

**CABINET – 15TH NOVEMBER 2018**

**Report of the Strategic Director of Corporate Services**

**Lead Member: Councillor Tom Barkley**

**Part A**

ITEM      MEDIUM TERM FINANCIAL STRATEGY 2019 - 2022

Purpose of Report

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

Recommendations

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

Reasons

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

Policy Justification and Previous Decisions

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

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

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

Report Implications

The following implications have been identified for this report.

*Financial Implications*

There are no direct financial implications arising from this report.

### *Risk Management*

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

Key Decision: Yes

Background Papers: None

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## Part B

### Background

1. The draft Medium Term Financial Strategy (MTFS) 2019 to 2022 was considered by both Cabinet and the Budget Scrutiny Panel on 13th September and 2nd October 2018 respectively.
2. The Budget Scrutiny Panel made a number of comments and observations in respect of the draft MTFS 2019 to 2022 and asked that the Lead member for Finance & Property consider the matters raised and respond to the Panel with his comments and views thereon.
3. The various issues raised for consideration by the Panel are set out in the minutes of that meeting.
4. This final version of the Medium Term Financial Strategy was updated in October 2018. In this version it has been possible to gain a little more certainty around the New Homes Bonus award for 2019/20 and some refinement of the projections for the ongoing costs of the environmental Services contract has been undertaken. Following recent budget monitoring reports it has also been deemed appropriate to revise the potential level of savings that can be achieved in future years in respect of identified underspends.
5. In summary the financial projections now show:
  - 2019/20 will see £1.097m use of reserves (including a £0.2m adjustment to the collection fund) assuming that £0.5m of transformation and efficiency savings can be delivered
  - 2020/21 will see a further £0.526m use of reserves assuming that £0.7m of transformation and efficiency savings can be delivered]
  - 2021/22 will see revenues exceed expenditure by £0.073m, therefore adding this amount back into reserves, assuming that £1.0m of transformation and efficiency savings can be delivered.
6. Over the three year MTFS period this would imply a net use of reserves of £1.550m, with the Council reaching a stable-state financial position in the final year of the MTFS.
7. Whilst the MTFS has been compiled having regard to available information, the level of uncertainty within the financial projections is particularly significant, due principally to outcome of the government's Fair Funding review, due for completion in the latter part of 2019, and the new local government funding regime likely from the 2020/21 financial year.

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

## Appendix

Charnwood Borough Council Medium Term Financial Strategy 2019 – 2022



**FINAL – OCTOBER 2018**

**Charnwood Borough Council  
Medium Term Financial Strategy  
2019 – 2022**

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### VERSION CONTROL

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

## 1. Foreword

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



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

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

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

Moving forward, an increasing proportion of our revenue will be generated locally and this offers us an opportunity to contribute to, and benefit from, economic growth across the Borough, particularly that arising from housing growth and our Enterprise Zone sites. However, this opportunity comes with a complex web of rules and restrictions which increase our funding risks and limits the quantum of income we are able to retain for local service delivery and investment. And as I note previously, the Fair Funding review could materially alter our financial position. Combined with the

usual inflationary pressures on our costs and increasing demand for our services, such as those arising from the roll-out of Universal Credit and new responsibilities arising from the Homelessness Reduction Act, taking a forward look at our finances is, as ever, a challenging task.

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

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

Councillor Tom Barkley

Cabinet Lead Member for Finance

October 2018

## 2. Executive summary

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

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

1. The core financial projections based on known changes to funding streams and the cost base *and* assuming no management action is taken to otherwise mitigate funding shortfalls
2. Indicative projections of the impact of Council efficiency and transformation projects and initiatives that aim to bridge the funding gaps
3. Funding shortfalls for which other efficiency and transformation will be required, or where reserves will be required to balance the budget

In summary the financial projections show:

- 2019/20 will see £1.1m use of reserves (including a £0.2m adjustment to the collection fund) assuming that £0.5m of transformation and efficiency savings can be delivered]
- 2020/21 will see a further £0.5m use of reserves assuming that £0.7m of transformation and efficiency savings can be delivered]
- 2021/22 will see revenues exceed expenditure by £0.1m, therefore adding this amount back into reserves, assuming that £1.0m of transformation and efficiency savings can be delivered

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

### *Health warning*

The numbers presented above come with a very significant health warning. Whilst prepared with all information available, the outcome of the government's Fair Funding review, due for completion in the latter part of 2019, could result in a fundamental reset of the Council's funding base. This review will inform the future share of business rates that the Council is able to retain under the prospective new business rates retention scheme

(due for implementation from 2020/21) and, in particular, the future of the New Homes Bonus Scheme which currently generates around £4m per annum for the Council. Further discussion and scenario modelling of different scenarios for New Homes Bonus are set out in the body of this document but suffice to say, ***the financial projections for the latter years of the MTFS (2020/21 and 2021/22) therefore carry a significant risk.***

#### *Other risks*

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

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

#### *Budgetary approach for 2019/20*

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

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

### **3. Introduction**

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

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

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

The purpose of this document can be summarised as follows:

- Outline the principal factors that will influence the availability of the Council's financial resources in the medium term
- Inform and define the medium term service delivery plans of the Council in financial terms
- Inform the budget setting process for the 2019/20 financial year
- Provide the financial basis for the Council to decide its corporate priorities for future years.

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

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

#### *Scope of the MTFS*

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

an ongoing basis and the adoption of this strategy will require executive decisions to carry out any significant actions identified.

#### **4. Political, economic and regulatory outlook**

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

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

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

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

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

Both the demand for the Council's services and its income streams are affected by the general economic health of the Borough, and the prevailing interest rate has a direct impact on interest receipts. Areas of deprivation do exist in the Borough but as a whole Charnwood is above averagely prosperous, with a ranking of 237 out of 326 English local authorities<sup>1</sup> (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

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<sup>1</sup> English local authority Index of Multiple Deprivation 2015 (IMD average ranks – File 10; latest result available)

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

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

## **5. Financial projections - overview**

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

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

## **6. The local government financing regime**

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

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

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

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

### *Council tax*

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

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

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

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

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

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

Table 2: Projected Council Tax income tax increase

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

## *Loughborough Special Rate*

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

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

[https://www.charnwood.gov.uk/files/documents/2018\\_19\\_budget\\_book/2018-19%20Budget%20Book.pdf](https://www.charnwood.gov.uk/files/documents/2018_19_budget_book/2018-19%20Budget%20Book.pdf)

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

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

Table 3: Projected Loughborough Special Rate income

<i>(Amounts £000)</i>	<i>2018/19 budget</i>	<i>2019/20</i>	<i>2020/21</i>	<i>2021/22</i>
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.

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

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

Table 4: Revenue Support Grant

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

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

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

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

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

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

Since the draft version of the MTFs was prepared, the Council has been party to a bid to participate in a 75% business rate retention pilot for 2019/20, in conjunction with other local authorities in Leicestershire. If successful, participation would

almost certainly provide a one-off boost to the Council’s budget in the 2019/20 financial year, perhaps in the order of £250k. It is likely that the outcome of the bid will be known in December 2018. Given that a similar bid proved unsuccessful in respect of the 2018/19 business rate retention pilots it has not been considered appropriate to amend the projections in respect of this matter.

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

Table 5: Projected local share of business rates

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

### *New Homes Bonus*

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

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

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

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

### *Calculation of New Homes Bonus*

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

### *Review of previous NHB modelling*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Overall there are usually around 300 to 600 empty properties at any one time, a small number (<1%) in the scheme of the total number (c78,000) on the council tax register, but the net effect of movements in the context of NHB can be significant. At the point of the

data cut there were 500 empty properties compared to 465 in October 2017. Therefore, an adverse impact of the equivalent of 35 houses can be attributed to this factor.

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

1. The New Homes Bonus scheme will operate in its current format throughout the period of this MTFS.
2. The deadweight percentage will continue to be applied at 0.4% for each year of the MTFS.
3. Underlying housing growth in the Borough remains strong. The five year land supply numbers (estimated housing completions as per Table 6) are still considered valid, implying gross housing additions in the range 1,100 to 1,300 in the latter two years of the MFTFS period. Additional evidence for this are the latest figures from the planning team (October 2018) indicating that there are 800 houses under construction in the Borough suggesting (based on a typical 15-week construction period) that the 2020/21 NHB numbers will be in line with projections set out in the draft version of this MTFS.
4. The Charnwood Local Plan 2011 – 2028 Core Strategy (adopted in 2015) has an aspiration that the mix in housing developments be balanced to more match community need (policy CS3). Planning evidence shows a need to increase the number of smaller homes (two bedroom properties in particular) and this may explain why an increase in the proportion of council tax additions are lower banded properties compared to previous periods (despite developers generally pushing for larger homes). Whilst there is not necessarily a direct link between the size of a property and its subsequent council tax banding it does seem possible that the efforts to manage the mix of housing developments in recent years may have contributed to the adverse mix effect seen in respect of the NHB calculation.
5. Movement on net empty properties maybe positive or negative and (especially given a data cut at a point in time) the projections are not therefore adjusted for this effect.

Based on the above, the MTFS therefore assumes that:

- Projections for 2019/20 are adjusted for the actual numbers of net housing additions; net additional properties are therefore reduced from 903, as set out in the draft MTFS to 686
- Projections for 2020/21 and 2021/22 are still considered fundamentally reasonable given underlying housing growth (based on the land supply numbers gross additions in the order of 1,300 houses per annum could be expected) but are refined to reflect a likely adverse mix effect for the actual numbers of net housing additions; net additional properties are therefore reduced from 930, as set out in the draft MTFS to 900 for 2020/21 and from 958 to 925 in respect of 2021/22

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

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

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

(The projections for cumulative NHB are lower than for the draft MTFS by £301k, £359k and £421k for each of the years 2019/20, 2020/21 and 2021/22 respectively.)

#### *Sensitivity of New Homes Bonus*

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

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

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

Table 11: Variation in NHB income under alternative scenarios

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

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

## 7. Treasury management and projected investment income

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

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

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

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

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

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

Table 12: Investment income (interest receivable) projections

<i>(Amounts £000)</i>	2018/19	2019/20	2020/21	2021/22
<b>Assumed returns</b>	300	325	325	325

## 8. Key operational assumptions

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

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

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

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

<i>(Monetary amounts £000 unless stated)</i>	2019/20	2020/21	2021/22
Wages and salaries	+2%	+2%	+2%
<ul style="list-style-type: none"> <li>2% annual increases assumed in line with most recent pay settlement</li> </ul>	= 266	= 274	= 282
Payroll on-costs	+1%	+1%	+1%
<ul style="list-style-type: none"> <li>1% annual increases assumed reflecting requirement for</li> </ul>			

<sup>4</sup> Changes such as described have, or would, require Full Council approval of the Treasury Management Strategy

<i>(Monetary amounts £000 unless stated)</i>	<i>2019/20</i>	<i>2020/21</i>	<i>2021/22</i>
increased pension contributions	= 133	= 137	= 141
<i>Specific contractual commitments:</i>			
Member allowances	7	7	8
<ul style="list-style-type: none"> <li>Linked to staff salary increases</li> </ul>			
Leisure contract	9	(35)	(44)
<ul style="list-style-type: none"> <li>Includes more beneficial income terms in later years</li> <li>Includes inflationary element</li> </ul>			
Environmental services contract (refuse collection and street cleaning)	294	910	1,301
<ul style="list-style-type: none"> <li>Increases reflect ending of extension period in 2020 and requirement to replace refuse freighter fleet</li> <li>Includes inflationary element</li> <li>Amounts do not include additional efficiencies separately identified in transformation and efficiency plan (see Section 9)</li> </ul>			
Revenues & Benefits contract (council tax collections and housing benefit disbursements)	(12)	(109)	(113)
<ul style="list-style-type: none"> <li>Savings reflect existing contract terms plus anticipated savings arising from cessation of existing contract in 2020</li> <li>Includes inflationary element</li> <li>Amounts do not include additional efficiencies separately identified in transformation and efficiency plan (see Section 9)</li> </ul>			

### *Operating income*

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

Table 14: Projected operating income

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

Of note within these projections:

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

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

### *Expenditure pressures*

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

Table 15: Total amount – Net Service Expenditure

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

## **9. Transformation and efficiency plans**

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

### *Treasury management*

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

### *Asset creation – Messenger Close*

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

### *Investment in commercial assets*

Other Councils have invested in commercial assets, such as warehouses, hotels and retail units, with a primary objective of making a financial return. This approach

naturally carries an element of risk, particularly if financed by borrowing, and there are technical constraints that may make investment returns less attractive than immediately apparent. Nonetheless, this is clearly an activity that should at least be considered by Charnwood and exploration of member risk appetite in this regard will be undertaken in forthcoming months.

#### *Commercialisation – increased fees and charges*

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

#### *Commercialisation – new ventures*

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

#### *Major contract efficiencies*

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

#### *Transformation – accommodation*

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

#### *Transformation – efficiencies enabled through ICT*

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

#### *Continuous improvement*

Given the Council’s record of continuous improvement – and of outturn underspends versus budgets – it is reasonable to assume further efficiencies at service level can

be generated. Based on the level of net underspending at the end of Period 6 (some £500k for the general fund) the savings projected here have been increased by £50k per annum for each year of the MTFs.

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

Table 16: Net positive impact of transformation and efficiency plans

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

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

## **10. Existing financial resources and use of prudential borrowing**

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

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

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

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

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

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

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

### *Growth Support Fund and Capital Plan Reserve*

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

### *Usable Capital Receipts Reserve*

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

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

### *Use of Prudential Borrowing – General Fund*

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

### *Use of Prudential Borrowing for Housing*

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

directly impact on the MTFS. Further details regarding the HRA are set out in the section covering the Housing Revenue Account.

## 11. Financial Projections 2018 – 2021

Table 17: MTFS financial projections

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

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

Table 18: Impact on Revenue Reserves

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Balances brought forward	8,480	7,383	6,857
Implied use of / (addition to) reserves in year for Service Expenditure	897	576	(23)
Implied use of / (addition to) reserves in year by Collection Fund	200	( 50)	( 50)
<b>Balances carried forward</b>	<b>7,383</b>	<b>6,857</b>	<b>6,930</b>
<i>Analysis of revenue reserves</i>			
Working Balances	3,893	3,367	3,440
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
<b>Total balances (as above)</b>	<b>7,383</b>	<b>6,857</b>	<b>6,930</b>

#### *Additional notes on the financial projections*

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

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

## 12. Risk and sensitivities

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

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

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

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

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

### **13. Note on the Housing Revenue Account**

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

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

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

### **14. Reserve Strategy**

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

### **15. Monitoring, Delivery and Review**

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