CABINET – 14TH NOVEMBER 2019

Report of the Head of Financial & Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 7 MEDIUM TERM FINANCIAL STRATEGY 2020 - 2023

Purpose of Report

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

Recommendation

That it be recommended to Council that the MTFS 2020 to 2023, attached as an Appendix, be approved.

Reason

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 19th September 2019 (minute ref: 33), and was scrutinised by the Budget Scrutiny Panel on 25th September 2019. This final version of the MTFS will be available for scrutiny by the Scrutiny Commission on 11th November 2019.

Implementation Timetable including Future Decisions and Scrutiny

This MTFS is scheduled go to full Council for approval on 20th January 2020.

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. This final version of the Medium Term Financial Strategy was updated in October 2019, in the light of new information coming forward, most significantly in respect of the 'Technical Consultation' for the 2020/21 Finance Settlement, released by the Ministry of Housing, Communities & Local Government on 3 October 2019.

2. More detail is set out within the MTFS itself (attached as an Appendix to this report) but on the basis of new information provided within the Technical Consultation it is esimated that New Homes Bonus funding will reduce by around £1.1m in 2021/22 and some £1.7m in 2022/23 compared to the draft version of the MTFS prepared for consultation (see Cabinet of 19th September 2019).

3. This version of the MTFS also reflects additional information becoming available in respect of ongoing costs and incomes, changes to the council tax base, and refinements to the transformation and efficiency plan.

4. In summary the financial projections now show:

   - 2020/21 will see £1.4m use of reserves assuming that £0.5m of transformation and efficiency savings can be delivered
   - 2021/22 will see a further £2.2m use of reserves assuming that £0.8m of transformation and efficiency savings can be delivered
   - 2022/23 will see a further £2.6m use of reserves assuming that £1.1m of transformation and efficiency savings can be delivered

5. Over the three year MTFS period this would imply a net use of reserves of £6.2m. Assuming no management action was taken to address the financial challenge evidenced within this number, all usable revenue reserves would be eliminated by 31 March 2023. Clearly this is not a sustainable position and the MTFS therefore outlines a budgetary approach, incorporating a judicious target use of reserves, that would address the financial challenges identified.

6. Whilst there is an inevitable health warning that must always be attached to the MTFS projections it seems reasonable to conclude that management action to address the identified financial challenges needs to start now. Initially, it is intended that this will be through the 2020/21 budget setting process, and by acceleration of the Council's transformation and commercialism programmes.

7. It is worth reiterating that 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.

8. The MTFS is presented in full as an Appendix to this document.

Appendix

Charnwood Borough Council Medium Term Financial Strategy 2020 – 2023

APPENDIX

Charnwood Borough Council

Medium Term Financial Strategy

2020 – 2023

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1. Foreword

As is traditional here at Charnwood, autumn is the time when we take a hard look at the Council's current financial position and future funding prospects, and start to consider our approach to the forthcoming budget round. This exercise is summarised in the annual Medium Term Financial Strategy that seeks to identify the opportunities, uncertainties and challenges facing the Council in the next few years.

Robust financial planning is necessary in order that we can continue deliver services to residents consistently and sustainably for the longer term. Whilst I have in the past commented on the uncertainties facing the Council and the challenges this creates in constructing a financial plan, I have to say that this year is probably the most difficult I have experienced in this regard.

The backdrop to all political and economic forecasting at present is Brexit and the manner in which the UK will leave the European Union has still to be resolved at the time of writing. Whatever the outcome of Brexit, both immediately and in the longer term, the impact will be profound across a wide range of political, economic and social matters. Local government will inevitably be affected with implications for both funding and services.

Of fundamental importance to local government is the outcome of the Fair Funding review, which was due this autumn. We now know that the process will be delayed into 2020 which naturally limits the amount of information on which to base our planning assumptions. However, on 3 October 2019, the Ministry of Housing, Communities and Local Government released a 'Technical Consultation' on proposals for the 2020/21 Financial Settlement which offers a strong indication on the future of New Homes Bonus funding. The News Homes Bonus is an integral element of the Council's total funding and whilst funding for 2020/21 is likely to be as predicted in the draft version of this Medium Term Financial Strategy, it appears that the Council will face significant funding reductions in future years, creating a more pessimistic outlook than previously presented.

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. So, whilst prospects for our finances combine a degree of pessism with (still) high levels of uncertainty, our past management record and current situation allow us to be optimistic about our ability to deal with the financial challenges ahead.

In some ways, the more pessimistic outlook shown in this version of the MTFS does not change our approach to addressing the forthcoming financial challenges; the outlook does however bring a sharper focus onto our transformation and

commercialisation programmes, and the pace of implementation, as we consider the budgetary process for the 2020/21 financial year.

Councillor Tom Barkley
Cabinet Lead Member for Finance
October 2019

2. Executive summary

This Medium Term Financial Strategy (MTFS) considers the financial outlook for Charnwood Borough Council ('Charnwood', or the 'Council') for the three financial years 2020/21, 2021/22 and 2022/23. 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 the following elements:

1. The core financial projections based on *known (or highly likely)* changes to funding streams and the cost base *and* assuming no management action is taken to otherwise mitigate funding shortfalls
2. Material budgetary risks identified which have a non-trivial probability of arising
3. Indicative projections of the impact of Council efficiency and transformation projects and initiatives that aim to bridge the actual or perceived funding gaps
4. 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:

- 2020/21 will see £1.4m use of reserves assuming that £0.5m of transformation and efficiency savings can be delivered.
- 2021/22 will see a £2.2m use of reserves assuming that £0.8m of transformation and efficiency savings can be delivered.
- 2022/23 will see a further £2.6m use of reserves assuming that £1.1.m of transformation and efficiency savings can be delivered.

Over the three year MTFS period this would imply a use of reserves of £6.2m.

This financial position is not sustainable in the context of the Councils current reserve levels and it will be necessary to take action to address thefinancial challenges identified. (Tables 27 and 28 on page 38 provides information on the funding shortfall and reserve positions.)

These figures show a significant deterioration for the latter years of the projection compared to the draft version of this document. This reflects the content of the 'Technical Consultation' on the 2020/21 Finance Settlement released by the Ministry of Housing, Communities & Local Government (MHCLG) on 3 October 2019[1], and in

[1] https://www.gov.uk/government/consultations/local-government-finance-settlement-2020-to-2021-technical-consultation

particular the strong steer offered on the future of New Homes Bonus funding. More detail is set out in the body of this report but revised estimates in the light of this new information calculate that New Homes Bonus funding will reduce by around £1.1m in 2021/22 and some £1.7m in 2022/23 compared to the draft version of the MTFS.

This version of the document also incorporates revised estimates (where new information has become available) in respect of the council tax base, and the Council's transformation and efficiency, and commercialisation initiatives.

As noted previously, the use of reserves projected above is not sustainable and it is clear that the Council must take action towards rebalancing the budget on a sustainable basis over the life of this MTFS, with a committed focus on driving out efficiencies and increasing income generation. Notwithstanding the increasingly pessimistic view, these projections still carry some downside risks which include the Council's ability to deliver against mooted savings arising from transformation and efficiency initiatives, some of which remain non-specific or otherwise speculative. The largest risk element however, is around the outcome of the government's Fair Funding review which continues as the major uncertainty from the 2021/22 financial year.

Health warnings

As noted in the draft version of this MTFS, the numbers presented come with a significant health warning. Whilst prepared with all information available, the outcome of the government's Fair Funding review 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 (likely for implementation from 2021/22) 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 in the light of new information from the MHCLG Technical Consultation but suffice to say, ***the financial projections for the latter years of the MTFS (2021/22 and 2022/23) carry significant uncertainty and downside risk.***

Other risks

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

This is discussed in more detail in later sections of this Strategy.

Budgetary approach for 2020/21 and future budgets

The Council has adequate levels of revenue reserves and there is no requirement to make any immediate 'knee jerk' decision involving immediate cuts to services. Recent financial history has seen the Council build and then maintain reserve levels within the

general fund[2], despite the background of austerity and the well-publicised financial problems experienced by some local authorities.

However, as evidenced by the content of the Technical Consultation, it is difficult to make the case that the relatively benign conditions currently experienced will continue, and based on the projections above it is clear that a proactive approach to rebalancing the Council's financing will be required. This being the case the target use of reserves for each of the next three years will be:

I. 2020 / 21 £1.0m (budget target for this financial year)

II. 2021 / 22 £0.5m (prospective budget target for this financial year)

III. 2021 / 22 £nil (prospective budget target for this financial year)

These targets are ambitious and would reflect additional financial challenges/savings in the MTFS projections of £0.4m in 2020/21, £1.7m in 2021/22 and £2.6m in 2022/23.

The Council has – in accordance with the approach set out within previous iterations of the MTFS - retained resources to adapt our service offering to reflect a more difficult financial landscape. It now appears that these resources will be required over forthcoming years. To budget within the constraints set out above - and to deliver higher levels of income, in line with the Council's commercialisation agenda, or create service efficiencies, via the Transformation Programme - 'spend to save' resources will be made available from the Council's Reinvestment Reserve to help address the budget challenges. This funding will need to be combined with proactive planning and effective implementation, all delivered at pace.

[2] This is actually a common scenario amongst District Councils

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, 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 MTFS has been developed to cover three years, from 1 April 2020 to 31 March 2023.

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 2020/21 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 2020/21 budget setting process, some of the figures quoted here will be amended and refined as more information comes to light and the 2020/21 budgets are developed.

It is worth reiterating what this Strategy 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. In particular, the MTFS reflects the impact of the Council's Capital Strategy, which itself incorporates both the Treasury Management Strategy and the new 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.

4. 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 – eventually informed by the Fair Funding review – what the funding settlement for each Council will be. Local economic factors will also impact both the demand for Council services, and the Council's ability to fund these.

As last year's MTFS noted, 'at the time of writing the political and economic outlook appears very uncertain', with United Kingdom politics and economics dominated by the exit from the European Union which was then scheduled for March 2019. The prospective exit date is still mooted as 31 October 2019 at time of writing, but this may be proven or otherwise by the time this Stategy is published, and there is still little certainty on the terms of this exit. In reality, the impact and ongoing uncertainty surrounding Brexit are likely to continue for some years to come.

The consensus opinion amongst professional economists is that 'Brexit' will have a negative impact on the economy in both the short and longer term[3]. Inevitably, there is no consensus on the overall degree of impact, although a 'no deal' scenario is generally regarded as more negative than a more 'managed' exit.

The United Kingdom has in effect a new government (new Prime Minister and Cabinet) which is in the process of suggesting new spending pledges covering a wide range of public sector expenditure. It is argued that these pledges represent the basis of General Election manifesto rather than a programme for government, but in any event, it is not clear where local government services sit in the range of priorities for the current or prospective future administrations.

The 'Fair Funding review' in which the government is to create a new framework for local government funding based on 100% business rate retention and set new funding baselines was planned for implementation from the 2020/21 financial year. This would have created a multi-year financial settlement from this year. On 8 August 2019 however the Chancellor announced that all government departments would only see a one-year financial settlement for 2020/21 and it is all but certain that the Fair Funding review itself will not be delivered in line with the envisaged timetable.

For the financial year 2020/21, this MTFS therefore assumes that the financial settlement will follow the same framework as previous years in that the settlement will contain elements of retained business rates and New Homes Bonus, although the actual quantum of the settlement remains somewhat speculative. In particular, the government has the ability to flex the rules around New Homes Bonus and the existing business rate 'top-ups' and tariffs to deliver an overall settlement within a given spending envelope.

[3] HM Treasury, the Office of Budgetary Responsibility and London School of Economics are generally negative on Brexit impact; the Economists for Free Trade are the principal counterweight to this view

In future financial years it is generally assumed that New Homes Bonus will be discontinued[4] with the impact (potentially) mitigated through the new business rate retention regime and / or some sort of transitional funding. Comments on New Homes Bonus within the recent MHCLG Technical Consultation seem to support this conclusion.

The outcome for Charnwood and district councils more generally from the Fair Funding review is very much speculative, but an opinion may be formed that relative to upper-tier authorities (where responsibility for adult social care and children's services lies), districts will fare relatively less well. This is because:

- District council services may be seen as less politically sensitive from a national perspective
- There are high-profile examples of upper-tier authorities in financial difficulties
- In contrast, over two-thirds of district councils actually increased their reserves in 2017/18 (these are the latest figures available)

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 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, as evidenced in our draft Local (Development) Plan. If correct, the growth in housing will generate a significant part of the Council's total income over the next three years based on the current local government financing regime.

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.

[4] HM Treasury are known to believe that NHB has not been successful in its stated objective of recovering house building

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

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
- Transformation and Efficiency Plans: describe the activities and initiatives planned and underway that will address prospective budget challenges
- Budget risks: sets out material high-level risks identified through revenue outturn and revenue monitoring reports and assesses the extent that these should be reflected in the financial projections
- 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. It was envisaged that the new national business rate retention scheme would be in place from 2020/21 (with a headline 75% retention rate compared to the current 50% retention scheme currently in place). as the centrepiece of the new funding regime derived from the Fair Funding review. However, this will now be delayed until the 2021/22 financial year.

For the Council, a major uncertainty is around the future of the New Homes Bonus which forms a significant component of Council funding at present. The Government strongly suggests that this will be wound down beyond 2020/21 but no alternative approaches to the distribution of this funding pot have yet been proposed. Further detail on the Technical Consultation and MTFS assumptions based on this are set out subsequently.

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

It is generally assumed 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. This restrictive approach has continued under successive Conservative administrations. 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 2% per band D property as well as allowing authorities with Social Care responsibilities an additional 2% increase on top of the standard cap that would have triggered a referendum. The MHCLG Technical Consultation implies that these relaxations will continue into 2020/21 and 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 2019/20

	Council Tax Band D	***Rank (of 192)***		***Council Tax Band D***	***Rank (of 192)***
NATIONAL PICTURE			LEICESTERSHIRE AUTHORITIES		
Lowest					
Breckland	£90	1	Hinckley & Bosworth	£132	15
West Oxfordshire	£99	2	**Charnwood**	**£144**	**24**
Hambleton	£109	3	Blaby	£163	53
			Harborough	£168	69
Charnwood	**£144**	**24**	North West Leicestershire	£173	76
			Melton	£203	127
Median			Oadby & Wigston	£225	157
South Holland	£183	96			
North Devon	£183	97			
East Staffordshire	£184	98			
Highest			** Calculation includes Band D and Share of Loughborough Special Rate (or Equivalent) spread across whole tax base*		
Oxford	£308	190			
Preston	£315	191	*Source: MHCLG*		
Ipswich	£362	192			

Given Charnwood's low tax charge and future funding uncertainties it is assumed that Council Tax will increase by the maximum amount in all of the financial years covered by this MTFS; this maximum is calculated on the basis of £5 per Band D property but has to be adjusted for the impact of increases in special expenses areas.

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 1.9% year on year over the period of this document.

As noted, the £5 increase must also take into account the Loughborough Special Expense area – so the Borough increase has to be below this overall limit. Based on current council tax base data it is estimated that the Borough rate would be £126.69 per Band D property, being consistent with the assumptions made around Loughborough Special Expenses.

Table 2: Projected Council Tax income tax increase

(Amounts £000)	*2019/20 budget*	*2020/21*	*2021/22*	*2022/23*
Assumed council tax income	6,893	7,294	7,732	8,160

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:

https://www.charnwood.gov.uk/files/documents/2019_20_budget_book/2019-20%20Budget%20Book.pdf

After a period where the special rate has not been increased, costs of activities borne have increased such that an increase in the special rate is now appropriate. For the purposes of the MTFS the Special Rate is assumed to increase by 1.99% year on year and is included within the projections. The projected increase in the tax base for Loughborough is 1.75% per year.

To be clear, the above paragraph is a working assumption. It does not imply that any decision on the setting of the special rate has been taken; this decision will ultimately be made by a meeting of the full Council at its meeting 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 3: Projected Loughborough Special Rate income

(Amounts £000)	*2019/20 budget*	*2020/21*	*2021/22*	*20222/23*
1.99% increase in rate, 1.75% expansion of tax base	1,213	1,259	1,307	1,356

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 grant has been phased out since 2014/15 (£4.2m) and no longer exists from 2020/21.

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 £5.5m (including s31 grant compensation)[6]. 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, generally, a small degree of business rates growth envisaged over the period of the MTFS (although macro-economic factors could significant influence this outlook). In the medium term initiatives such as the development of the Loughborough University Science Park and, particularly, Charnwood Campus and the inclusion of these in an Enterprise Zone are hoped to offer some additional 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.

It is anticipated that the government will introduce a new regime of business rate retention, with a '75% retention' scheme replacing the existing '50% retention' scheme alongside the implementation of the recommendations arising from the Fair Funding review. This will now be delayed until 2021/22.

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 the details of this arrangement are still under development.

The Council participated in a bid to participate in a 75% business rate retention pilot for 2019/20, in conjunction with other local authorities in Leicestershire. The impact of the pilot was not reflected in the budget for 2019/20 but looks likely to provide a one-off boost in the 2019/20 financial year, of around £450,000. This will be applied (in line with the pilot bid) to a 'mix of spend to save' initiatives and capital expenditure on town centre schemes. Information to date is that the pilot will not be extended into future financial years.

The calculation and monitoring of business rate income (and associated section 31 grant payments) is detailed and complex. The projections below are based on forecasted business rate income for 2019/20, to which is then applied a growth factor of 3.0% per annum. This growth factor is based on an assumed CPI of 2%[7] plus an

[6] The government compensates local authorities for lost business rate income arising from small business reliefs and similar
[7] CPI = 2.1% (July 2019)

underlying growth factor of 1%. There is also an adjustment for Empty Property costs, estimated at £500,000 each year from 2020/21 for which reliefs cannot be claimed back.

Table 4: Projected local share of business rates

(Amounts £000)	*2019/20 budget*	*2020/21*	*2021/22*	*2022/23*
As modelled	5,290	4,947	5,192	5,363

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.

The MHCLG sets out within the Technical Consultation at paragraph 6.4.5 that:

'It is the Government's intention to look again at the New Homes Bonus and explore the most effective way to incentivise housing growth. We will consult widely on proposals prior to implementation. As the roll forward is for one year, with any funding beyond 2020-21 subject to the 2020 Spending Review and potential new proposals, any new allocations in 2020-21 will not result in legacy payments being made in subsequent years on those allocations.'

Based on the above, the core assumptions for the calculation of the MTFS projections are that:

- The Council will receive a 'full' four years worth of NHB funding in 2020/21
- This will reduce to just two years worth of NHB funding in 2021/22
- There will be a further reduction to just one years worth of NHB funding in 2022/23

- There will be mitigation within other funding streams that will offset ***half*** the impact of 'lost' funding in 2021/22 and 2022/23 (ie. equivalent to one year and one and a half years worth of NHB funding respectively)

Calculation of New Homes Bonus

In common with previous years, for 2020/21, 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 2019, to the equivalent return from 2018.

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.

Based on the recently completed CTB1 return the change in the council tax register calculated for NHB purposes was 749 properties (against an estimate of 765 properties in the draft version of this MTFS). This has been used as the basis for calculating NHB payments for 2021/22 and 2022/23.

The effect of these estimates is tabulated below.

Table 5: Change in council tax register year on year, as aligned to NHB award years

	2015/16	*2016/17*	*2017/18*	*2018/19*	*2019/20*	2020/21 ACTUAL
Additional properties (Band D equivalent)	727	569	642	890	686	749

Table 6: Charnwood New Homes Bonus 2015/16 – 2020/21

	2015/16	*2016/17*	*2017/18*	*2018/19*	*2019/20*	2020/21 ACTUAL
Additional properties (adjusted for NHB calculation purposes)	727	569	642	890	686	749
Associated NHB (year) £000	878	716	829	1,198	988	1,114
Cumulative NHB (grant) £000	3,775	4,491	4,004	3,621	3,731	4,129

Planning assumptions on housing growth

The Council publishes its five year housing supply calculations on the website

Table 7: Housing completions estimated: Five year land supply 2019 - 2024

	2019/20	*2020/21*	2021/22	*2022/23*	*2023/24*
Estimated completions	1,165	1,423	1,437	783	766

It should be noted that the above figures are prepared on a different basis and relate to financial years so therefore the impact is lagged in respect to NHB - the first six months of 2019/20 would therefore relate to the second half of the year on which the 2020/21 NHB calculations are based. These figures also do not include the 'deadweight' factor – which would reduce the numbers by around 300 – that is used to adjust the NHB figures.

Given that the NHB scheme is likely to be discontinued in its current form it is now unclear to what extent, if at all, that future housing delivery will be linked to direct Government funding.

NHB - summary

Given 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 for 2020/21 but will see reductions in funding as set out within the MHCLG Technical Consultation for subsequent years.

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

Mitigation of 'lost' New Homes Bonus funding

There is no information available as to what extent, if at all, the reduced NHB funding (reflecting two years 'lost' funding in 2021/22 and three years lost in 2022/23) will be offset by some other scheme that rewards housing growth, through adjustments to business rate retention within the Fair Funding review, or with some sort of transitional funding offset.

The core assumption for the purposes of calculating the MTFS projections is that half of the lost funding will be offset through some sort of mitigation.

Based on these assumptions the NHB projections (with offsetting mitigation) for this MTFS period are tabulated below:

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

	2019/20	*2020/21*	*2021/22*	*2022/23*
Net additional properties (draft MTFS - June)	686	749	710	710
Deadweight percentage applied	0.4%	0.4%	N/A	N/A
Standardised council tax rate	£1,670	£1,750	N/A	N/A
Associated NHB (£000)	988	1,114	N/A	N/A
Cumulative NHB (£000)	3,731	4,129	2,186	988
Mitigation (estimate) (£000)	N/A	N/A	1,102	1662
Total NHB + Mitigation (£000)	3,731	4,129	3,288	2,650

Sensitivity of New Homes Bonus and Mitigation

The significant uncertainty around the future of NHB beyond 2019/20 (and 2020/21 especially) and prospective mitigation means that this income stream can be regarded as vulnerable. Possible sensitivities include:

- Optimistic: mitigation completely replaces 'lost' NHB funding
- Pessimistic: NHB reduces in line with the MHCLG Technical Consultation but there is mo offsetting mitigation through other funding streams

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

Table 9: Variation in NHB income under alternative scenarios

(Monetary amounts £000)	*2020/21*	*2021/22*	2022/23
OPTIMISTIC			
Lost NHB funding is completley replaced (Based 710 Properties)	4,129	4,389	4,311
PESSIMISTIC			
There is No mitigation of lost NHB funding	4,129	2,186	988

As is apparent from the above, within the NHB funding stream alone, there is a wide range of potential funding outcomes in the latter years of the MTFS.

7. Treasury management and projected investment income

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 £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. 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[8][9] in exchange for higher returns. This matter is discussed in more detail in the Council's Investment Strategy, which is scheduled for Cabinet and Council approval in the autumn.

For the purposes of projections, it is assumed that:

- Interest rates are likely to rise in the medium term
- Average cash balances available for investment will reduce (reflecting a more proactive investment strategy)
- The net effect of the above will deliver returns in line with the 2018/19 outturn

It is also envisaged that the Council will review its Treasury Management Strategy to allow greater scope for investment in a wider range of counterparties and for longer terms. Investment activities are therefore expected to yield additional returns over and above those shown below; these are analysed separately for presentational purposes in

[8] 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

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

Section 9 of this document, which covers the Council's transformation and efficiency plans.

Table 10: Investment income (interest receivable) projections

(Amounts £000)	*2019/20*	*2020/21*	2021/22	2022/23
Assumed returns	390	450	450	450

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 2019/20 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.

The principal adjustments to the budgets are tabulated below:

Table 11: Principal adjustments included in 2019/20 budget made for MTFS purposes

(Monetary amounts £000 unless stated)	*2020/21*	*2021/22*	*2022/23*
Wages and salaries • 2% annual increases assumed in line with most recent pay settlement	+2% = 275	+2% = 559	+2% = 851
Payroll on-costs • 1% annual increases assumed reflecting requirement for increased pension contributions	+1% = 138	+1% = 280	+1% = 426
Specific contractual commitments:			
Member allowances • Linked to staff salary increases	7	7	8
Environmental services contract (refuse collection and street cleaning) • Increases reflect ending of extension period in 2020 and requirement to replace refuse freighter fleet • Includes inflationary element • Amounts do not include additional efficiencies separately identified in transformation and efficiency plan	506	839	1,082
Revenues & Benefits Contract Pensions Adjustment	(120)	(122)	(124)

Operating income

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

Table 12: Projected operating income

(Amounts £000)	*2019/20 budget*
Garden waste collections	1,466
Planning Fees & Charges	1,293
Off street car park income	915
Sales – general	706
Rents – general	704

Expenditure pressures

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

Table 13: Total amount – Net Service Expenditure

(Amounts £000)	*2019/20 budget*	*2020/21*	*2021/22*	*2022/23*
As modelled	18,138	19,269	20,059	20,743

9. Transformation and Efficiency plans

Charnwood has a record of generating efficiencies through continuous improvement and is also engaged in a number of initiatives designed to transform the customer experience, existing ways of working, to increase returns on financial and non-financial assets, review pricing policies for chargeable services and to generate efficiencies.

The Council's approach to transformation and the generation of efficiencies was discussed as part of the Peer Challenge process undertaken by the Council in March 2018. An agreed action was that the Council would be provide more information of these plans and in response a summary of these activities was set out for the first time in last year's version of the MTFS.

Moving forward, the financial challenges identified by this iteration of the MTFS offer a strong case for the enhancement and acceleration of the Council's transformation and commercialisation programmes. Detailed plans are under development at the time of writing but a measure of the Council's intent is the earmarked investment in the skills and capacity required to deliver these programmes, outlined in the Cabinet Report of 17 October 2019, 'Transformation Programme – Resourcing for Mobilisation'[10], which requested £220,000 to fund the initial phase of work.

The remainder of this section provides a commentary on the Transformation and Efficiency plan presented last year and an updated version for this year.

Commentary and update of plans presented in the previous (2019 – 2022) MTFS

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, the Council continues to consider increasing the range of treasury activities to increase returns generated. In the previous MTFS it was assumed that an additional £25,000 would be generated in each year, principally realised by allowing for the full effect of investment in property funds. This amount has now been included within the base budget calculations. In future years the MTFS assumption is that an additional annual £50,000 will be generated following a review of the Treasury Management Strategy (conducted by treasury management consultants) which will allow some relaxation in both investment counterparties and investment terms.

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.

Table 14: Treasury Management initiatives

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Proactive treasury management – Previous MTFS	25	25	25	

[10] Cabinet report: see https://charnwood.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=271&Ver=4

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Amounts now included base budget assumptions				
Proactive treasury management – Current MTFS • **Review of Treasury Management Strategy to take** effect from 1 April 2020	**N/A**	**50**	**50**	**50**

Asset creation – Messenger Close

Last year's MTFS noted that the Council was in the process of developing storage compounds at the 'brown field' Messenger Close site. The site was completed in late 2018 and is – as was anticipated – now fully on-stream, generating an £44,000 per annum. This amount has now been included in the base budget calculations.

Table 15: Asset creation – Messenger Close

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Asset creation – Previous MTFS Reflects full occupation of Messenger Close from 2019/20	15	44	44	
NOT APPLICABLE	**N/A**	**N/A**	**N/A**	

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. Amounts were included on a speculative basis in the previous MTFS arising from 2020/21. No detailed property acquisition plans are yet in place but the Investment Strategy recommended that a fund be set up for property acquisitions with a view to acquisitions commencing from financial year 2021/22, (and as noted previously, it is possible that plans for commercial investment will be expanded and accelerated). The comparison between MTFS projections is tabulated below:

Table 16: Investment in commercial (property) assets

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Commercial investment – Previous MTFS Speculative – assumes £1m generating 5% return in 2020/21 and £2m generating 5% return in 2021/22	0	50	100	
Investment based on Capital Strategy (draft status at time of writing) – assumes creation of a £10m investment fund	**N/A**	**75**	**150**	**300**

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 the previous MTFS it was envisaged that additional revenue would be generated through increasing charges for the garden waste collection service. This revenue stream is being generated as envisaged and has therefore been included within the base budget calculations.

Since last year the Council has now embarked upon an exercise of reviewing fees and charges. Given the current focus on this area (eg. The review of rent and service charges within the Council's existing commercial property portfolio) it can be considered appropriate to reflect some positive impact on future budgets. This is tabulated below:

Table 17: Commercialisation – review of fees and charges

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Commercialisation – increased fees and charges – Previous MTFS Major proportion tgenerated through increased garden waste scheme revenues - £230k p.a – now included within base budget calculations	250	260	270	
Commercialisation **Speculative – projection based on non-garden waste element of previous MTFS figures**	**N/A**	**30**	**40**	**50**

Commercialisation – new ventures (Trade Waste service)

The Council has implemented plans to develop additional revenues through the introduction of a trade waste service. Development of this new service continues. The projected impact on the MTFS, as updated is tabulated below:

Table 18: Commercialisation – new Trade Waste Service

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Commercialisation – new ventures – Previous MTFS Trade waste	(10)	0	20	
Commercialisation – Trade Waste **Update for current MTFS**	**N/A**	**0**	**10**	**20**

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 was envisaged in the previous version of the MTFS that some reductions in the cost of the service over and above the core expenditure assumptions could be achieved.

Current calculations on major contracts are set out in Section 8 (ie. Included within the base budget calculations). For the purposes of the current MTFS it is assumed further savings can be achieved, principally from negotiating a change in the basis in which inflationary uplift on the revenues and benefits contract is calculated.

Table 19: Major contract efficiencies

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Major contract efficiency calculations – Previous MTFS (Essentially included in base budget calculations)	20	60	90	
Major contract efficiencies **Revised inflationary uplift method negotiated – revenues and benefits contract**	**N/A**	**20**	**45**	**75**

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. However, little progress has been made in this area in the last year and projections – updated as below – are speculative.

Table 20: Transformation - Accommodation

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Speculative savings through transformation - accommodation – Previous MTFS	0	0	50	
Speculative savings through transformation - accommodation – Updated MTFS	**N/A**	**0**	**0**	**50**

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.

At the time of writing some small efficiencies have been realised in the Contact Centre (due to the introduction of the on-line booking system) and speculative savings projections have been updated, as tabulated below.

Table 21: Transformation – Enabled through ICT

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Speculative savings through transformation – enabled by ICT – Previous MTFS (assumed 1 x FTE saving found in each year)	30	60	90	

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Savings realized in contact centre		**12**	**12**	**12**
Speculative savings through transformation – enabled by ICT – Updated MTFS (assumes 1 x FTE saving found in each year)	**N/A**	**30**	**60**	**90**

Continuous improvement

In the previous MTFS it was assumed savings could be generated through continuous improvement given the Council's record in this area and of outturn underspends versus budgets.

Subsequently, to deliver a budget within an agreed use of reserves a non-specific (and one-off) savings target of £300,000 was included within the agreed current (2019/20) budget.

For consistency the same continuous improvement target is included within this iteration of the MTFS, although for 2020/21 and subsequent years the bulk of this savings (estimated at £200,000) will be specified through the budgetary process

Table 22: Continuous improvement

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Non-specific – Previous MTFS	150	230	300	

Specific – Addressed through budget process	N/A	200	200	200
Non-specific – Current MTFS	N/A	100	100	100
Current MTFS – as 2019/20 budget		**300**	**300**	**300**

New initiatives identified

New initiatives identified for inclusion in this version of the MTFS are as follows.

Commercialisation – expansion of revenues within the Town Hall theatre

An initiative is being developed that will allow expansion of seating within the Town Hall theatre. This will be a spend to save initiative requiring initial investment from the reinvestment reserve that is projected to generate an additional £80,000 annual revenue (with assumed negligible marginal cost).

For the purposes of the MTFS revenues are assumed to commence half way through financial year 2021/22, as below.

Table 23: Commercialisation – additional Town Hall revenue

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Additional Town Hall Seating		0	40	80
Total additional revenue		0	40	80

Transformation – creation of a shared building control service

A project is underway looking to create a shared building control service with North West Leicestershire District Council. At present the Council makes a net loss on building control trading activities, averaging over £200,000 annually over recent years.

At present no projections are available from ongoing work in developing the business case. Therefore the numbers below are speculative, and derived from the overall quantum of existing deficits.

Table 24: Transformation – Shared Building Control Service

(Monetary amounts £000)	*2019/20*	*2020/21*	*2021/22*	2022/23
Shared building control project with NWL DC		**25**	**50**	**75**

In summary, the projected budgetary impacts for the current MTFS are set out below;

Table 25: Net positive impact of transformation and efficiency plans – Financial years 2020 - 2023

(Monetary amounts £000)	*2020/21*	*2021/22*	2022/23
Proactive treasury management Review of Treasury Management Strategy to take effect from 1 April 2020	50	50	50
Commercial Property investment Investment based on Capital Strategy (draft status at time of writing) – assumes creation of a £10m investment fund	75	150	300
Commercialisation – review of fees and charges Speculative – projection based on non-garden waste element of previous MTFS figures	30	40	50
Commercialisation – Trade Waste Update for current MTFS	5	10	20
Major contract efficiencies Revised inflationary uplift method negotiated – revenues and benefits contract	20	45	75
Transformation – Accommodation Speculative savings through transformation - accommodation – Updated MTFS	0	0	50
Transformation – ICT enabled Savings realised – on-line booking system	12	12	12
Transformation – ICT enabled Speculative savings through transformation – enabled by ICT – Updated MTFS (assumes 1 x FTE saving found in each year)	30	60	90
Commercialisation – additional revenue Additional Town Hall Seating	0	40	80
Transformation – shared services Shared building control project with NWL DC	25	50	75
Continuous improvement Current MTFS – as 2019/20 budget	300	300	300
TOTAL	**547**	**757**	**1,102**

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 even if these elements of the plan deliver savings (or income growth) in line with those projected above, then other income streams or savings will need to be generated from other areas of the Council's operations, through an acceleration of the Council's transformation and efficiency, and commercialisation initiatives.

10. Budget risks

In addition to the specific expenditure items identified within Section 8, key operational assumptions, other elements of income and expenditure have been identified as having potential to give rise to major service pressure requests in forthcoming budget rounds, or creating a risk of overspends. These elements have been identified through review of the latest revenue outturn report (relating to 2018/19) and current budget monitoring, and are summarised below.

Planning fee income

The 2018/19 revenue outturn report (see Cabinet papers of 4 July 2019) identified a shortfall in planning fee income of £363,000. Planning fee income has proven volatile, in that a single large application can yield significant fees, and difficult to forecast. The 2018/19 outturn was particularly disappointing given the 10% increase in fee rates and represented a significant downturn against the previous year. However, current year monitoring suggests that planning fee income is in-line with the budget and, given historical periods where fee income exceeded budgets, no adjustments to the financial forecasts have been made in this iteration of the MTFS.

Building control fee income

As noted previously in respect of the Transformation and Efficiency Plan, a project is underway looking to create a shared building control service with North West Leicestershire District Council. Inter alia, a key driver of this project is the ongoing decline in building control income, evidenced by the £100,000 shortfall against budgeted fees arising in 2018/19.

Presentationally, and for the purposes of the MTFS forecast it is assumed that this shortfall will continue, but will be offset by new income or cost savings arising from the shared service project (ie. the income loss should be netted off against the benefits arising from the shared service project in understanding projections relating to the building control service).

Housing rent allowance

The 2018/19 outturn report notes a £305,000 shortfall in the housing rent allowance budgets. This is a complex area but the principal reason for the overspend is related to supported living allowances, which increased from £71,000 in 2017/18 to £269,000 in 2018/19 and are predicted to reach approximately £500,000 in 2019/20. Supported living allowance (SLA) is itself a complex area but in essence:

- SLA costs are incurred where the Council is required to make a housing benefit payment which can be only partially reclaimed back from the Department of Work and Pensions

- SLA is demand led; the Council has little ability to mitigate these costs if providers – typically of a charitable nature – elect to open facilities within the local authority area

The Council does maintain provisions in respect of housing benefit payments which may be used to smooth the budget impact and the Council is exploring options that may mitigate the cost of this service provision (such as setting up its own supported living facility), but unless existing facilities close it can be expected that this will present an ongoing budgetary challenge.

Table 26: Summary: Costs (negative) impact of budget risks – Financial years 2020 - 2023

(Monetary amounts £000)	*2020/21*	*2021/22*	2022/23
Planning fee income risk	0	0	0
Building control income risk	(100)	(100)	(100)
Housing rent allowance	(547)	(582)	(618)
TOTAL	**(647)**	**(682)**	**(718)**

11. 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 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 27 and 28) the Council reserves levels are low and may go into deficit. Further action is required to address the projected net funding deficit across the period of the MTFS, as existing reserves cannot be used to fund ongoing revenue costs as these are to be set aside for one off emergency items.

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

The 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 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.

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 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). More detail of the Council's intentions in this area is set out in the Cabinet report of 19 September 2019 – 'Investment Strategy'[11]. 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.

It is also highly likely that the Council will undertake borrowing to finance the new refuse freighter fleet, required as it moves into a new refuse collection and street cleaning contract. Professional advice has been taken which shows that this arrangement will be financially beneficial to the Council, as set out in the Cabinet report[12] of December 2018.

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

[11] Cabinet report: see https://charnwood.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=271&Ver=4
[12] Cabinet report: see https://charnwood.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=271&Ver=4

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.

12. Financial Projections 2020 – 2023

Table 27 MTFS financial projections

General Fund Expenditure	2020/21 £000	2021/22 £000	2022/23 £000
Net Service Expenditure	**19,269**	**20,059**	**20,743**
Interest Payable	240	240	240
Interest Receivable	(450)	(450)	(450)
	19,059	19,849	20,533
Transformation and efficiency plan (table 25)	(547)	(757)	(1,102)
Budget Risks crystallising (table 26)	647	682	718
Total Net Expenditure	19,159	19,774	20,149
Financing Funding			
Business Rates Funding	(4,947)	(5,192)	(5,363)
Council Tax Receipts	(7,294)	(7,732)	(8,160)
Loughborough Special Rate	(1,259)	(1,307)	(1,356)
New Homes Bonus	(4,129)	(3,288)	(2,650)
Surplus on Council Tax	(100)	(50)	(50)
Total Precept income	**(17,729)**	**(17,569)**	**(17,579)**
Total Net Expenditure from above	19,159	19,774	20,149
Funding Shortfall	**430**	**2,205**	**2,570**
Target use of Reserves in year	1,000	500	0
Additional Financial Challenge in year	**430**	**1,705**	**2,570**

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 2022/23 the Council will need to remove around £3.7m from its projected cost base (represented by £1.1m projected in respect of the current Transformation and Efficiency plan and £2.6m identified as the Additional Financial Challenge.

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

Table 28: Impact on Revenue Reserves

	Actual 2018/19	Budget Position 1/4/2019 2019/20	MTFS 2020/21	MTFS 2021/22	MTFS 2022/23
Working Balances Brought Forward (see note below)	7,057	6,871	5,900	4,470	2,265
Target Use of Reserves	(186)	(971)	(1,000)	(500)	0
Working Balances	6,871	5,900	4,900	3,970	2,265
Additional FinancialChallenge	0	0	(430)	(1,705)	(2,570)
Working Balance Surplus/(Deficit)	*6,871*	*5,900*	*4,470*	*2,265*	*(305)*
Analysis of earmarked Revenue Reserves					
Reinvestment Reserve	809	608	809	809	809
Capital Plan Reserve	2,193	1,093	1,575	1,575	1,575
Other Revenue Reserves	864	742	801	864	864
Total Earmarked Revenue Reserves	*3,866*	*2,443*	*3,185*	*3,248*	*3,248*
Overall Total Revenue Reserve Balances	*10,737*	*8,343*	*7,655*	*5,513*	*2,943*

NOTE: Balances brought forward are calculated by taking the actual outturn reserves for 2018/19 and adjusting these for the use of reserve budget figures for 2019/20

Additional notes on the financial projections

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

Collection Fund: In any year the amounts of council tax or business rates actually collected will differ from that budgeted due to additions or removals of properties from the register, or non-collection of amounts billed. These surpluses or deficits are managed through the collection fund and (effectively) reflected in adjustments to precepts in subsequent years.

At the 2018/19 year end a significant adverse (debit) balance had arisen on the business rate element of the collection fund, offset by Section 31 grant compensation, from which a compensating business rate reserve has been created. The figures presented above represent the net position, including the compensating business rate reserve.

13. Risk and sensitivities

There are major uncertainties for Charnwood arising from future developments in local government funding from the 2021/22 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 9 considered potential shortfalls in grant funding arising from potential changes to the New Homes Bonus scheme. These scenarios are expanded below to illustrate the impact on the use of revenue reserves (no other changes assumed):

Table 29: Impact on reserve usage following reduction in NHB income under alternative scenarios

(Monetary amounts £000)	*2020/21*	*2021/22*	2022/23
Projected use of reserves/Funding shortfall – main Scenario	**1,430**	**2,205**	**2,570**
#1: Optimistic – **mitigation replaces all** NHB funding lost as a result of curtailment of NHB scheme as outlined in MHCLG Technical Consultation	0	(1,102)	(1,662)
Revised use of reserves under Scenario #1	**1,430**	**1,103**	**908**

#2: Pessimistic – **no mitigation** to replace NHB funding lost as a result of curtailment of NHB scheme as outlined in MHCLG Technical Consultation	0	1,102	1,662
Revised use of reserves under Scenario #2	**1,430**	**3,307**	**4,232**

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 a favourable outcome for Charnwood arising from the Fair Funding review. Overall, however, the downside risks remain significant. 877iu

14. 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 £22.1m in 2018/19 of which £20.7m was dwelling rents. Expenditure on management and repairs amounted to £11.1m whilst depreciation was £3.0m. A further £2.7m was required for interest payments on its debt and £3.7m 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 2019 it was £613k against a target balance of £613k. There is an additional £8.0m 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 £3.9m in the Major Repairs Reserve which has restrictions on its use to capital expenditure and the repayment of loans.

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 MTFS for the HRA, was approved by Council in November 2014. It is intended that this will be updated following the announcement of the ending of the HRA debt cap.

15. Reserve Strategy

As outlined above, from 2021/2022 onwards grant funding from central government is highly uncertain. The Council's strategy is to have a minimum of £3.5m in the working balance going into the 2021/22 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 £4.1m which is acceptable at this time. In addition there is the availability drawing down other small revenue reserves balances, which could help in a time of transition.

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. 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.