APPENDIX A

Charnwood Borough Council
Medium Term Financial Outlook
2024 – 2027

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1. Foreword

Welcome to this edition of Charnwood Borough Council's Medium Term Financial Outlook (MTFO) covering the three-year period between 1 April 2024 and 31 March 2027. This document is essentially an update of the annual Medium Term Financial Strategies previously produced, but retitled to reflect that the bulk of the document looks at the financial outlook facing the Council rather than focusing on strategy and specific plans.

This document is drafted at a point in time when there is a difficult environment for local government, with councils facing real-terms reductions in core government funding and the ongoing challenge of dealing with unfunded or underfunded statutory responsibilities. One example where this is particularly acute for Charnwood is in unrecoverable housing benefit payable for supported living accommodation run by charities. This anomaly in the housing benefit system could cost us up to £1.5m in the next financial year.

Our new Labour administration has inherited a budget showing a use of General Fund reserves of £1.3m in 2023/24. Last year's Medium Term Financial Strategy (2023 – 2026) showed that without action to reduce the structural deficit, the financial year 2025/26 would require a £2.5m use of the general fund working balance reserve, leaving a balance of just £0.3m at the year end. This presents the obvious risk of having to issue a s114 notice shortly afterwards.

In our first budget, that for the 2024/25 financial year, we have halted the increase in structural deficit and managed to avoid the use of the key General Fund working balance in this year.

The financial outlook remains challenging and uncertain and it is highly likely we will need to go further in addressing the structural deficit. We already have a programme of initiatives which we will develop and refine on an ongoing basis to support delivery of our overarching objective of reducing use of reserves over the lifetime of this Council administration and moving towards financial sustainability.

In additional to the usual sections on the financial outlook this MTFO also considers our reserve policy in more detail. Our general fund reserves are lower than many districts (although compare more favourably with county and unitary authorities) but I am pleased to note that they appear adequate in the context of the Council's financial and operational situation. We therefore remain in a stable financial position enabling continuation of our key role – delivering services to our residents.

Councillor Ian Ashcroft

Cabinet Lead Member for (inter alia) Finance

January 2024

2. Financial strategy of the Council

The Council's overall strategic financial objective is to achieve financial sustainability; essentially a situation where council tax receipts, government funding and operational income covers the cost of services provided. Unfortunately, in a world of single year financial settlements (which set out the government funding local authorities will receive), it is unclear what financial sustainability might look like, or, critically, what range of service provision may be possible within a sustainable financial envelope.

In the absence of information beyond the single financial year's settlement, the general approach adopted in recent years has been to balance the protection of Council services with the maintenance of adequate financial reserves.

Having considered the use of reserves projected within the 2023/24 budget the Lead Member for Finance articulated a refined version of the general approach which is as follows[1]:

'To slow the use of reserves to enable a balanced budget to be achieved over the term of the council across a number of financial cycles, whilst protecting services and enabling investment in projects with significant future cost saving, income raising or service enhancement potential.'

[1] See papers from the Budget Scrutiny Panel held 24 October 2023

3. Reserve policy

General Fund

In recent years the Council's reserve policy has been to maintain the key 'rainy day' reserve of the General Fund Working Balance at £2.0m, and from 2023/24 £2.5m, being an amount representing approximately six weeks of net revenue expenditure. This calculation has been an example of 'good practice' in terms of setting the minimum reserve balance, although the ultimate view was (and remains) the assessment of the Section 151[2] (s151) officer.

Other reserves, known as 'earmarked' reserves, have also been maintained on a prudent basis to allow for known or predicted future requirements. Examples here include:

- Reserves maintained to cover future awards of business rate relief
- Reserves created to support the capital programme (the Capital Plan Reserve)
- Reserves created to enable one-off investment in service improvements or fund employee termination costs arising from service reviews (the Reinvestment Reserve)

It may be noted that some reserves, and in particular the Capital Plan Reserve could be easily repurposed and used to supplement the General Fund Working Balance should the situation demand. In the longer term, repurposing the Capital Plan Reserve would constrain available funding for the capital programme but it can be regarded as providing an additional buffer (some £1.9m forecast at 31 March 2024) in the event of a financial shock to the Council.

CIPFA[3] released *'Bulletin 13 – Local Authority Reserves and Balances'* in March 2023. It is therefore considered appropriate to review the Council's reserve policy in the light of this updated guidance.

The updated guidance does not offer any formula or 'knitting pattern' approach to assessing the adequacy of reserves. It states that:

'In order to assess the adequacy of unallocated general reserves (ie. the Working Balance) when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority.'

Further, the guidance states that *'financial risks should be assessed in the context of the authority's overall approach to risk management'*, and a table linked to budget assumptions is provided, against which the risk areas may be assessed.

[2] Essentially the statutory role as the Council's Chief Financial Officer – from Section 151, Local Government Act 1972
[3] Chartered Institute of Public Finance Accountants

TABLE 1: CIPFA – RESERVES RISK ASSESSMENT GUIDELINES

Budget assumption	***Financial position and s151 assessment of impact***	
The treatment of inflation and interest rates	The overall financial position of the authority (level of borrowing, debt outstanding, council tax collection rates etc). Rises in the prices of some commodities, eg fuel and energy, highlight the relevance of using a number of inflation rates in the budget and financial strategy, and considering whether general reserves are adequate to deal with unexpected increases. Volatility in the financial markets also points to the need to consider investment and borrowing risks and their impact on income.	1
Estimates of the level and timing of capital receipts	The authority's track record in budget and financial management including the robustness of the medium-term plans. Authorities will also need to take into account changes in the property market, and adjust estimates and assumptions for reserves accordingly.	2
The treatment of demand led pressures	The authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term.	3
The treatment of planned efficiency savings/productivity gains	The strength of the financial information and reporting arrangements. The authority should also be able to activate contingency plans should the reporting arrangements identify that planned savings or gains will either not be achieved or be delayed.	4
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	The authority's virement and end of year procedures in relation to budget under/overspends at authority and department/directorate level. Risk management measures in relation to partnerships, including consideration of risk allocation. Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements. Reserves may also need to be established to manage commercial risks where authorities have invested in commercial properties.	5

the s151 officer comments on these areas are:

(1). Inflation and interest rates

In respect of exposure to interest rate movements the Council has General Fund debt amounting to just £2m which is due for redemption in June 2024. The interest rate exposure on required debt refinancing is therefore negligible.

A greater exposure exists in respect of investment income whereby a sharp fall in interest rates could result in a significant shortfall in budgeted income;

however, shortfalls can be mitigated in the short term by ‘going longer’ with financial security investments.

Inflationary cost increases are a persistent challenge but can largely be anticipated through the budget process. The Council’s main cost areas are for payroll, major contracts and utilities. Costs in these areas are clearly correlated to inflation rates but there is typically a time lag between movements in inflation and those effects feeding through into cost pressures.

Assessing this area, a highly negative set of circumstances could see in-year service pressures arise of up to £1m.

(2). Estimated amount and timings of capital receipts

Delivery of the Council’s capital programme does not rely on capital receipts in the short and medium term. The Council’s cash balances are such that significant issues with cash flows required to finance the Council’s day to day operations are highly unlikely in the short and medium term.

The financial risk to the Council associated with this area is therefore negligible.

(3). Demand led pressures

The Council is generally able to manage service demand in most areas of operations. The key areas where this is not the case are the provision of statutory homelessness services and in unrecoverable housing benefit payments arising from supported living accommodation operated by charitable organisations.

In a negative scenario additional in-year costs of £1m could be experienced across these cost areas and must be considered as a financial risk.

In terms of demand led pressures, a downturn in key Council income streams – the largest of which relate to planning fees and garden waste collections - could be considered under this heading. **In a negative scenario an in-year shortfall of up to £1m could be experienced.**

A major incident – such as flooding or a pandemic – could result in the Council needing to provide additional services. However, it is assumed that costs above a relatively low threshold (currently around £40k) could be reclaimed through the government ‘Bellwin’ scheme.

Finally, a major financial shock would likely arise in the event the Council was subject to a successful cyber-attack. Cyber insurance is maintained but the experience of other local authorities suggest that this would not cover all costs incurred. It is virtually impossible to assess the total financial impact of such an attack but for the purposes of assessing the appropriate level of reserves **a**

sum of £1m is assumed for initial in-year costs. It would be expected that the Housing Revenue Account would also share some of the burden for this type of expense.

(4).Planned efficiency savings and productivity gains

The Council has developed a programme of 'Options for Change' to address the ongoing financial structural deficit. **This has a savings target attached to the 2024/25 budget of circa £0.4m and in a worst case scenario it could be argued that provision within the reserves should be made**.

(5). Financial risks related to outsourcing, partnerships or capital programmes

The financial risks related to the cost related to major outsourced contracts are considered each year within the budget setting process. The principal financial risk that may arise would be due to the failure of a major contractor – again, this is difficult to assess **but an initial £1m might be assumed to address short term service delivery issues**.

There are no material risks identified with respect to other partnership arrangements or the capital programme.

For what it is worth, the sum of financial impacts from the above assessment accumulates to £4.4m. However, allocating the financial impact to risks where circumstances have a range of scenarios can only be regarded as illustrative, and in addition, such an exercise inevitably fails to take into account the 'unknown unknowns'. Further, it does not seem realistic to assume everything negative occurs at the same time, and that no mitigation is possible.

Given this assessment, the existing £2.5m General Fund Working Balance calculated could therefore be regarded as being of reasonable order of magnitude. However, given the generally greater level of risk and uncertainty that appears to permeate the current political and economic environment it may be argued that maintaining a greater reserve cushion is appropriate.

On balance the s151 officer concludes that the minimum General Fund Working Balance should be £3.0m from 1 April 2024.

This figure will be kept under annual review.

In addition to the Working Balance, the Council – as noted above – maintains a range of earmarked reserves and provisions, prudently calculated on a case by case basis, to ensure that known liabilities and future expenditure requirements (beyond day to day operational expenditure) are adequately covered.

Housing Revenue Account reserve

The nature of the Housing Revenue Account (HRA) is such that revenues are more predictable than that of the General Fund, hence, it is realistic to create a Thirty-Year business plan.

The headline HRA reserve has been in recent years calculated at £110 per house giving a balance maintained at around £0.6m. Essentially this reflects a financial shock associated with the need to conduct emergency repairs on a large number of houses at the same time.

Reflecting recently accelerating inflation, particularly in respect of construction costs, it seems appropriate to increase the reserve based on a significantly increased figure per house. Additionally, noting the comments about the costs of a cyber attack in previous paragraphs, it also seems appropriate to reflect this risk within the HRA reserve calculation.

The view of the s151 officer is therefore that the reserve be calculated on the basis of £200 per house, plus a block sum of £0.5m to reflect the potential risk of a successful cyber attack (or other unidentified financial shocks) from 1 April 2024.

This equates to a balance on this reserve in the order of £1.6m.

The calculation of the HRA reserve will be kept under annual review.

Currently the HRA reserve sits below the level calculated, but this does not present a major issue in practice as a transfer can be made from the HRA financing fund – essentially an earmarked part of the overall HRA reserve - which sits at around £16m. This will be actioned within the 2024/25 financial year.

4. Medium Term Financial Outlook – Summary

This Medium Term Financial Outlook (MTFO) considers the financial outlook for Charnwood Borough Council (‘Charnwood’, or the ‘Council’) for the three financial years 2024/25, 2025/26 and 2026/27. 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 timing of this iteration of the MTFO has allowed us to take account of the provisional local government finance settlement of December 2023. A draft budget which forms the first year (2024/25) of the projections has been prepared and is presented in conjunction with this MTFO.

Council will be asked to approve the final versions of both the budget and MTFO at the meeting scheduled for 26 February 2024.

In summary the financial projections show:

- 2024/25 (the budget) shows a Nil use of the Working Balance reserve
- 2025/26 will see a £0.65m use of the Working Balance reserve
- 2026/27 will see a further £0.95m use of the Working Balance reserve

It should be noted that the use of reserves is reduced due to availability of the funding from the Leicestershire Business Rate Pool. This funding cannot be assumed to continue indefinitely and therefore should be adjusted out to enable a better appreciation of the structural deficit facing the Council. This is tabulated below.

TABLE 2: UNDERLYING STRUCTURAL DEFICIT PROJECTIONS

(Amounts £000)	*Projected use of reserves*	*Adjustment – BR Pool*	*Underlying structural deficit*
2024/25	Nil	872	**872**
2025/26	646	500	**1,146**
2026/27	946	500	**1,446**
TOTALS	**1,592**	**1,872**	

As described in subsequent paragraphs it is unclear quite how long money from the Leicestershire Business Rates Pool will be generated (and the quantum available to the Council) but as can be seen from the above table the projections suggest that without management action a structural deficit of around £1.45m will exist in 2026/27.

Over the three-year MTFO period the table shows a use of reserves of £1.6m, leaving the working balance at £3.9m by 31 March 2027. The projected working balance of £5.5m at 31 March 2025 represents a reasonable level of financial stability but both the MTFO projections and sensitivity analysis shows that there is no room for complacency.

Once again, the uncertainty, and associated limited confidence that can be placed on these projections should not be underestimated, the future financial settlements that local government will be offered about which little is known at present, and other factors, such as inflation, the financial and regulatory impact of the Environment Act 2021 and prospective legislation on housing benefit and supported living facilities. A sensitivity analysis is therefore included within the body of this MTFO which illustrates the very wide range of possible outcomes within individual lines for income, expenditure and government funding.

The financial settlement for 2024/25 was broadly in line with that estimated within the draft budget but once again the Settlement is for a single year and no certainty around future funding exists.

Given the proximity of the next General Election – which must be held at latest by January 2025 - the Provisional Financial Settlement is of limited use as a guide for future years, and there is therefore limited information available in respect of the latter years of the MTFO period. The Office of Business Responsibility have cast doubt on the viability of spending cuts implied for non-ringfenced departments (including DLUHC[4]) which would see large reductions in funding on a cash basis. It is therefore assumed – in the absence of other information – that future financial settlements will be 'cash flat' across the period of the MTFO. In this case the total funding would continue at the same cash levels as 2024/25 which represents a cut in real terms (ie. *funding would not keep up with inflation).*

Another key assumption is that around the business rate retention scheme. Given the timing of the next General Election, material changes to the scheme would be highly unlikely for 2025/26 and difficult even for 2026/27. However, a reset (or rebasing) of business rate baseline collections might be more feasible for 2026/27 which would reduce or eliminate the above target collections currently contributing to the overall amounts retained. For the purposes of the projections, it is assumed within the MTFO that arrangements would 'smooth' the impact of changes within 2026/27, but this is clearly debatable.

These assumptions are inevitably speculative and represent a major financial risk within the MTFO projections.

The budget for 2024/25 reflects the results of further income generation and identification of savings but projections for 2025/26 and 2026/27 do not represent a financially sustainable outlook. Section 13 of this Strategy tabulates this. **Further, it should be noted that failure to deliver on savings, including the**

[4] Department of Levelling Up, Housing & Communities

Options for Change programme which is incorporated within the MTFO projections and slated to deliver ongoing savings of £1.1m by 2026/27, represents another key area of risk.

Finally, It is important to note that in respect of the 2025/26 and 2026/27 financial years the projections do not take account of (additional) management actions – which will clearly be necessary – to address the financial challenges identified these projections. To this extent the financial projections for these years should be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.

Going forward, it will be necessary to continue with the efforts targeted at financial sustainability and this will be a major component of Council activity for the foreseeable future.

5. Medium Term Financial Outlook - Introduction

The Medium Term Financial Strategy (MTFO) 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. Additionally, this version of the MTFO also looks at historical funding patterns to offer further insight into the current financial outlook.

This model attempts 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 considers existing income and 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, where these are considered sufficiently likely to materialize, and considers significant budgetary risk identifiable from current budgetary monitoring 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 MTFO has been developed to cover three years, from 1 April 2024 to 31 March 2027. The first year of this projection uses the 2024/25 budget figures presented to Council for approval alongside this document.

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, in the context of financial challenges identified in financial terms
- Provide the financial basis for the Council to decide its corporate priorities for future years.

However – it is important to state that in respect of the 2025/26 and 2026/27 financial years the projections do not take account of management actions – which will clearly be necessary – to address the financial challenges inherent in these projections. To this extent the financial projections for these years should be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.

Scope of the MTFO

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. In particular, the MTFO reflects the impact of the Council's Capital Strategy, which itself incorporates both the Treasury Management Strategy and the Commercial Investment 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.

6. Political, economic and regulatory outlook

In assessing prospects for the Council's finances it is necessary to consider 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, what the funding settlement for each Council will be. Local economic factors will also impact Council income streams, the demand for Council services, and the Council's ability to fund these.

Some view of the possible future of local government funding from central government may be offered by the Office of Budgetary Responsibility (OBR) and their review of the 2023 Autumn statement.

(See: CP 944 – Office for Budget Responsibility – Economic and fiscal outlook – November 2023 (obr.uk))

The OBR report includes the following commentary.

> *[from Box 4.3, pages 102-103]*
>
> With the post-SR21 envelope for total RDEL spending provided by the Treasury, these assumptions would leave other 'unprotected' RDEL spending (accounting for a third of day-today departmental spending) needing to fall by 2.3 per cent a year in real terms from 2025-26. If defence and ODA spending increased in line with the Government's ambitions outlined above, this would lead to unprotected spending needing to fall by an average of 4.1 per cent a year.
>
> Delivering a 2.3 per cent a year real terms fall in day-to-day spending would present challenges. Performance indicators for public services continue to show signs of strain, for example the backlog in crown courts reached a record high of 65,000 in August 2023 and eleven 'section 114s' notices have been issued by local authorities since 2018, compared to two in the preceding 18 years. The Institute for Government's recent report found that performance in eight out of nine major public services has declined since 2010, with schools the exception. Longer term pressures on public spending, such as from climate change and an ageing population, are also building, as discussed in our Fiscal risks and sustainability reports.

This report casts doubt on the credibility of government spending plans implied by the Autumn Statement and the forthcoming General Election could herald a change of approach from any new government. However, it is clear that the financial outlook for local government funding is challenging in the medium term.

A detailed economic analysis is presented within the Council's latest Capital Strategy (Capital Strategy 2024/25) presented alongside this MTFO. (See appendix BB (1)). This analysis is from Capital economics but follows a consensus view in that it believes:

- Base rates are now at their peak (5.25% - January 2024) and will fall gradually over the medium-term
- Inflation should fall towards the Bank of England 2% target rate in the medium-term
- Real GDP growth will remain 'subdued' throughout 2024

The demand for the Council's services and its income streams are affected by the general economic health of the Borough, whilst prevailing interest rates have a direct impact on the Council's interest receipts. Areas of deprivation do exist in the Borough but as a whole Charnwood is above averagely prosperous, with a ranking of 236 out of 317 English local authorities[5] (where '1' is the most deprived and '317' the least deprived local authority respectively). This relative prosperity is an important factor in the projected housing growth in the Borough and this growth will affect both costs and revenues as it arises. In the relatively short term however the general assumption is that the economic landscape will be one of uncertainty, and, at best, limited growth over the period of this MTFO.

One piece of regulatory good news that has arisen in the past year concerns the implementation of the Environment Act 2021. Whilst much detail, and the associated financial impact, remains unclear, it now appears that local authorities will be able to continue to charge for garden waste collections. This removes a major risk to a key revenue stream which has an annual budget in the order of £1.7m.

Future local government financial settlements

An initiative known as the 'Fair Funding' review has been awaited by the local government sector since 2019 which promised new distribution mechanisms and potentially new methods of local government funding underpinned by a 75% business rate retention scheme (which would replace the current 50% business rate retention model).

Due to a mix of Brexit, COVID-19 and the general election of December 2019, the outcome of the Fair Funding review was delayed, and now essentially appears to have been abandoned in its previous configuration. There is no doubt that a review of local authority funding is well overdue with many formulae still in use developed nearly twenty years ago. This is to say nothing of the underlying business rate and council tax collections which are generally considered ripe for reform. Any initiatives to address what Tony Travers of the London School of Economics described as the 'Rococo' arrangements for local government finance will now wait until after the next general election and in practical terms no material reforms are likely until the 2026/27 financial year at the earliest.

Financial year 2024/25 saw the final year of the current spending review period (SR2021) and yet another single year financial settlement. As it stands there is significant uncertainty both as to the size of the total local government spending 'pot' and the future distribution amongst local authorities within this.

Once again, given the one-year only basis of the recent settlements, and the absence of any material indication of future settlements, there is little option but to assume future settlements will be in line with the most recent. This is discussed further in subsequent sections of the MTFO alongside more detailed assumptions around the

[5] English local authority Index of Multiple Deprivation 2019 (IMD average ranks – File 10; latest result available, updated October 2019)

key individual components of the Council's revenue streams and expenditure, and the risks associated with these assumptions.

7. Financial projections – overview

At the heart of this MTFO 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 MTFO
- 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
- Transformation and Efficiency Plans: outlines the activities undertaken and identified, and initiatives planned and underway that will address the budget challenges
- Budget risks: sets out material high-level risks identified
- 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 MTFO using reserves or prudential borrowing
- General Fund financial projections: presents the projected financial outlook for the Council over the period of the MTFO in tabular form

8. The local government financing regime

Historical context

The Council's funding is currently 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 continuing theme from the government has been the drive towards financial independence for local authorities and the move towards localism. In practice this now means a reduction in levels of direct (formula) grant funding, and increasing reliance on council tax receipts. The government funding is derived from what the Council is allowed to retain from business rate collections.

The peak funding year for the Council was back in 2010/11 when adjusted total funding – council tax and government grants – amounted to some £19.5m. This was the final year of a pre-austerity multi-year settlement and where the local government financing regime was much simpler. Since 2013/14, with the introduction of localised collection of business rates, assessing the total funding available is both more complex and subject to significant risk and uncertainty.

The principal government measure for assessing funds available to local authorities is known as 'Core Spending Power' (CSP). This measure:

- Includes council tax and assumes local authorities maximise the tax take within the capping limits
- Excludes gains or losses arising from the business rates retention system

The Councils CSP since 2015/16 (first year of DLUHC time series) is set out below:

TABLE 3: CHARNWOOD BOROUGH COUNCIL – CSP 2015/16 TO 2024/25 (Source: DLUHC)

	2015-16	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*	*2023-24*	*2024-25*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Settlement Funding Assessment	7.0	6.0	5.3	4.9	4.4	4.5	4.5	4.5	4.8	5.0
Compensation-business rates multiplier	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.8	0.9
Council Tax Requirement	6.5	6.9	7.3	7.7	8.1	8.6	9.0	9.3	9.8	10.1
New Homes Bonus	3.8	4.5	4.0	3.6	3.7	4.1	3.0	1.6	0.4	0.4
New Homes Bonus returned funding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lower Tier Services Grant	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.0	0.0	0.0
Services Grant	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.0
Grants rolled in	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Funding Guarantee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	2.5
Core Spending Power	**17.5**	**17.6**	**16.8**	**16.4**	**16.5**	**17.5**	**17.4**	**17.3**	**18.1**	**18.9**

With the existing business rate retention scheme, gains and losses versus the 'Settlement Funding Assessment (top row within the CSP table, above) are calculated with respect to a business rates baseline. At introduction in 2013/14, the government indicated that the baselines would be reset every three years; however, approaching ten years into the scheme, no reset has yet occurred. Most business rate collection authorities (including all in Leicestershire) have seen growth in the tax base through a mix of periodic revaluations (of 2017 and 2023) and physical growth in business infrastructure. Local authorities that have benefitted most from this situation will no doubt point to progressive and far-sighted enabling policies (mainly around planning) but in reality, the individual circumstances of the authority will be the determining factor. In Charnwood, in very unfortunate timing, the Council's largest ratepayer (Astra Zeneca) vacated the Loughborough site within weeks of the baseline having been set. This resulted in below baseline collections in the initial year of the new business rate scheme but after ten years, collections are now above baseline levels, and additional funding of around £1m may be achieved above CSP in 2024/25; this is both helpful and a source of risk in that such funding could be immediately wiped out in future years should a business rates reset be enacted. In context, a £1m gain over eleven years is not impressive; some other Leicestershire Districts have made very significant gains of several millions above CSP.

Notwithstanding additional funding derived from business rate retention above baseline levels, it is clear that the Council has suffered a significant reduction in funding in real terms.

Using CPI(H) as the inflationary index, the data shows an index figure of 88.9 for December 2009 versus 130.5 at December 2023 (July 2015 = 100). Using this index, the 2010/11 settlement would be worth £28.6m at current price levels; alternatively, the 2024/25 settlement represents a real terms reduction in funding of around one-third (33.9%) based on the latest CSP figures.

In recent years the government has made its case for the local government settlement by reference to CSP, stating that CSP has been maintained, or, as for 2024/25 stating that each local authority will see a minimum increase in CSP of 3%.

At the time of drafting this report, matters have become somewhat muddied as (unusually) it appears that the Final Local Government Finance Settlement will provide additional cash to the local government sector which includes increasing the minimum increase in CSP to 4% in exchange for a 'productivity plan'[6]. The calculations suggest that the Council's increase in CSP for 2024/25 is around 4% based on the Provisional Local Government Finance Settlement so any additional funding, whilst welcome, is unlikely to be material so no amendments to the proposed 2024/25 budget have been made.

Assumptions and projections

Council tax

The core assumption for the purposes of the MTFO is that the capping regime will continue, and that the Council will increase council tax by 3% per annum in each year of the MTFO period. This assumes that current capping rules, being the higher of 2.99% or £5, will continue.

[6] As at 25 January 2024 no details were available

For subsequent years within the MTFO projections, growth in the tax base of 1% is assumed.

In comparison to other districts, Charnwood's council tax charges are still amongst the lowest in the country as the data below illustrates:

TABLE 4: COMPARISON OF DISTRICT BAND D COUNCIL TAX CHARGES 2023/24

NATIONAL PICTURE	***Council Tax Band D***	***Rank (of 164)***
Lowest		
Breckland	£110	1
West Oxfordshire	£119	2
Wychavon	£122	3
Charnwood	**£164**	**23**
Median		
Ashfield	£201	81
Waverley	£202	82
Arun	£202	93
Highest		
Oxford	£336	162
Preston	£344	163
Ipswich	£396	164

LEICESTERSHIRE AUTHORITIES	***Council Tax Band D***	***Rank (of 164)***
Hinckley & Bosworth	£150	14
Charnwood	**£164**	**23**
North West Leics	£175	36
Harborough	£178	41
Blaby	£184	52
Melton	£224	110
Oadby & Wigston	£247	154

** Calculation includes Band D and Share of Loughborough Special Rate (or equivalent) spread across whole tax base*

Source: DLUHC

The impact of the capping rules is illustrated here. Were the Council allowed to increase council tax up to an average level for 2023/24 – say £201 – then this would generate an additional £2.1m in that year (with the obvious cumulative benefit in future years).

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. Historically the tax base increased in a range between 1.5% and 2% per annum, reflecting the strong housing growth in the area, but more recently this has fallen to around or below 1%; the growth in the tax base to October 2023 (the date on which the tax base for the following financial year is calculated) was just 0.83%.

The tax base for the 'central case' on which the MTFO financial model is calculated is assumed to increase by 1.0% year on year over the period of this projection, reflecting lower tax base growth in recent years.

TABLE 5: PROJECTED COUNCIL TAX INCOME TAX INCREASES

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Assumed council tax income - CENTRALCASE	**8,634**	**8,982**	**9,344**
Assumed council tax income - OPTIMISTIC	8,634	9,027	9,437
Assumed council tax income - PESSIMISTIC	8,634	8,938	9,252

The OPTIMISTIC case assumes that there will be an increase in housing completions leading to 2.5% year on year increases for 2023/24 and 2024/25.   Conversely, the PESSIMISTIC case assumes the lower growth rate in the council tax base will continue resulting in 0.5% year on year increases.

In all scenarios it is assumed that the tax rate will increase by an annual 3%.

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 the 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:

Budgets and financial strategy - Charnwood Borough Council

For the purposes of the MTFO projections the Special Rate is assumed to increase by 1.99% year on year, whilst the council tax base annual growth rate is assumed at 1.0% in line with the rest of the Borough.

***Note: The above paragraphs assume that council tax increases for 2024/25* will be approved by the meeting of the full Council in February.**

It should also 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.

TABLE 6: PROJECTED LOUGHBOROUGH SPECIAL RATE INCOME

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
LSR – 1.99% increase assumed	**1,398**	1,440	1,483

Provisional local government finance settlement 2024/25

The latest (albeit provisional) local government finance settlement continues the recent series of 'one-off' allocations, and comprises a mix of business rate retention, and historic and new grant allocations. As noted previously, unusually, some additional funding will be made available across the sector within the Final Local Government Finance Settlement but (also as explained), this is discounted within the budget and also the MTFO projections. This is tabulated below, alongside the 2023/24 budget for comparative purposes:

TABLE 7: PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT

(Amounts £000)	*2023/24 budget*	*Draft budget 2024/25*	*Provnl Settlement 2024/25*
Retained business rates	*6,400*	6,800	*7,100*
Revenue Support Grant	*329*	353	*350*
New Homes Bonus	*373*	*0*	*404*
Lower Tier Services Grant (and similar)	*2,462*	*0*	*0*
Services Grant	*0*	*0*	*27*
Funding Guarantee	*0*	*3.000*	*2,474*
Movement on collection fund	*0*	*0*	*8*
Total	***9,564***	***10,153***	***10,363***

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 baseline (target) rates of collection set by government and estimate that the Council will retain around 9% of the total collected (although this calculation has been skewed in recent years due to one-off COVID-19 reliefs applied following which the Council is compensated via grants). A baseline amount of retention is set out within the Finance Settlement and also sets out the safety net balance for collections below which the collection deficit is compensated, together with the levy rate, which has the effect of allowing 20% retention for business rate collections above the baseline.

The amount the Council receives is subject to a number of variables including collection rates and business rate reliefs for which the Council may (or may not) receive compensation via 'Section 31' grants. The figures in the table above include estimates for Section 31 grants due within that financial year.

One of the historical challenges for the Council has been the material lack of growth in business rates since the inception of the localised arrangements. This is due to two main factors:

- The business rates baselines were set immediately prior to the Council's biggest ratepayer, Astra Zeneca, vacating the site of what is now Charnwood Campus leading to a loss in business rates of over £2m; whilst the idea of a baseline reset is much mooted this has yet to be carried out (and is resisted by local authorities that have benefitted through business rates growth)
- Generally, business rates growth has been sluggish within Charnwood, with gains offset by losses arising from successful appeals, or empty properties

Notwithstanding the sluggish underlying position however, the Council is now starting to see growth in business rates due to the unwinding of the impact of COVID-19 (and the associated rate reliefs) combined with indexation and revaluation gains. The position remains volatile in respect of the sensitivity of projection calculations to such issues as empty property reliefs, but detailed review and modelling suggests that the Council could expect to retain upwards of £20m in business rates over the MTFO period. A key unknown is the date of any business rates reset but the proximity of the general election and redistributive impact of such a reset which may be significant suggests that the Financial Settlement of 2026/27 would be the earliest practical date for this exercise to be implemented.

A business rate baseline reset does represent a risk to the Council of up to £1.2m from the year this is implemented but modelling suggests a 'smoothed' approach can be adopted leading to retention projections as set out below, assuming a baseline reset from 2026/27.

TABLE 8: PROJECTED LOCAL SHARE OF BUSINESS RATES

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
NDR retention – central case	**7,100**	**7,200**	**7,400**
NDR retention – OPTIMISTIC	7,100	7,400	7,900
NDR retention – PESSIMISTIC	7,100	6,700	6,900

In the OPTIMISTIC case there is no business rate reset across the MTFO period enabling additional business rate retentions to be assumed in future years.

In the PESSIMISTIC case a business rate reset occurs for 2025/26 leading to reduced retention across the MTFO period.

(The volatility and potential variance within the business rate projections may be contrasted with the far more stable council tax receipts.)

Other grants

Of the other grants listed in Table 7, very little information exists. The Revenue Support Grant (RSG) is associated with the business rate retention element of the Finance Settlement and may be increased in line with inflation as was the case for

2024/25, although this followed a previous trend of reduction and then disappearance, only for it to reappear, zombie-like, in more recent years.

The New Homes Bonus has been long touted to disappear, but it has limped along with single-year settlements and could possibly continue. Other grants, all arguably for transitional or damping purposes within the overall Settlement have come and gone and on an individual basis there seems little predictability about their future existence or the quantum of the grant award. Taken together however, the total grant arising has been consistently in the order of £3m, and in the light of the challenging outlook for local government finance a 'cash flat' (which would be a real-terms reduction) of £3.3m is assumed across all years of the MTFO period.

In the OPTIMISTIC case it is assumed that total funding from other grants will be 10% above the central case for 2025/26 and 2026/27.

In the PESSIMISTIC case is assumed that total funding from other grants will be 10% below the central case for 2025/26 and 2026/27

TABLE 9: RSG AND OTHER GRANT PROJECTIONS (TOTAL)

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
RSG and other grants – central case	**3,263**	**3,263**	**3,263**
RSG and other grants – OPTIMISTIC	3,263	3,589	3,589
RSG and other grants – PESSIMISTIC	3,263	2,937	2,937

In the absence of further information, the central case and OPTIMISTIC and PESSIMISTIC scenarios are necessarily speculative and gives rise to a high level of uncertainty. This uncertainty within the MTFO projections is highly significant within the context of the overall projections.

Leicester and Leicestershire Business Rates Pool

The Leicester and Leicestershire Business Rates Pool (BRP) arrangement allows business rates – the levy on the growth of business rate collection above the baseline - that would otherwise have been remitted to central government to be retained in Leicestershire. The County and City Councils, and all Leicestershire Districts are party to this arrangement.

Historically, disbursement of BRP receipts was undertaken by the Leicester & Leicestershire Economic Partnership (LLEP) but the cessation of this body has resulted in an agreement that BRP receipts will be distributed directly to participating local authorities for the purpose of revenue or capital expenditure under the broad heading of 'economic priorities'.

The negotiation process to agree the distribution amongst individual local authorities was somewhat extended, but agreement has been reached in respect of the 2020/21 and 2021/22 BRP receipts and £1.3m being the Council share of these has been received. Additionally, a sum in respect of 2022/23 – prudently estimated at £0.4m - should be received by the end of the 2023/24 financial year.

Future BRP receipts (at a significant level) depend upon (a) the current business rate retention rules being maintained, (b) no business rate reset, and (c) the distribution method amongst BRP participants being broadly maintained or enhanced in the Council's favour.

As has been discussed in previous paragraphs, it is assumed that the most likely date for a business rates reset would be for the 2026/27 financial year, but given distributions fall in the following financial year to that arising due to audit processes this would see funds generated by the BRP across the period of this MTFO.

The distribution method amongst BRP participants has been agreed through to cover the 2024/25 financial year, which barring a very unlikely set of events means that BRP funds should be available into – at minimum – the 2025/26 financial year.

Current projections for the Council's BRP receipts are in the ranges tabulated below:

TABLE 10: PROJECTED BRP RECEIPTS – AVAILABILITY ACROSS MTFO PERIOD

Financial Year of receipt	*2023/24 & 2024/25*	*2025/26*	*2026/27*
BRP share arising 2020/21 and 2021/22	**£1.3m**		
Arising 2022/23	**£0.4m - £0.9m**		
Arising 2023/24	**£0.6m - £1.0m**		
Arising 2024/25		£0.7m - £1.0m	
Arising 2025/26			£0.7m - £1.1m

In respect of the above projections:

- £1.3m in respect of the BRP funds generated in 2020/21 and 2021/22 has been received within financial year 2023/24
- The 2022/23 calculations are being finalized but a minimum of £0.4m will be received late 2023/24 or 2024/25
- Current projections based on BRP monitoring suggest the receipt due in respect of 2023/24 should be in the range £0.6m to £1.0m and should be received late 2024/25
- Figures for funds arising in 2024/25 and 2025/26 are projections based on current Pool performance; additionally, the amount arising in 2025/26 assumes that no business rate reset applies to this year

As may be gathered from the above, receipts are less certain the further forward they are considered; nonetheless, somewhere upwards of £3m could be anticipated across the MTFO period.

As noted above, the BRP receipts have to be used under the broad definition of 'economic priorities' so use is not completely unrestricted and in practice some receipts may be allocated towards the capital programme. For the purposes of the 2024/25 budget and MTFO projections the support for the General Fund budget is assumed as below:

TABLE 11: BRP FUNDING CONTRIBUTION TO GENERAL FUND BUDGETS

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
BRP contribution	**872**	500	500

9. Treasury management and commercial investment income

Treasury management

The majority of the Council's investments are short-term, mainly made up of cash deposited for short periods on money markets. The remainder is made up of loans to other local authorities for periods of up to two years and longer-term holdings in property funds. In recent years these have had a value in the range of £40m to £70m at any point in time. Broadly, these amounts represent a combination of Council Reserves (including the Housing Revenue Account), 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 (see the Treasury Management Strategy Statement within the Capital Strategy)[7] 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. The 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 but security and liquidity remain paramount.

For the purposes of projections, it is assumed that:

- Interest rates reached a peak late 2023 / early 2024[8] and will reduce gradually over the MTFO period
- Average cash balances available for investment will reduce slightly (reflecting use of internal borrowing to finance the delivery of the capital plan)
- The net effect of the above will deliver returns in line with the table below
- The OPTIMISTIC and PESSIMISTIC cases assume returns 20% above or below central case projections

[7] See the 2024/25 Capital Strategy – also due for approval at Council on 26 February 2024
[8] Bank of England base rate = 5.25% at January 2024

TABLE 12: INVESTMENT INCOME (INTEREST RECEIVABLE) PROJECTIONS

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Interest receivable - central case	**1,300**	**1,100**	**900**
Interest receivable - OPTIMISTIC	1,560	1,320	1,080
Interest receivable - PESSIMISTIC	1,040	880	720

Interest payable – general fund

The Council has one external loan of £2m. This was taken out in 1984 at a fixed interest rate of 11.625% and is due for repayment in June 2024. **Repayment of the loan will see a reduction in interest payable of around £180k in 2024/25** (and £233k in subsequent years) unless new loans are taken out in the intervening period. Given the Council's cash balances, around £5m - £10m of capital expenditure could be financed via 'internal borrowing in the short to medium'[9] so there are no plans to undertake additional external borrowing across the MTFO period. More detail on this may be found within the Capital Strategy 2024/25.

Commercial investment income

The Council has built up a portfolio of commercial properties for investment purposes at a cost of £22m, generating gross annual rental returns of around £1.5m.

The property portfolio is performing well but the Council's ability to make additional commercial property acquisitions is now very restricted due to reduced access to Public Works Loan Board borrowing, and changes to the 'Prudential Code' which will effectively prevent the Council acquiring commercial property using debt. For the purpose of this MTFO it is assumed that no further commercial property investment will occur.

Whilst around £1.6m in gross annual rentals will be generated from the existing investment properties the Council adopts a prudent approach to recognizing this income with the 2024/25 budget and MTFO projections assuming net rentals of £1.0m per annum. This allows proper allowance of Minimum Revenue Provision (a charge reflecting the need to repay capital purchases unfunded by earmarked reserves), and notional interest payments (reflecting the current internal borrowing arrangements). Additionally, a reserve has been created to allow for potential void rent periods, additional interest costs should debt need to be externalised, and similar. This reserve has reached its target level of £1.5m, calculated to mitigate against any losses arising from the next 'lease event', the scheduled expiry of one property lease in 2025/26.

Further details of the investment property portfolio are set out within the Capital Strategy 2024/25 (and quarterly – exempt – monitoring reports to the Audit Committee)

[9] Use of cash holdings held to satisfy future liabilities – which may not crystallise for some years

TABLE 13: COMMERCIAL (INVESTMENT) PROPERTY INCOME PROJECTIONS

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Net rentals (after MRP, interest and provision)	**£1.0m**	**£1.0**	**£1.0**

10. Key operational assumptions

The Council's 'Net Service Expenditure' (or 'Baseline net service costs' per the summary financial model at Table 13) 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 MTFO is the 2024/25 budget.

For this iteration of the MTFO there are key assumptions around payroll costs (wages, salaries and on-costs, particularly employer pension contributions), indexation increases in major contracts, and services pressures identified as part of the 2024/25 budget setting process. The underlying inflation outlook remains less benign than recent (pre- 2021) history although it is now generally considered to be on a downward trend. However, war in Europe and the Middle-East, and the forthcoming US election offer potential for further shocks to the financial system and negative impact on the Council's costs and revenues.

Inflation outlook

The Capital Strategy has the following view on inflation[10]

CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

Looking ahead, Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February.

Payroll costs

The Council's bill is budgeted at £15.8m for 2024/25 which is approaching half of general fund operating expenses; each additional percentage point on pay therefore represents therefore around £0.16m.

The principal (NJC) national local government pay award for the financial year 2023/24 was not settled until November 2023 with, for the second year, a flat increase of £1,925 per employee across all grades. This equated to an average 7% increase across the workforce.

Recent history suggests that the 2024/25 pay award will not be settled until well into the financial year so the budgeted payroll costs have been estimated. Balancing falling inflation with the likely Trade Union stance that members pay has fallen in real terms, the budget reflects an assumed 5% average pay award for

[10] Forecast from Link Asset Services (Capital Economics)

2024/25, with a further 5% for 2025/26 and 3.5% for 2026/27 assumed as the central case within the MTFO projections.

In the OPTIMISTIC scenario, pay is assumed to grow by 3% per annum for each year of the MTFO period.

In the PESSIMISTIC scenario, pay is assumed to grow by 6.5% per annum above the central case for each year of the MTFO period.

The ranges here reflect the potential range of uncertainty within the global economy.

TABLE 14: PAYROLL COST ASSUMPTIONS

(Amounts £000) *(percentage increases are versus the 2022/23 budget)*	*2024/25 budget*	*2025/26*	*2026/27*
Payroll costs – central case	**+5%** **15,796**	**+5%** **16,590**	**+3.5%** **17,174**
Wages and salaries – OPTIMISTIC	+3% 15,495	+3% 16,273	+3% 16,941
Wages and salaries – PESSIMISTIC	+6.5% 16,022	+6.5% 16,829	+6.5% 17,349

Indexation cost increases in major contracts

The Council is party to many contracts for goods and services at any particular point in time, including – for example - those for IT licenses, stray dog kenneling and putting up the Christmas lights. However, the largest contracts (excluding HRA contractors) are:

- Environmental Services
  - Approximate annual cost (per 2024/25 budget) - £7.6m
  - Indexation – RPI
  - Also, standard variation applied for additional properties

- Open Spaces
  - Approximate annual cost (per 2024/25 budget) - £1.5m
  - Indexation – CPI / National living Wage hybrid

- Revenues & Benefits
  - Approximate annual cost (per 2024/25 budget) - £2.8m
  - Indexation – CPI
  - SERVICE TO RETURN IN-HOUSE FROM 1 NOVEMBER 2024;

Current inflation rates and the associated indexation is essentially reflected in the 2024/25 budget, but the central case, and OPTIMISTIC and PESSIMISTIC indexation scenarios are tabulated below:

TABLE 15: MAJOR CONTRACTS – COST INDEXATION SCENARIOS

(Amounts £000 – increases versus 2023/24 budget) *(percentage increases are versus the 2023/24 budget)*	*2024/25 budget*	*2025/26*	*2026/27*
Major contracts – central case Environmental Services	+5% 7,694	+5% 8,026	+3.5% 8,307
Open Spaces	+5% 1,527	+5% 1,604	+3.5% 1,660
Revenues & Benefits* (Due to be in-house service from 1 Nov 2024)	+5% 2,822		
Summary YoY increase	**0**	**409**	**337**
Major contracts – OPTIMISTIC Environmental Services	+5% 7,694	+3% 7.925	+2% 8,083
Open Spaces	+5% 1,527	+3% 1,573	+2% 1,604
Revenues & Benefits	+5% 2,822		
Summary YoY increase	**0**	277	*189*
Major contracts – PESSIMISTIC Environmental Services	+5% 7,694	+7% 8,233	+5% 8,644
Open Spaces	+5% 1,527	+7% 1,634	+5% 1,715
Revenues & Benefits	+5% 2,822		
Summary YoY increase	**0**	*646*	*492*

11. Transformation and Efficiency plans

Charnwood has embarked on a programme of 'Options for Change' to move towards financial sustainability. This programme is ongoing and has a number of elements as outlined below:

- Service reviews
- Assets and fixed costs
- Commercialisation and income generation
- Regeneration and economic growth
- Other - Technical and tactical approaches

Tables 4 and 5 within Appendix 6 of the General Fund budget papers (Cabinet – December 2023) show ongoing and one-off savings of £91k and £72k respectively, which may be regarded as tactical and technical savings.

More significantly a larger programme considering more wide-ranging evaluation and initiatives that may not be wholly deliverable within a single financial year. Some £366k net savings are targeted in 2024/25 with increased contribution in future years as tabulated below:

TABLE 16: OPTIONS FOR CHANGE - NET SAVINGS PROJECTIONS

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Options for Change - targets	**366**	853	1.138

Options for change under consideration include a review of the Council's car parking provision, digitisation of billing processes, asset utilisation (particularly the Council's own office accommodation) and service reviews across a number of identified services.

It is recognized that these savings – and possibly alternative or additional savings and / or income generation will be required across the MTFO period. As such it is important to note that the projections above, whilst based on the underlying portfolio of Options developed, are illustrative of what is required in future years, **Failure to deliver savings of this order of magnitude therefore represents a key risk within these MTFO projections.**

12. Existing financial resources and use of prudential borrowing

Currently, the Council 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 MTFO assumes that:

- The General Fund balance will be maintained at a level of not less than £3m in line with good practice (see Section 2 of this MTFO)
- Other reserves will be utilised or created during the period of the MTFO as appropriate; additionally, transfers between reserves may be deemed appropriate

As will be seen from the financial projections the Council reserves levels are reasonable (with a working balance of some £5.5m projected at 31 March 2025 but the significant risk with the latter two years of the MTFO period in particular, does not give room for complacency.

It is clear from the projections (Section 13) and identified risks (Section 14) that further action is required to address the structural funding deficit across the period of the MTFO, particularly when adjusted for use of Business Rate Pool funding, which has a finite life.

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.

Capital Plan Reserve

The Capital Plan Reserve has been created so that the Council can supplement its level of usable capital receipts. This reserve is designed to be used for General Fund capital items only, but it is not constrained and could also be used to fund general fund revenue expenditure. This reserve has around £1.9m available for use (projected 1 April 2024).

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.

The Council has a well-established process for the management of the capital plan. For the purposes of the MTFO 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

Historically, Charnwood has been able to avoid the use of borrowing but in the 2020/21 financial year undertook Prudential Borrowing to finance the acquisition of commercial properties for investment purposes (some £22m) and to part finance the purchase of the new environmental services fleet. Further prudential borrowing of £2m was undertaken in 2021/22 to fund development of the Enterprise Zone.

Additional detail of this is set out in the Capital Strategy 2022/23.

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 MTFO. Further details regarding the HRA are set out in the section covering the Housing Revenue Account.

13. Financial Projections 2024 – 2027

TABLE 17: MTFO FINANCIAL PROJECTIONS – GENERAL FUND

	2024/25 *BUDGET* £000	*2025/26* *Projection* *£000*	*2026/27* *Projection* *£000*
Net Service Expenditure	21,741	22,282	22,879
Commercial property interest and MRP charge	611	620	650
Interest payable	58	0	0
Interest receivable	(1,300)	(1,100)	(900)
	21,109	21,802	22,629
Contribution from Business Rates Pool	(872)	(500)	(500)
Other reserve adjustments	159	222	300
Total Expenditure	**20,396**	**21,524**	**22,429**
Funding			
Council Tax Receipts	8,634	8,982	9,344
Loughborough Special Levy	1,398	1,440	1,483
Revenue Support Grant	350	350	350
NNDR	7,100	7,200	7,400
New Homes Bonus	404	404	404
Funding Guarantee	2,474	2,474	2,474
Services grant	27	27	27
Collection Fund Surplus/(Deficit)	8	0	0
	20,396	20,878	21,483
Projected use of Working Balance	**0**	**646**	**946**
Structural deficit (adj for BRP contribution)	**872**	**1,146**	**1,446**

The implication of the above projections is that to bring the Council's finances back into a sustainable position (ie. where expenditure is restricted to match funding) is that by 2026/27 the Council will need to remove around £1.5m from its projected cost base over and above savings identified, and income generation created to date.

The importance of the contribution of Business Rate Pool funding can be seen from these figures which significantly mitigates the use of the General Fund Working Balance – by some £1.9m – across the MTFO period. This contribution suggests the Working Balance can be maintained at above the minimum £3m level set by the s151 officer over the period of the MTFO.

As may be observed from the table below, without this contribution the Working Balance would be falling to uncomfortably low levels (approximately £2m, well below the appropriate minimum set by the s151 officer).

TABLE18: PROJECTED MOVEMENT ON WORKING BALANCE

	2024/25	2025/26	2026/27
	£000	£000	£000
General Fund working balance			
Balance brought forward (projected)	5,472	5,472	3,366
Use of balance in year	Nil	(646)	(946)
	5,472	**4,826**	3,880

Compared to previous years this projection is comparatively benign; nonetheless, the key message is that time is available for the structural deficit to be addressed, not that it has ceased to be a problem,

14. Risk and sensitivities

Government funding

The proximity to the general election and yet another one-year ‘sticking plaster’ local government financial settlement (historically there are little or no changes between the provisional and final settlements - which is usually communicated in mid-February) means that there is a high level of uncertainty around future funding in the latter years of this MTFO and a wide range of plausible funding outcomes.

Inflation

The current inflation outlook is discussed previously in this MTFO but the current potential for global and national financial shocks clearly gives rise to risk; in broad terms each additional 1% increase on payroll and major contract costs adds £0.25m to the Council’s annual expenditure.

Sensitivities around these areas are reflected within the Optimistic and Pessimistic scenarios discussed within Sections 8, 9 and 10 of this report. Additional specific areas of risk are set out in the subsequent paragraphs.

Environment Act 2021

The financial impact of the Environment Act 2021 remains a source of uncertainty. Whilst the risk of the Council being unable to charge for garden waste collections - an annual £1.7m revenue stream – seems to have abated, the introduction of food waste collections (currently scheduled for October 2025) and revised recyclate collections has also the potential to add uncompensated costs into the General Fund.

Given that the government state that local authorities will be compensated for additional costs incurred by implementation of Environment Act provisions no additional pressures have been included within the MTFO projections, but placeholder amounts are included in the sensitivity analysis as below:

TABLE 19: IMPACT OF THE ENVIRONMENT ACT 2021 – ADDITIONAL COST SENSITIVIES

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Environment Act – central case	**0**	**0**	**0**
Environment Act – OPTIMISTIC	0	0	0
Environment Act – PESSIMISTIC	0	100	250

Supported living

The projections assume these costs remain at around £0.7m across the period of the MTFO. Based on current information around supported living units existing and planned, it is possible that costs could rise towards £1.5m. However, should either the Council be successful in lobbying the Government about the impact of this situation, there is a change in regulation, or the main providers in Charnwood achieve Registered Provider status then the cost to the Council could fall significantly.

In the OPTIMISTIC case the main providers achieve Registered Provider status (or regulations change) such that costs reduce to an annual £0.1m from 1 April 2026. In the PESSIMISTIC case costs exceed the budget amount by £0.5m in 2024/25 and increase by a further £0.3m in respect of subsequent years, as set out below.

TABLE 20: SUPPORTED LIVING - SENSITIVIES

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Supported living – central case	**700**	**700**	**700**
Supported living – OPTIMISTIC	700	700	100
Supported living – PESSIMISTIC	1,200	1,500	1,500

Income streams

The Council generates around £13m annually from various fees and charges. These include:

- **Planning fees** are known to be cyclical in nature and given the substantial nature of some individual planning fees a variance (adverse or negative) of £0.25m around the budgeted figure would not be unusual
- ***Leisure centres*** – post the COVID pandemic, the entire leisure sector has come under increasing pressure. The central case is that the leisure contract (and any new contract) will enable provision of leisure services at break-even (nil cost, nil revenue).
- ***Markets*** –income levels remain somewhat depressed since the pandemic and income streams remain weak. This is one of the areas (via the Options for Change programme) the Council intends to focus on but inherent challenges associated with the loss of existing traders (an ageing cohort) and permanent changes in shopping habits remain.
- ***Town Hall*** – show income now seems to have recovered to pre-pandemic levels but room hire bookings remain challenging. This is another area the Council intends to focus on via the Options for Change programme.
- ***Car parking*** – permanent changes in shopping and commuting habits may have restricted income recovery to date but the forthcoming car parking review contains ideas that are hoped to stem and reverse recent income reductions.

In total, income may be plus or minus £0.5m versus the budgeted figure, as reflected in the table below.

TABLE 21: INCOME SENSITIVITIES

(Amounts £000) *Increases / (decreases) versus the 2022/23 budget)*	*2024/25 budget*	*2025/26*	*2026/27*
Income – central case	**0**	**0**	**0**
Income – OPTIMISTIC	500	500	500
Income – PESSIMISTIC	(500)	(500)	(500)

Options for Change

As set out in previous sections, the MTFO projections include Options for Change savings of £366k in 2024/25, rising to £853k and £1,138k in 2025/26 and 2026/27 respectively. Failure to achieve these is therefore included in the sensitivities below.

Summary of sensitivities

A summary of the sensitivities – differences to the central case – are tabulated below for both OPTIMISTIC and PESSIMISTIC scenarios.

TABLE 22: SENSITIVITIES – OPTIMISTIC SCENARIOS

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Council Tax	**0**	45	93
NDR retention	0	200	500
Other government grants	0	326	326
Investment income (non-commercial property)	260	220	180
Payroll costs	301	318	234
Major contract indexation	0	132	148
Environment Act 2021	0	0	0
Irrecoverable Housing Benefit – supported living	0	0	600
Income streams	500	500	500
BEST CASE SCENARIO	**1,061**	**1,741**	**2,581**

TABLE 22: SENSITIVITIES – PESSIMISTIC SCENARIOS

(Amounts £000)	*2024/25 budget*	*2025/26*	*2026/27*
Council Tax	**0**	54	92
NDR retention	0	500	1000
Other government grants	0	326	326
Investment income (non-commercial property)	260	220	180
Payroll costs	226	238	175
Major contract indexation	0	646	492
Environment Act 2021	0	100	200
Irrecoverable Housing Benefit – supported living	500	800	800
Income streams	500	500	500
SUB TOTAL	1,486	3,384	3,765
Failure to deliver O4C programme	366	853	1,138
WORST CASE SCENARIO	**1.852**	**4,237**	**4,903**

It should be noted in practice that is highly unlikely that variations to the central case would be entirely positive or negative; however, the scale of individual elements within the above table do indicate that significant variation from the budget or MTFO projections is very possible.

15. 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 budgeted gross income of £25.6m in 2024/25 of which £24.6m was dwelling rents. Expenditure on management and repairs amounted to £15.6m whilst depreciation was £4.3m. A further £2.7m was required for interest payments on its debt.

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 2023 it was £0.6m, equating to its target balance of that amount. As set out in Section 3, this reserve has been reviewed and from 1 April 2024 a target balance of circa £1.6m has been set as the new minimum assessed by the s151 officer.

There is an additional £15.0m (projected 31 March 2024) in the Housing Financing Fund, the purpose being to help mitigate potential financial pressures that national policy may place on the HRA in the medium-term and also to ensure debt repayments can be met in the short and medium term. The first tranche of HRA debt - £1m – is due for repayment in October 2024.

Finally, there is a projected £4.5m, at 31 March 2024, in the Major Repairs Reserve which has restrictions on its use to capital expenditure and the repayment of loans. It is intended that this be fully utilized within 2024/25.

Rental levels are largely controlled by central government and there are certain other restraints on how the Council may manage its housing stock. The most recent 30 Year Housing Business Plan, which effectively represents the MTFO for the HRA, was approved in November 2023. See:

HRA Business Plan and Capacity Update.pdf (moderngov.co.uk)

16. 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. Internally, budgets are monitored on a regular basis with regular Senior Leadership Team review whilst a series of ‘Boards’ chaired by the Council’s Directors are in place to drive through the Options for Change agenda.