of previous years	0	1,338	2,752
All NHB discontinued from 2020/21	0	4,630	5,214

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[3][4] in exchange for higher returns.

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. The 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 10: 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

[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

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

expenditure arising in 2018/19 only) are removed and then the numbers are adjusted for a limited number of known contractual commitments.

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

Table 11: 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%	+2%	+2%
Payroll on-costs • 1% annual increases assumed reflecting requirement for increased pension contributions	+1%	+1%	+1%
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)	358	1,060	1,518
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 12: 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 13: Total amount – Net Service Expenditure

(Amounts £000)	*2018/19 budget*	*2019/20*	*2020/21*	*2021/22*
As modelled	**18,221**	18,656	19,665	20,562

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, 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.

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 14: 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 10	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 charges • Additional amount to that noted in Section 8 Table 12	250	260	270
Commercialisation – new ventures • Principally trade waste	(10)	0	20
Major contract efficiencies • Potential additional savings through direct Council funding of the new refuse fleet • Additional amount to that noted in Section 8 Table 12	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	100	180	250
Total	**430**	**650**	**910**

The figures quoted above should be regarded as indicative and illustrative only for this version of the draft MTFS. Some refinement of the numbers will be possible for the final version of the 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 13 and 14) 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 13: MTFS financial projections

General Fund Expenditure	2019/20 £000	2020/21 £000	2021/22 £000
Net Service Expenditure	**18,656**	**19,665**	**20,562**
Interest Payable	240	240	240
Interest Receivable	(325)	(325)	(325)
	18,571	19,580	20,477
Transformation and efficiency plan	(430)	(650)	(910)
Total Net Expenditure	**18,141**	**18,930**	**19,567**
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	(4,008)	(4,630)	(5,215)
Deficit / (surplus) on Collection Fund	200	(50)	(50)
Total income	**(17,231)**	**(18,564)**	**(19,795)**
Total Net Expenditure from above	18,141	18,930	19,567
Funding shortfall / (surplus)	**910**	**366**	**(228)**
Implied use of / (addition to) reserves in year – Service Expenditure	710	416	(178)
Implied use of / (addition to) reserves in year – Collection Fund	200	(50)	(50)
Total Implied use of / (addition to) reserves in year	**910**	**366**	**(228)**
Cumulative use of reserves over period of MTFS	910	1,276	1,048

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

Table 14: Impact on Revenue Reserves

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Balances brought forward	8,480	7,570	7,204
Implied use of / (addition to) reserves in year for Service Expenditure	710	416	(178)
Implied use of / (addition to) reserves in year by Collection Fund	200	(50)	(50)
Balances carried forward	**7,570**	**7,204**	**7,432**
Analysis of revenue reserves			
Working Balances	4,080	3,714	3,942
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)	**7,570**	**7,204**	**7,432**

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, no further funds will be transferred.

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 so significant that other sensitivities within the MTFS projections are dwarfed.

Table 9 considered potential shortfalls in grant funding arising from potential changes to the New Homes Bonus scheme. This is expanded below to illustrate the impact on the use of revenue reserves (ceteris paribus):

Table 16: 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	**910**	**366**	**(228)**
#1: Tier split altered – 50% allocation to Districts (80% under current rules)	0	669	1,376
Revised use of reserves under Scenario #1	**910**	**1,035**	**1,148**
No additional NHB from 2020/21 but NHB paid in respect of previous years	0	1,338	2,752
Revised use of reserves under Scenario #2	**910**	**1,704**	**2,524**
All NHB discontinued from 2020/21	0	4,630	5,214
Revised use of reserves under Scenario #3	**910**	**4,996**	**4,986**

The latter of these scenarios – which would essentially wipe out all of the Council's revenue reserves - may be regarded as very extreme and in practice the Government may choose to mitigate a harsh initial impact of funding reductions via some form of transitional grant. Nonetheless, the loss of funding on this scale – which would require a rapid contraction of services and staff - is considered well within the bounds of possibility in the medium term.

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 £3.9m which is acceptable at this time.

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.