CABINET – 21ST SEPTEMBER 2017

Report of the Strategic Director of Corporate Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 8 DRAFT MEDIUM TERM FINANCIAL STRATEGY 2018 - 2021

Purpose of Report

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

Recommendations

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

Reasons

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

Policy Justification and Previous Decisions

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

Implementation Timetable including Future Decisions and Scrutiny

It is envisaged that this Draft Strategy will be scrutinised and an amended version be brought back to Cabinet on 16 November 2017 for recommendation to Council.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management

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

Key Decision:	No
Background Papers:	None
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Part B

Background

1. This Medium Term Financial Strategy (MTFS) considers the financial outlook for Charnwood Borough Council for the three financial years 2018/19, 2019/20 and 2020/21. This document, attached as an appendix to this report, is self-contained and includes an executive summary and introduction in its early sections to assist readers.

2. It should be stressed that the MTFS presented is a draft prepared in August 2017. In addition to reflecting feedback from the Budget Scrutiny Panel it is anticipated that the final version of the MTFS will be updated in the light of additional information as it becomes available through the autumn.

Appendix

Charnwood Borough Council Draft Medium Term Financial Strategy 2018 – 2021

APPENDIX

Charnwood Borough Council

Medium Term Financial Strategy

2018 – 2021

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VERSION CONTROL

Version	*Author*	*Comments*
0.0	Clare Hodgson	Initial draft
0.1	Clare Hodgson	Working draft
0.2	Clare Hodgson	Updated figures
0.3	Clare Hodgson	Housing figures and SMT comments

1. Foreword

As Charnwood's Lead Member for Finance I take a keen interest in anything that may impact upon the future financial foundation of the Council and its ability to deliver our services both now and in the future. With the Government's continuing focus upon Brexit negotiations, it is unclear at this point whether key financial policies such as 100% business rates retention and the fairer funding review will proceed during the period of this financial strategy.

This is therefore a very uncertain time for all Councils in terms of future finances which makes forecasting financial strategy over the medium term especially difficult. I am pleased to report that, at this current point in time the Council's expenditure is under control and we are living within our means. Further, we have healthy levels of reserves which provide an insurance against future financial shocks.

Future funding levels and sources for local government are uncertain. However, as Barbara Jordan is reputed to have said, "For all of its uncertainty, we cannot flee the future". We are therefore planning in advance for this uncertain future as we aim to place less reliance on central funding and move towards more locally generated income. This strategy document includes potential future options to facilitate this goal. Further reductions in our central government grant funding are inevitable and we have put efficiency plans, which are regularly reviewed and updated, in place to deal with this. The new multi-site science and high-tech manufacturing focussed Enterprise Zone was announced by the Rt. Hon Marcus Jones MP, Minister for Local Government on 13th February 2017. It is set to create over 21,000 new jobs and £123m funding over the next 25 years through the creation of a 'zone of excellence' to support new and growing businesses to bring their innovative ideas and products to the market. This covers two sites within Loughborough, Charnwood Campus and Loughborough University Science and Enterprise Park, as well as one for the wider region at Leicester Waterside. Our future financial strategy will aim to build upon this and support economic regeneration across the borough which will in turn have a positive impact on the Council's finances.

There are a range of potential outcomes that could occur in the period and many of the assumptions and projections within this Strategy are arguable. I therefore look forward to receiving feedback and comments on the numbers presented which will help us develop a final version of this document and inform the budgetary process for the 2018/19 financial year.

Councillor Tom Barkley

Cabinet Lead Member for Finance

August 2017

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 2018/19, 2019/20 and 2020/21. 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 which show for the General Fund that:

- Expenditure will exceed income by £1.2m in 2018/19;
- Expenditure will exceed income by £1.3m in 2019/20;
- Expenditure will exceed income by £0.8m in 2020/21

Based on the numbers presented, the projected deficits can be explained by the combination of cost pressures and further reductions in both Revenue Support Grant and New Homes Bonus receipts, partially offset by efficiencies. It should be noted that the projections are 'sensitive', in that the range of plausible financial outcomes for certain classes of income and expenditure, particularly Business Rates Income and New Homes Bonus, could materially change the figures above.

This version of the Medium Term Financial Strategy was prepared in August 2017 for the purposes of consultation. In addition to reflecting feedback from the consultation process, a key action will be to obtain additional clarification on certain elements within the financial projections to provide a firmer basis for future budgetary decisions. As currently modelled, the figures suggest that the Council does not need to take immediate action in reshaping or shrinking its portfolio of services i.e. within the 2018/19 budget. The projected deficit can be covered from our reserves (which we built up in anticipation of this situation) and work that has already taken place both in previous financial years to reduce the deficit. This work has included looking at existing budgets to address areas of persistent underspend and ensure that resource allocation better reflects actual need. However, there is a huge amount of uncertainty around the future funding for local government and the Council is aware that we need to look into ways to be less reliant upon central funding in the future. Whilst the inclusion of an efficiencies plan in the previous year has given the Council access to a 3 year settlement for the Revenue Support Grant, other large elements of funding are less certain. This is being addressed as part of current reviews of asset management and investment strategies which will be completed in time for 2018/19 financial year.

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.

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 2018 to 31 March 2021. The document also includes an updated efficiencies plan which is a result of continuing work by Members and Officers to identify areas where net expenditure can be reduced in order to maintain key services against a backdrop of reduced external funding.

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 2018/19 financial year
- Provide the financial basis for the Council to decide its corporate priorities for future years.

As previously noted, this is a high level strategic document which summarises plans over the medium term as they currently stand, based upon current information, projections and assumptions. As additional updated information becomes available these plans will be subject to change and a comparison of the previous MTFS to this document will reflect such changes. In this document a certain amount of detailed budgetary information is presented but this should be regarded as indicative and illustrative. Whilst this document will inform the 2018/19 budget setting process, some of the figures quoted here will be amended and refined as more information comes to light and the 2018/19 budgets are developed.

Scope of the MTFS

This strategy document covers all aspects of the Council's finances but 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

As a result of the inclusion of an efficiencies plan in the MTFS last year the Council's Revenue Support Grant for the period of this MTFS is already known. However, all other income figures are estimates at this time, based upon information known to date. Estimates provided to us from Pixel Financial Management calculate that total Settlement Funding Assessment (SFA) will reduce by 6.2% in 2018/19, 7.5% in 2019/20 and a further 1.9% in 2020/21. This SFA is made up of two main components; Revenue Support Grant and Baseline Funding Level. The Council's detailed financial settlement for 2018/19 will probably be communicated to us immediately prior to Christmas.

On 23rd June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government to negotiate to exit the EU and the outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future, once the UK has left the EU.

The UK economic outlook has been affected by the vote to leave the EU and also the outcome of the General Election which took place on 8th June 2017. Whilst the actual future impact is still largely uncertain it should be noted that interest rate forecasts have been updated based upon outcomes to date. With worldwide economy still in stagnation and current political issues surrounding the U.S. and North Korea this is a time of caution and interest rates remain at historically low levels with significant increases now not predicted within the period of this MTFS.

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

The actual amount of funding that will be received over the period of this MTFS is subject to estimates both in terms of the growth in housing and also the future of business rates payments which will be retained by the Council.

[1] **Source: DCLG: English Indices of Deprivation September 2015**

Up to 2016/17 housing growth was subject to payments for the first six financial years after being brought into use. From 2017/18 this reduced to five years then four years for 2018/19 and subsequent years. There is also an assumption of growth of 0.4% year on year upon which no NHB payments will be made.

The projected impact on the Council's finances of housing growth, interest rate movements and other economic factors are discussed further in subsequent paragraphs.

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:

- The 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 approach to fund investment and projected levels of interest receivable,
- Key operational assumptions: describes the derivation and key assumptions underpinning the projections of operational income and expenditure,
- Existing financial resources and use of prudential borrowing: describes how revenue and capital expenditure of the Council may be financed over the period of the MTFS using reserves or prudential borrowing,
- General Fund financial projections: presents the projected financial outlook for the Council over the period of the MTFS in tabular form.

6. The local government financing regime

The Council's funding is derived from a mixture of council tax receipts, new homes bonus payments, a share of locally collected business rates and direct government grant funding. A key continuing theme from the government is the drive towards financial independence for local authorities and the move towards localism. In practice this means a reduction in levels of direct (formula) grant funding, offset by retention of a share of local business rates and other grant funding relating to housing growth. Consultation recently took place around 100% retention of business rates

However, this was not included in the Queen's speech following the General Election in June 2017 and it is therefore now uncertain as to when this could happen, if at all. When considered in conjunction with the reduction in RSG down to zero in 2020/21 this leaves a great deal of uncertainty around future funding for local government. As

a result of this, many authorities are looking at ways in which they can generate income to fund services more independently. The principal features of the financing regime and key assumptions and sensitivities in respect of Charnwood are discussed below.

Council tax

There is understandable resistance from local citizens to any significant increases in Council Tax. With this in mind, the Coalition government 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. In recognition of the current tight fiscal climate the Government allowed all District and Borough Councils to increase council tax by up to £5 per band D property in 2016/17 and 2017/18 as well as allowing authorities with Social Care responsibilities an additional 2% increase on top of the 2% cap that would have triggered a referendum. These more generous limits are anticipated to continue for a further two financial years.

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 2017/18

	District Council Tax Band D	Rank (of 201)		District Council Tax Band D	Rank (of 201)
National Picture			***Leicestershire Authorities***		
Lowest					
Breckland	£80	1	Hinckley & Bosworth	£122	12
West Oxfordshire	£92	2	**Charnwood**	**£134**	**22**
Hambleton	£99	3	Blaby	£153	51
			Harborough	£165	85
Charnwood	**£134**	**22**	North West Leicestershire	£173	100
			Melton	£191	133
Median			Oadby & Wigston	£212	165
North West Leicestershire	£173	100			
North Devon	£173	101			
Worcester	£175	102			
Highest			** Calculation includes Band D and Share of Loughborough Special Rate (or Equivalent) spread across whole tax base*		
Weymouth & Portland	£295	199			
Preston	£297	200			
Ipswich	£341	201			

Source - Department for Communities and Local Government

Given Charnwood's low tax charge and future funding uncertainties it is assumed that Council Tax will increase by £5 in 2018/19 and 2019/20, with a return to an increase capped at 2% in 2020/21.

The actual amount of Council Tax collected will also vary in line with the tax base, essentially the number of properties against which Council Tax is levied. The tax base for this purpose is expected to increase by 2% year on year over the period of this document.

Table 2: Projected Council Tax income at various rates of tax increase

(Amounts £000)	*2017/18 budget*	*2018/19*	*2019/20*	*2020/21*
2% increase year on year (pessimistic)	6,118	6,365	6,623	6,890
£5 x 2 then 2% increase (ASSUMED)	**6,118**	**6,519**	**6,933**	**7,213**

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:

2017/18 Budget Book

For the purposes of the MTFS the Special Rate is assumed to have no increase in rate for 2018/19 and 2019/20 then will increase by 2% in 2020/21. This will have no overall effect upon the council tax income for the Council as a whole because (as noted below) the £5 cap includes increases to the Loughborough Special Rate. No changes to the items included in the Special Rate have been assumed.

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

Table 3: Projected Loughborough Special Rate income at various rates of increase

(Amounts £000)	*2017/18 budget*	*2018/19*	*2019/20*	*2020/21*
No increase for 1 year then 2% increase	1,184	1,208	1,282	1,333
No increase for 2 years then 2% increase (assumed)	1,184	1,208	1,232	1,282

Revenue Support Grant

Revenue Support Grant (or 'formula' grant) is 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, £2.09m in 2016/17 and £1.3m in 2017/18.

As a result of the Council preparing an efficiencies plan in 2017/19, our RSG figures were given as a multi-year settlement therefore the figures shown below should be certain and not subject to change. As a result of this there is only one set of figures presented in the table below.

Table 4: Revenue Support Grant

(Amounts £000)	*2017/18 budget*	*2018/19*	*2019/20*	*2020/21*
As notified	**1,265**	**745**	**165**	**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 longer 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 proposed 100% business rate retention should have replaced reductions in RSG and New Homes Bonus but was likely to come with additional responsibilities that give rise to additional costs. At this point in time it is not known when, or indeed if, this policy will go ahead. It is therefore not possible to calculate the effects of this change as not enough details are known. This will be the

subject of a future MTFS. For the current MTFS we are assuming rate retention will continue on the current basis.

Table 5: Projected local share of business rates

(Amounts £000)	*2017/18 budget*	*2018/19*	*2019/20*	*2020/21*
As modelled (ASSUMED)	**4,465**	**4,418**	**4,575**	**4,733**
As modelled +2.5% (optimistic)	4,465	4,528	4,689	4,851
As modelled -7.5% (pessimistic)	4,465	4,087	4,232	4,378

The optimistic view above reflects the limited perceived upside over the period of the MTFS. The downside risk is limited by the safety net mechanism embedded with the business rate retention scheme.

New Homes Bonus

The New Homes Bonus (NHB) provides 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 (£1529.56). In two-tier local government areas this payment is split in the ratio 20% to county councils, 80% to district councils.

The NHB scheme started in 2011/12, so 2016/17 was the first year in which the Council received a full six years funding. The amount of NHB received has naturally grown rapidly due to the cumulative funding effect since the scheme was introduced in 2011/12. From 2017/18 the mechanism under which NHB funding levels are determined changed. The number of years over which the funding is received reduced to five in 2017/18 then a further reduction to four years applied from 2018/19 onwards. Additionally growth of 0.4% upon which no bonus is payable has been introduced, further reducing future payments. The figures used in this current MTFS are based upon assumptions from industry experts Pixel and the Council's estimates of housing growth. These payments are also dependent upon actual housing growth therefore this figure is subject to potentially large volatility and will be revisited as soon as further information on current growth is known.

Historically, housing growth has typically been within a range of 0.75 to 1.0% of the council tax base. This has given rise to NHB as tabulated below.

Table 6: Charnwood New Homes Bonus 2013/14 – 2017/18

	2013/14	*2014/15*	*2015/16*	*2016/17*	*2017/18*
Additional properties	561	626	727	569	642
Associated NHB (year) £000	847	733	878	716	829
Cumulative NHB (grant) £000	2,164	2,897	3,775	4,491	4,004

The calculation of additional properties giving rise to NHB is not performed until October but indicative figures from our council tax database suggest that in the order of 760 properties will have been added to our council tax base in the year to October

2017, in line with recent years. This would generate NHB associated with the 2018/19 year in the order of £850k and total a NHB grant for 2018/19 of around £3.3m.

The Council's Core Strategy was adopted in November 2015 and provides the housing trajectory shown in table 7 below. This was agreed by the Planning Inspector.

Table 7: Housing completions presented within the Charnwood Core Strategy 2016/17 – 2020/21

	2016/17	*2017/18*	*2018/19*	*2019/20*	*2020/21*[3]
Estimated completions	903	1,052	1,167	1,234	965

It should be noted that the above estimates relate to financial years and that the impact is lagged in respect to NHB. On the basis of these estimates we would therefore expect completions in the latter half of 2016/17 and the first half of 2017/18 to be reflected in the council tax base in October 2017. This would suggest around 978 additional properties generating the NHB in respect of 2018/19. Similarly, we might expect NHB to be based on approximately 1,110 additional properties in 2019/20 and 1,200 additional properties in 2020/21 – this is approximately twice the current run rate.

The Core Strategy has been the subject of an intensive inspection process and there is no reason to suppose that the housing trajectories are materially inaccurate at this point in time. However, the amount of NHB (and also council tax) that the Council receives is sensitive to the timing of housing completions and a significant proportion of future income is therefore dependent on the speed in which large scale planning applications are determined and the pace in which developers build-out their sites. One of the implications of Brexit is that housing completions appear to have slowed down. The assumed, optimistic and pessimistic projections presented in Table 8 (below) illustrate the potential volatility inherent with this funding stream.

Having regard to the historical additions to the council tax base, initial indications in respect of net additional properties likely to be added in the year to October 2017, the housing trajectory presented within the Core Strategy and the Government's assumption of 0.4% growth upon which no NHB is payable we have assumed the following in terms of additional growth and payments:

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

(Monetary amounts £000)	*2017/18*	*2018/19*	*2019/20*	*2020/21*
Net additional properties	642	674	708	743
Associated NHB	829	850	892	937
Cumulative NHB (ASSUMED)	**4,004**	**3,273**	**3,287**	**3,508**
Cumulative NHB (optimistic) +10%	4,004	3,313	3,374	3,648
Cumulative NHB (pessimistic) +2.5%	4,004	3,253	3,245	3,443

[3] The Core Strategy estimates continue forward until 2027/28

The base case assumes housing growth of 5% per annum in line with previous years trends projected forward. The optimistic figures assume housing growth of 10% year on year and the pessimistic figures assume growth of 2.5% per annum over the MTFS period. All figures take into account the reduction to a total of 4 years NHB payments and the 0.4% assumed housing growth.

A final point to note in respect of NHB is that it is often regarded as unduly favourable to affluent and expanding areas, and, in those areas which have a two-tier arrangement, to district councils. Charnwood is therefore a major beneficiary of NHB and any future redistributary changes to the NHB scheme will almost certainly have an adverse effect on our finances.

7. Treasury management and projected investment income

Charnwood holds substantial short-term investments, mainly made up of cash deposited for short periods on money markets. In recent years these have had a value in the range of £30m-£54m 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 it is envisaged that this approach will continue. The Council has recently joined a benchmarking club for investment returns and is consistently achieving one of the highest returns in the group. We have also recently included the ability to loan money to other local authorities for up to 2 years and are the potential to invest longer term into property funds. Any property fund investment will be subject to strict criteria and we will take professional advice on such funds. The budgeted interest income from investments for 2017/18 is £30k based upon Capita estimates for investments of 100 days. Actual income received in 2016/17 was £356,000 based upon the Council placing longer term investments and obtaining a higher than average rate of return. Both this and small projected increase in Capita's predicted returns are reflected in the numbers within this strategy document. For comparative purposes it is important to note that over £1.7m interest was generated in 2008/09. This reduction reflects the general economic climate and has had a profound effect upon the Council's finances.

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. The situation reflects the impact of Brexit which has seen interest rate forecasts decrease considerably.

Table 9: Investment income (interest receivable) projections

(Amounts £000)	*2017/18*	*2018/19*	*2019/20*	*2020/21*
Projected returns (as modelled)	0.1%	0.6%	0.65%	0.75%
Income based on model (ASSUMED)	**30**	**300**	**325**	**375**
Optimistic (base %age +0.2)	30	400	425	475
Pessimistic (base %age – 0.2)	30	200	225	275

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 is the 2017/18 budget. This is adjusted for known 'one-offs' (income or expenditure arising in 2017/18 only) and then appropriate inflation rates are applied. Finally, further allowances are made for material changes in service income or cost on the basis of discussion with the relevant Heads of Service. From 2016/17 onwards budgets have also been reviewed in order to identify both one-off and ongoing efficiencies that can be made in order to balance the Council's finances over the medium to long term.

The key operational assumptions are as follows:

Wages and salaries

Employment costs (wages, salaries, payroll taxes and other on-costs) represent around two thirds of Net Service Expenditure, equivalent to around £13m in the current financial year. Charnwood is a member of the Local Government Employers who negotiate salaries on behalf of members on a national basis. Local government pay increases have been very restricted in recent years and it is highly likely that this situation will continue. The financial projections assume that pay increases for staff will equate to 1% pay rise per annum across the period of the MTFS. The potential for a 2% pay rise forms the pessimistic case. The financial effect of this is set out below:

Table 10: Projected effect of staff pay and on-cost increases

(Amounts £000)	*2017/18 budget*	*2018/19*	*2019/20*	*2020/21*
Pay increase 1% per annum (ASSUMED)	12,509	12,634	12,760	12,888
Pay increase 0% per annum (optimistic)	12,509	12,509	12,509	12,509
Pay increase 2% (pessimistic)	12,509	12,759	13,014	13,275

This increase reflects the substantial pension fund[4] deficit which is a nationwide issue and the likely actuarial adjustments required to address this situation.

[4] Charnwood pensions are managed within the overall Leicestershire Local Government Pension Scheme

Inflation rates
Where specific material contracts (such as cleansing and refuse collection, or revenues and benefits) have price uplifts specified within the contract terms this uplift has been used in projecting net service expenditure. Otherwise, inflation is differentially applied according to expenditure type.

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

Table 11: Projected operating income (ASSUMED)

(Amounts £000)	*2016/17 actual*	*2017/18 budget*	*2018/19*	*2019/20*	*2020/21*
Planning fees	1,202	1,060	1,081	1,103	1,125
Recycling credits (ex LCC)	856	900	68	0	0
Off street car park income	893	900	900	900	900
Garden bin collections	709	856	1,201	1,377	1,377
General fund rentals (business units, etc)	575	640	673	686	700

Of note within the above 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 and that the peak fee income occurred in 2014/15,

- Leicestershire County Council is in the process of changing the recycling arrangements such that recycling credits will no longer be payable within the period of the MTFS. This will have a huge impact upon the Council's finances as the gap will need to be filled by either reducing expenditure or finding alternative sources of income,

- The increase in garden bin collection income projected over the period is one source of this required additional income, based upon an increased garden waste charge. This increase will bring the Council in line with other local authorities.

Expenditure pressures

Additional expenditure may be unavoidable due to policy, legislative or commercial pressures. Where material and anticipated at this stage these cost increases (or reductions in income) are incorporated into the MTFS. 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.

Sensitivity of estimates

Many individual elements within the Council's operational income and expenditure can be financially volatile, for example, a relatively few major planning applications can generate the bulk of fee income.

However, the demand for services can generally be anticipated, and on a portfolio basis, the cost of services is both relatively stable and manageable. It is therefore considered reasonable to apply an overall sensitivity to Net Service expenditure of 2.5% either way, as set out below:

Table 12: Sensitivity calculations – Net Service Expenditure

(Amounts £000)	*2017/18 budget*	*2018/19*	*2019/20*	*2020/21*
As modelled (ASSUMED)	**17,288**	**17,857**	**18,501**	**18,704**
As modelled -2.5% (optimistic)	17,288	17,411	18,038	18,236
As modelled +2.5% (pessimistic)	17,288	18,303	18,964	19,172

9. 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[5]
- 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 (Table 13) 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 to medium 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

[5] Except expenses directly related to the Council's housing – which must be funded through the HRA

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. 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.

10. Financial Projections 2018 – 2021

Table 13: MTFS financial projections

General Fund Expenditure	2018/19 £000	2019/20 £000	2020/21 £000
Net Service Expenditure	**17,857**	**18,501**	**18,704**
Interest Payable	240	240	240
Interest Receivable	(300)	(325)	(375)
	17,797	18,416	18,569
Council Tax Support to Parishes	29	0	0
Efficiency Plan	(504)	(711)	(768)
Total Net Expenditure	**17,322**	**17,705**	**17,801**
Financing Strategy			
Revenue Support Grant	(745)	(165)	0
Business Rates Funding	(4,617)	(4,774)	(4,936)
Council Tax Receipts	(6,519)	(6,933)	(7,213)
Loughborough Special Rate	(1,208)	(1,232)	(1,282)
New Homes Bonus	(3,273)	(3,287)	(3,508)
(Surplus)/Deficit on Collection Fund – Council Tax	0	(50)	(50)
(Surplus)/Deficit on collection fund – Business Rates	250	0	0
Total income	**(16,112)**	**(16,441)**	**(16,989)**
Total Net Expenditure from above	17,322	17,705	17,801
Funding (surplus) / savings required	**1,210**	**1,264**	**812**
Implied (addition to) / use of reserves in year – Service Expenditure	960	1,314	862
Implied (addition to) / use of reserves in year – Collection Fund	250	(50)	(50)
Total Implied (addition to)/use of reserves in year	**1,210**	**1,264**	**812**
Cumulative impact on reserves/savings over period of MTFS	**1,210**	**2,474**	**3,286**

In the light of the above financial projections work is ongoing to update efficiency plans in order to balance the Council's finances in the medium term. This work began in 2016/17 and currently covers the period to 2020/21. The current figures are shown overleaf and are made up of projected increases in income, contract savings and reduced service expenditure. These will differ to the figures presented in the previous MTFS because, as noted previously, the MTFS is a high level strategy document. Changes have been made to incorporate new information as part of 2017/18 budget setting and as the financial year has progressed so far. Additionally the contribution to the capital plan (previously £155k per annum) has been removed as an ongoing efficiency therefore both the expenditure line and efficiency figure have been removed from the tables. There are currently no plans to cease service provision or make staff reductions.

Table 14: Strategic Efficiencies Plan 2018-19 to 2020/21

	2018/19	2019/20	2020/21
	£'000	£'000	£'000
Net Income Generating Ideas	411	618	675
Expenditure reductions (including contract savings)	93	93	93
Total Efficiencies	**(504)**	**(711)**	**(768)**

The above projections have the following impact upon the Council's reserves;

Table 15: Impact on Revenue Reserves

	2018/19	2019/20	2020/21
	£'000	£'000	£'000
Balances brought forward	9,750	8,540	7,276
Implied addtion to /(use of) reserves in year for Service Expenditure	(960)	(1,314)	(862)
Implied addtion to / (use of) reserves in year by Collection Fund	(250)	50	50
Balances carried forward	**8,540**	**7,276**	**6,464**
Analysis of revenue reserves			
Working Balances	5,515	4,251	3,439
Reinvestment Reserve	777	777	777
Growth Support Fund	130	130	130
Capital Plan Reserve	1,612	1,612	1,612
Other Revenue Reserves	506	506	506
Total balances (as above)	**8,540**	**7,276**	**6,464**

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[6] that arose at that time. In subsequent years there has been no explicit notification of this grant within the RSG but Charnwood has established the practice of passporting an amount to towns and parishes in the same proportion as originally created.

- 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 2018/19 the impact of the business rates collection fund deficit can be seen to increase the balance required from reserves by £250k. 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 3 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.

- Service Pressures: Known contractual and unavoidable pressures have been included based upon amounts identified from current information. These could be subject to change as part of the budget setting process. It is likely that further pressures will also be identified as part of this process. All require a business case and Member approval before they are added to the 2018/19 budget.

Summary of the financial projections

The financial projections suggest deficits in funding in all three years under consideration, leading to an overall projected net deficit over the three years of some £3.8m. In broad terms this can be explained by the combination of cost pressures and reductions in Revenue Support Grant and New Homes Bonus receipts. There is currently no indication of when the proposed fairer funding review or 100% business rate retention will be introduced.

11. Risk and sensitivities

The tables overleaf summarise the Assumed, Pessimistic and Optimistic amounts for key elements of the Council's income and expenditure for each year of the MTFS.

The 'Extreme' totals represent the unlikely situations where all aspects of the Council's finances are either positive or negative. In reality, management action would be taken to address expenditure at the point in time that significant shortfalls in income were clearly identified. However, the tables do draw out the sensitivity (and therefore risk) relating to individual areas – the difference between the Optimistic and Pessimistic cases for the Revenue Support Grant and New Homes Bonus clearly illustrate the sensitivity of the financial projections to the assumptions underpinning these number.

[6] It should be noted that although this was the intention of this grant there was no legal requirement for district councils to passport this through to towns and parishes.

Table 16: Sensitivity Summary 2018/19

Description	*Pessimistic*		*Assumed*		*Optimisitc*
	£'000	£'000	£'000	£'000	£'000
INCOME					
Council Tax	6,365	154	6,519	-	6,519
Loughborough Special Rate	1,208	-	1,208	-	1,208
Revenue Support Grant	745	-	745	-	745
Business Rates	4,087	331	4,418	(110)	4,528
New Homes Bonus	3,253	20	3,273	(40)	3,313
Investment Income	200	100	300	(100)	400
EXPENDITURE					
Net Service Expenditure	18,303	446	17,857	(446)	17,411
Extreme Adverse Circumstances		1,051			
Extreme Positive Circumstances				(696)	

Table 17: Sensitivity Summary 2019/20

Description	*Pessimistic*		*Assumed*		*Optimisitc*
	£'000	£'000	£'000	£'000	£'000
INCOME					
Council Tax	6,623	310	6,933	-	6,933
Loughborough Special Rate	1,232	50	1,282	-	1,282
Revenue Support Grant	165	-	165	-	165
Business Rates	4,232	343	4,575	(114)	4,689
New Homes Bonus	3,245	42	3,287	(87)	3,374
Investment Income	225	100	325	(100)	425
EXPENDITURE					
Net Service Expenditure	18,964	463	18,501	(463)	18,038
Extreme Adverse Circumstances		1,308			
Extreme Positive Circumstances				(764)	

Table 18: Sensitivity Summary 2020/21

Description	*Pessimistic*		*Assumed*		*Optimisitc*
	£'000	£'000	£'000	£'000	£'000
INCOME					
Council Tax	6,890	323	7,213	-	7,213
Loughborough Special Rate	1,282	51	1,333	-	1,333
Revenue Support Grant	0	-	0	-	0
Business Rates	4,378	355	4,733	(118)	4,851
New Homes Bonus	3,443	65	3,508	(140)	3,648
Investment Income	275	100	375	(100)	475
EXPENDITURE					
Net Service Expenditure	19,172	468	18,704	(468)	18,236
Extreme Adverse Circumstances		1,362			
Extreme Positive Circumstances				(826)	

12. 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 £22.7m in 2016/17 of which £21.4m was dwelling rents. Expenditure on management and repairs amounted to £9.8m whilst depreciation was £2.8m. A further £2.7m is required for interest payments on its debt and £3.6m 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 2017 it was £621k against a target balance of £621k. There is an additional £4,030k 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
seduction) 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

13. Reserve Strategy, Action plans and Efficiency Statement

Reserve Strategy

From 2020/2021 onwards income from central government is uncertain due to the lack of clarity over when/if 100% business rate retention and the fairer funding review will go ahead. The Council's strategy is to have a minimum of £3m in the working balance going into 2021, giving at least £0.75m flexibility above the stated 'usual' minimum of £2m in order to give headroom to deal with this. Based on our efficiency plan and current projections, the working balance at 31 March 2021 will be £3.4m which is acceptable at this time. The intention is to further review the efficiency plan in the light of new information as when this becomes available to ensure that the budget will be balanced on an ongoing basis.

Action Plans

The key short term action plan in respect of the Medium Term Financial Strategy is the budget which is set having regard to the financial projections presented in this document. This is supplemented over the short to medium term by the Council's efficiency plan which was formally underway in 2016/17 and extends to the end of the MTFS period. Actions taken to date and proposed future actions are covered in more detail below;

The Journey So Far

Given the Council's history of underspending it was logical that this aspect of financial management was addressed first. This allowed us to cover the funding gap

in 2016/17 and some of the projected future gap through a reallocation of resources. In setting future budgets, and subsequent revenue monitoring, the Council will continue to focus on identifying areas of trending underspending and look to reallocate these budgets to services experiencing income or cost pressures. In the medium term this should produce a more realistic budget allocation and enable a more accurate assessment of the financial challenges facing the Council.

Financial Position

Whilst stating that addressing the history of underspending is a priority, it should be understood that the Council also has culture of continuous improvement, and the ongoing effort to create service efficiencies will continue. The current MTFS highlights the need to make further efficiencies and draft plans have been drawn up and are being reviewed on a regular basis. This work will feed into 2018/19 budget setting and will be a focus for future budgets in order to ensure these are balanced and, wherever possible, service provision is maintained at current levels.

The areas of focus to date include generating additional income through a review of fees and charges and generating savings through a review of budgets and contracts that are due for renewal. Elements of the plan that may require further work are 'hard choices' and potential external investments for economic regeneration and revenue generation. These are anticipated to be the subject of a future plan following intensive consultation and Member review. These will therefore be reported in a future MTFS.

Balancing the Budget

Whilst a great deal of work has already taken place, it is recognised that on the figures currently available and estimated, further savings or additional income in the region of £800k are required from 2020/21 onwards. The Council will utilise its reserves to balance the budget in 2018/19 and for the medium term whilst further work is undertaken. As per section 9 and the reserve strategy above, it can be confirmed that sufficient reserves are available and that such use is within the scope and conditions of the reserves held.

Risks and Uncertainties

Whatever the uncertainties, it is clear that New Homes Bonus and Business Rates will continue to be important elements of the Council's future funding. The housing funding is dependent on the delivery of additional properties feeding through to the council tax register. An action around the New Homes Bonus is therefore to develop more regular monitoring of the net additions to the register and form the earliest possible view of future NHB receipts. Additional risks exist around the level of appeals received by the Valuation Office on business rate valuations and the uncertainty around the introduction of 100% rates retention. Further actions are therefore to continue to hold regular reviews of the provision required for appeals against business rates valuations and to keep up to date with the Government's intentions around rates retention and the fairer funding review.

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With future central funding uncertainties it is necessary to look to increase locally generated income and ensure the Council are operating as efficiently as possible. Regular reviews of expenditure and efficiencies will continue to be undertaken and the investment strategy will be revisited to consider the possibility of borrowing to invest in the local economy to promote regeneration and increase revenue income.

Partnerships

The Council currently hosts the Department for Work and Pensions and has an area for Loughborough Police within its offices. Further opportunities for partnership working in all areas of business will be explored over the period of this MTFS.

Next Steps

Further work will be undertaken with Members and Heads of Service to identify areas where additional savings could be made or additional income generated. This will include looking across all areas of service delivery and also identifying potential invest to save schemes, partnerships, income generating opportunities and areas for joint working.

14. 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.