COUNCIL – 23RD JANUARY 2017

Report of the Cabinet

ITEM 6.1 MEDIUM TERM FINANCIAL STRATEGY 2017 TO 2020

Purpose of Report

To present proposals for a Medium Term Financial Strategy for consideration and approval.

Recommendation

That the Medium Term Financial Strategy, appended to the report of Cabinet (attached as an Annex), 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.

Policy Justification and Previous Decisions

The Medium Term Financial Strategy is prepared annually and is the key document for medium term financial planning within the authority. It is one of the Council's main strategies and helps the Council identify its priorities and set targets for what it plans to achieve.

The Draft Medium Term Financial Strategy was scrutinised by the Budget Scrutiny Panel on 4th October 2016.

At its meeting on 17th November 2016, Cabinet considered a report of the Head of Finance and Property Services setting out proposals to bring forward the Medium Term Financial Strategy for consideration and recommendation to Council, which is attached as an Annex.

The Cabinet resolved '*That it be recommended to Council that the Medium Term Financial Strategy 2017 to 2020 be approved.'* The Cabinet's reason for this recommendation was *'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.'*

Implementation Timetable including Future Decisions and Scrutiny

The Medium Term Financial Strategy will provide a base for priorities to be set.

Report Implications

Financial Implications

There are no financial implications associated with the recommendations of the Cabinet further to those detailed in the report of the Head of Finance and Property Services, attached as Annex.

Risk Management

There are no risks associated with the recommendations of the Cabinet further to those detailed in the report of the Head of Finance and Property Services, attached as Annex.

Key Decision:	Yes
Background Papers:	Budget Scrutiny Panel 4th October 2016 – Minutes
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ANNEX

CABINET – 17TH NOVEMBER 2016

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 9 MEDIUM TERM FINANCIAL STRATEGY 2017 TO 2020

Purpose of Report

To bring forward a Medium Term Financial Strategy for consideration and recommendation to Council.

Recommendation

That it be recommended to Council that the Medium Term Financial Strategy 2017 to 2020 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.

Policy Justification and Previous Decisions

The Medium Term Financial Strategy 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 Medium Term Financial Strategy (MTFS) was scrutinised by the Budget Scrutiny Panel on 4th October 2016 and this final version will be available for scrutiny by the Overview Scrutiny Group on 14th November 2016.

If agreed by Cabinet, this MTFS will be sent for approval at full Council on 23rd January 2017.

Report Implications

Financial Implications

There are no direct financial implications arising from this MTFS.

Risk Management

There are no direct risks associated with the decision Cabinet is asked to make. Potential risks and sensitivities are set out in Section 11 of the strategy.

Key Decision:	Yes
Background Papers:	None
Officers to contact:	Clare Hodgson 01509 634810 clare.hodgson@charnwood.gov.uk Simon Jackson 01509 634699 simon.jackson@charnwood.gov.uk

Part B

Background

1. The draft MTFS 2017 to 2020 was considered by both Cabinet and the Budget Scrutiny Panel on 22nd September and 4th October 2016 respectively.

2. The Budget Scrutiny Panel resolved that the draft MTFS 2017 to 2020 be noted.

3. There were no recommendations it wished to make to the Scrutiny Management Board in respect of the draft Strategy.

4. During scrutiny by the Panel various issues were raised and these are set out in the minutes of that meeting.

5. Since the draft MTFS was tabled the core financial projections are showing a cumulative deficit of £1.3m, comprising a deficit of £1.5m in 2017/18, a surplus of £0.4m in 2018/19 and a deficit of £0.2m in 2019/20 respectively. This is due to a recalculation of New Homes Bonus projections arising from more precise figures on the council tax base for 2017/18 which have become available since the original draft MTFS.

Appendix – The MTFS, containing an Executive Summary in Section 2

APPENDIX

Charnwood Borough Council

Medium Term Financial Strategy

2017 – 2020

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1. Foreword

As Charnwood's Lead Member for Finance I have a keen interest in anything that may affect the future financial foundation of the Council and thus its ability to deliver our services both now and in the future. On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. 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.

This is therefore a very uncertain time for all Councils in terms of future finances. 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.

However, as Malcolm X is reputed to have said, "The future belongs to those who prepare for it today". This certainly resonates with the rapidly changing environment of local government finance and it is becoming increasingly important that we do try to consider what the financial future holds. We are planning in advance for the future as we anticipate less placing less reliance on central funding and a move towards locally generated income. Further reductions in our central government grant funding are inevitable and we are putting efficiency plans in place to deal with this. Many of the assumptions and projections within this Strategy are arguable, and I 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 2017/18 financial year.

Councillor Tom Barkley

Cabinet Lead Member for Finance

November 2016

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 2017/18, 2018/19 and 2019/20. 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 £2.2m in 2017/18 (£1.5m post efficiencies);
- Expenditure will exceed income by £0.6m in 2018/19 (income is projected to exceed expenditure by £0.4m post efficiencies in this year);
- Expenditure will exceed income by £1.4m in 2019/20 (£0.2m post efficiencies)

Based on the numbers presented, the projected deficits can be explained by the combination of cost pressures and reductions in the Revenue Support Grant partially offset by efficiencies identified to date. New Homes Bonus receipt projections are also somewhat reduced over the period of the MTFS with expected changes in the scheme being somewhat offset by housing growth. 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 the Revenue Support Grant and New Homes Bonus, could materially change the figures above. The New Homes Bonus payment is currently under consideration by government and it is anticipated that the number of years this is payable for will reduce from 2017/18 onwards.

The Medium Term Financial Strategy was originally prepared in August 2016 for the purposes of consultation, and then revised in October 2016 following a period of consultation and having regard to further information becoming available, particularly in respect of the council tax base.

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 2017/18 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 2016/17 and in planning for 2017/18 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, significant measures will need to be taken in respect of future years and planning is already underway to identify potential ways to balance future budgets.

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 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.

Balancing 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 2017 to 31 March 2020. Additionally, for the first time, the MTFS includes an efficiency plan and statement which summarise at a strategic level the actions the Council intends to take to address the challenges of financial sustainability. The high level explanatory narrative takes readers through the journey over the past year and the next three financial years and examines strategic risks and uncertainties. The inclusion of this information will allow the Council to access a multi-year Revenue Support Grant settlement from the Department for Communities and Local Government (DCLG) which will assist in future financial planning.

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 2017/18 financial year
- Gain access to a multi-year financial settlement from the DCLG.
- 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 projections and assumptions. As additional information becomes available these plans will be subject to change. 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 2017/18 budget setting process, some of the figures quoted here will be amended and refined as more information comes to light and the 2017/18 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

Estimates provided to us from the Local Government Association (LGA) calculate that total Core Spending Power of Local Authorities (defined as baseline funding from government and income from council tax and business rates retention) will reduce by £6.75bn over the review period (2016/16-2019/20). This is a reduction of 31.8% of Settlement Funding Assessment. More details will emerge in the Spending Review scheduled for November 2016 and the Council's detailed financial settlement for 2017/18 will probably be communicated to us immediately prior to Christmas.

On 23rd June, 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, under the new Prime Minister, to begin negotiations 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. 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, including the reduction of the Bank of England base rate, the widening of the quantitative easing programme, which saw additional bond releases and the reduction in the credit rating of UK banks by investment firms. Interest rates are 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.

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

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 payment which will be received from Central Government for this growth.

Up to 2016/17 housing growth was subject to payments for the first six financial years after being brought into use. A consultation is currently underway in which the Government is seeking to change this and the result will be a reduction in funding for all Councils. Until the results of this have been announced it is only possible to estimate what this reduction will be in real terms.

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 mix of council tax receipts, 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. Consultations are currently in place around funding for housing growth (which will affect funding from 2017/18

onwards) and for 100% retention of business rates which will come into force around 2019/20.

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 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 2016/17

	District Council Tax Band D	Rank (of 201)		District Council Tax Band D	Rank (of 201)
National Picture			***Leicestershire Authorities***		
Lowest					
Breckland	£75	1	Hinckley & Bosworth	£117	11
West Oxfordshire	£87	2	**Charnwood**	**£129**	**20**
Hambleton	£94	3	Blaby	£148	50
			Harborough	£160	84
Charnwood	**£129**	**20**	North West Leicestershire	£173	105
			Melton	£186	132
Median			Oadby & Wigston	£207	162
St Albans	£168	100			
Worcester	£170	101			
Chiltern	£171	102			
Highest					
Weymouth & Portland	£289	199			
Preston	£291	200			
Ipswich	£335	201			

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

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 £4.47 each of the years 2017/18, 2018/19 with a return to an increase capped at 2% in 2019/20. The amounts are lower than £5 as this limit includes any increase in the Loughborough Special Rate (detailed later).

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 1.5% in 2017/18, 1.75% in 2018/19 and 2% in 2019/20. This assumption is discussed further in more detail along with the New Homes Bonus.

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

(Amounts £000)	*2016/17 budget*	*2017/18*	*2018/19*	*2019/20*
1% increase year on year	5,733	5,878	6,040	6,222
2% increase year on year	5,733	5,936	6,160	6,409
£4.47 x 2 then 2% increase (ASSUMED)	**5,733**	**6,062**	**6,416**	**6,674**

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:

http://www.charnwood.gov.uk/files/documents/2016_17_budget_book/2016-17%20Budget%20Book.pdf

For the purposes of the MTFS the Special Rate is assumed to increase by 2% per year over the 3 year period in question. 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.

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

(Amounts £000)	*2016/17 budget*	*2017/18*	*2018/19*	*2019/20*
No increase	1,166	1,184	1,204	1,228
1% increase year on year	1,166	1,195	1,229	1,266
2% increase year on year (ASSUMED)	**1,166**	**1,207**	**1,253**	**1,303**

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 £4.9m in 2013/14 to £4.2m in 2014/15, £3.0m in 2015/16 and £2.09m in 2016/17.

Our projections for RSG are derived from a CIPFA model that takes a forward view of projected government spending and applies this to Charnwood specific data to derive estimates of future RSG.

Table 4: Projected Revenue Support Grant

(Amounts £000)	*2016/17 budget*	*2017/18*	*2018/19*	*2019/20*
As modelled (ASSUMED)	**2,090**	**1,265**	**745**	**165**
As modelled +30% (optimistic)	2,090	1,645	969	215
As modelled -30% (pessimistic)	2,090	886	522	116

The wide-ranging optimistic and pessimistic views reflect the current uncertainty around the RSG, and the likely elimination of this grant in the medium term.

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 £4m. 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 may 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.

The government is currently consulting on the future of business rates with the intention of allowing 100% retention of locally collected rates by the end of this parliament as announced in 2013. This additional revenue should replace reductions in RSG and New Homes Bonus but is likely to come with additional responsibilities that give rise to additional costs. At this point in time it is not possible to calculate the effects of this change as not enough details are known. This will be the subject of a future MTFS.

Table 5: Projected local share of business rates

(Amounts £000)	*2016/17 budget*	*2017/18*	*2018/19*	*2019/20*
As modelled (ASSUMED)	**4,409**	**4,542**	**4,751**	**4,981**
As modelled +2.5% (optimistic)	4,409	4,656	4,870	5,106
As modelled -7.5% (pessimistic)	4,409	4,201	4,395	4,607

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 (£1,529.56). 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 is due to change. A consultation has been undertaken by government however the outcome of this has not yet been announced. What is known is that the number of years for which the bonus is payable is likely to reduce from 2017/18 onwards and suggested reductions include 5 years in 2017/18 then 4 years from 2018/19 onwards, 4 years from 2017/18 onwards and 2 years from 2017/18 onwards. The figures used in this current MTFS are based upon an assumption from industry experts Pixel that the funding level will decrease as of 2017/18 to 4 years of payments. These payments are also dependent upon actual housing growth therefore there are a wide range of plausible outcomes for this funding stream over the period of the MTFS.

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 2012/13 – 2016/17

	2012/13	*2013/14*	*2014/15*	*2015/16*	*2016/17*
Additional properties	599	561	626	727	569
Associated NHB (year) £000	672	847	733	864	716
Cumulative NHB (grant) £000	1,316	2,164	2,897	3,775	4,491

The calculation of additional properties giving rise to NHB has now been performed. These show that 914 properties have been added to our council tax base in the year to October 2016, in line with recent years. Assuming a decrease in the number of years payable as per Pixel, this would generate NHB associated with the 2017/18 year in the order of £1.2m and total a NHB grant for 2017/18 of around £3.5m.

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 2015/16 – 2019/20

	2015/16	*2016/17*	*2017/18*	*2018/19*	*2019/20*[3]
Estimated completions	916	1,304	1,371	1,246	1,408

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 2015/16 and the first half of 2016/17 to be reflected in the council tax base in October 2016. This would suggest around 1,100 additional properties generating the NHB in respect of 2017/18. Similarly, we might expect NHB to be based on approximately 1,340 additional properties in 2018/19 and 1,310 additional properties in 2019/20. Actual figures relating to 2017/18 do indicate an acceleration in housing completions but core strategy projections remain above 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.

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

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 2016 and the housing trajectory presented within the Core Strategy we have assumed the following:

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

(Monetary amounts £000)	*2016/17*	*2017/18*	*2018/19*	*2019/20*
Net additional number of properties	569[A]	914[A]	960[E]	1,008[E]
Associated NHB	719	1,152	1,210	1,270
Cumulative NHB (ASSUMED)	**4,491**	**3,482**	**3,958**	**4,351**
Cumulative NHB (optimistic) +15%	-	3,640	4,139	4,549
Cumulative NHB (pessimistic) +5%	-	3,324	3,779	4,153

(Note: A= actual completions; E = estimated completions)

The base case for 2017/18 is arrived at by using the CTB1 return submitted to the DCLG. This forms the basis of the actual payment receivable. Year on year assumptions have then assumed a 5% increase on additional new properties. This is subject to net new property completions. These figures assume a reduction in NHB receivable from 6 years in 2016/17 to 4 years in 2017/18 onwards.

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 a major beneficiary of NHB and any redistributary changes to the NHB scheme as a result of the consultation 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 £25m - £40m 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.

The budget for 2016/17 is that the Council will receive interest of £265k. 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*	*2017/18*	*2018/19*	*2019/20*
Projected returns (as modelled)	-	0.1%	0.25%	0.5%
Income based on model (ASSUMED)	**265**	**30**	**75**	**150**
As modelled +50% (optimistic)	265	45	113	225
As modelled -50% (pessimistic)	265	15	38	75

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 2016/17 budget. This is adjusted for known 'one-offs' (income or expenditure arising in 2016/17 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. For 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 £12m 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% per annum across the period of the MTFS. The financial effect of this is set out below:

Table 10: Projected effect of staff pay increases

(Amounts £000)	*2016/17 budget*	*2017/18*	*2018/19*	*2019/20*
Pay increase 1% per annum (ASSUMED)	12,003	12,279	12,586	12,712

The above figures all assume an increase in pension on-costs from 28.5% in 2017/18, to 30% in 2018/19 and 30% in 2019/20. This increase reflects the

substantial pension fund[4] deficit and the likely actuarial adjustments required to address this situation.

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)	*2015/16 actual*	*2016/17 budget*	*2017/18*	*2018/19*	*2019/20*
Planning fees	914	1,060	1,081	1,103	1,125
Recycling credits (ex LCC)	859	900	900	0	0
Off street car park income	862	817	833	850	867
Garden bin collections	538	683	785	845	905
General fund rentals (business units, etc)	672	655	668	681	695

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.

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

The projections include amounts relating to benefit subsidies, borough election costs and community expenditure such as grants and credit unions. Additionally, an amount of £150k has been included in each year of the MTFS to mitigate as yet unforeseen expenditure pressures.

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)	*2016/17 budget*	*2017/18*	*2018/19*	*2019/20*
As modelled (ASSUMED)	**17,718**	**17,453**	**17,253**	**18,525**
As modelled -2.5% (optimistic)	-	17,017	16,822	18,062
As modelled +2.5% (pessimistic)	-	17,889	17,685	18,988

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

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

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. The implications of the financial projections and possible responses are discussed further in the Efficiencies section of this document.

Growth Support Fund and Capital Plan Reserve

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

Usable Capital Receipts Reserve

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

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

Use of Prudential Borrowing – General Fund

Charnwood has been able to avoid the use of borrowing in recent years. Whilst funds could be raised for investment purposes, the interest and principal payable on such loans would be an ongoing 'revenue' charge to the Council that would impact upon funds available for day to day service delivery. This option is a possibility for Charnwood but, given the availability of internal sources of funding, and the additional pressure that borrowing would place on funds available for day to day service delivery, there are no current plans to engage in General Fund prudential borrowing during the MTFS period. As the move to localized funding streams intensifies this position may change should a suitable investment to generate future revenue receipts become available.

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 2017 - 2020

Table 13: MTFS financial projections

General Fund expenditure	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**
Net Service Expenditure	**17,453**	**17,253**	**18,525**
Indicative Service Pressures (ongoing)	150	150	150
Interest Payable	240	240	240
Interest Receivable	(30)	(75)	(150)
	17,813	17,568	18,765
Council Tax Support to Parishes	47	30	0
Contribution to Capital Plan (RCCO)	155	155	155
Contribution to/(from) Reinvestment Reserve	(12)	0	0
Efficiency Plan	(721)	(937)	(1,206)
Total Net Expenditure	**17,282**	**16,816**	**17,714**
Financing Strategy			
Council Tax Receipts	(6,062)	(6,416)	(6,674)
Loughborough Special Rate	(1,207)	(1,253)	(1,303)
Revenue Support Grant	(1,265)	(745)	(165)
Business Rates Funding	(4,542)	(4,751)	(4,981)
New Homes Bonus	(3,482)	(3,958)	(4,351)
(Surplus)/Deficit on collection fund – Council Tax	(100)	(50)	(50)
(Surplus)/Deficit on collection fund – NNDR	855	0	0
Total income	**(15,803)**	**(17,173)**	**(17,524)**
Total Net Expenditure from above	17,282	16,816	17,714
Funding (surplus) / savings required	**1,479**	**(357)**	**190**
Implied (addition to) / use of reserves in year	**1,479**	**(357)**	**190**
Cumulative impact on reserves/savings over period of MTFS	1,479	1,122	**1,312**

In the light of the above financial projections work is underway and ongoing to identify 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 2019/20. The current figures are shown below;

Table 14: Strategic Efficiencies Plan 2017-18 to 2019/20

	2017/18	2018/19	2019/20
	£'000	£'000	£'000
Efficiencies Required per MTFS	(2,200)	(580)	(1,396)
Net Income Generating Ideas	281	507	686
Contract Renewals or Variations	105	105	95
General Savings - One Off	165	155	155
General Savings Ongoing	149	149	249
Hard Choices Savings	21	21	21
(Shortfall)/Surplus Efficiencies	**(1,479)**	**357**	**(190)**
Less Impact of Collection Fund (Surplus)/Deficit	855	0	0
Actual Net Expenditure Shortfall	**(624)**	**357**	**(190)**

Further information on the efficiencies work undertaken to date and on the above figures is included in the action plan in section 13 of this document.

Impact on revenue reserves	2017/18	2018/19	2019/20
	£000	£000	£000
Balances brought forward	12,187	8,978	9,335
Implied addtion to / (use of) reserves in year	(1,479)	357	(190)
Already Committed	(1,730)	0	0
Balances carried forward	**8,978**	**9,335**	**9,145**
Analysis of revenue reserves			
Working Balances	5,179	5,536	5,346
Reinvestment Reserve	743	743	743
Growth Support Fund	191	191	191
Capital Plan Reserve	2,426	2,426	2,426
Other Revenue Reserves	439	439	439
Total balances (as above)	8,978	**9,335**	**9,145**

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 2017/18 the impact of the collection fund deficit can be seen to increase the balance required from reserves by £855k. This figure is an estimate and is likely to change as updated information becomes available.

- Service Pressures: Known pressures have been included based upon amounts identified from current information. These could be subject to change as part of the budget setting process.

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 £4.2m (£1.3m post efficiencies work to date). In broad terms this can be explained by the combination of cost pressures and reductions in Revenue Support Grant and New Homes Bonus receipts.

11. Risk and sensitivities

The tables below 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.

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 15: Sensitivity Summary 2017/18

Description	*Pessimistic*		*Assumed*		*Optimistic*
	£'000	£'000	£'000	£'000	£'000
INCOME					
Council Tax	5,878	184	6,062	0	6,062
Loughborough Special Rate	1,184	23	1,207	0	1,207
Revenue Support Grant	886	379	1,265	(380)	1,645
Local Share of Business Rates	4,201	341	4,542	(114)	4,656
New Homes Bonus	3,324	158	3,482	(158)	3,640
Investment Income	15	15	30	(15)	45
EXPENDITURE					
Net Service Expenditure	17,889	436	17,453	(436)	17,017
Extreme Adverse Circumstances		1,536			
Extreme Positive Circumstances				(1,103)	

Table 16: Sensitivity Summary 2018/19

Description	*Pessimistic*		*Assumed*		*Optimistic*
	£'000	£'000	£'000	£'000	£'000
INCOME					
Council Tax	6,040	376	6,416	0	6,416
Loughborough Special Rate	1,204	49	1,253	0	1,253
Revenue Support Grant	522	223	745	(224)	969
Local Share of Business Rates	4,395	360	4,755	(115)	4,870
New Homes Bonus	3,779	180	3,959	(180)	4,139
Investment Income	38	37	75	(38)	113
EXPENDITURE					
Net Service Expenditure	17,685	432	17,253	(431)	16,822
Extreme Adverse Circumstances		1,657			
Extreme Positive Circumstances				(988)	

Table 17: Sensitivity Summary 2019/20

	£'000	£'000	£'000	£'000	£'000
INCOME					
Council Tax	6,222	452	6,674	0	6,674
Loughborough Special Rate	1,228	75	1,303	0	1,303
Revenue Support Grant	116	49	165	(50)	215
Local Share of Business Rates	4,607	374	4,981	(125)	5,106
New Homes Bonus	4,153	198	4,351	(198)	4,549
Investment Income	75	75	150	(75)	225
EXPENDITURE					
Net Service Expenditure	18,988	463	18,525	(463)	18,062
Extreme Adverse Circumstances		1,686			
Extreme Positive Circumstances				(911)	

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 £23m in 2015/16 of which £21.7m was dwelling rents. Expenditure on management and repairs amounted to £9.8m whilst depreciation was £6.5m. A further £2.4m is required for interest payments on its debt and £3.9m 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 2016 it was £1,158k against a target balance of £627k. There is an additional £750k in a new Housing Financing Fund, the purpose being to help militate against the financial pressures that national policy will place on the HRA in the medium-term.

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

13. Reserve Strategy, Action plans and Efficiency Statement

Reserve Strategy

From 2021 onwards income from central government is uncertain due to the consultation around business rate retention. The Council's strategy is to have a minimum of £3m in the working balance going into 2021, giving at least £1m 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 2020 will be £5.3m 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 (2016/17)

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. The approach to setting the 2017/18 budget, and subsequent revenue monitoring, 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. Additionally the position for 2015/16 outturn is likely to be much closer to budget than in previous years. The current MTFS highlights the need to make further efficiencies and draft plans have been drawn up which identify 'efficiencies' of around £720k in 2017/18, with a further £216k in 2018/19 and £269k in 2019/20. As further work is undertaken it is anticipated that this amount will increase in order to create a balanced budget from 2019/20 onwards. 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. An element of the plan that needs further work is 'hard choices' and 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 recognized that on the figures currently available and estimated, further savings in the region of £1.1m are required from 2019/20 onwards. The Council will utilise its reserves to balance the budget in 2017/18 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 will be an important element of the Council's funding whilst the current scheme is in operation. This funding is dependent on the delivery of additional housing feeding through to the council tax register. An action is therefore to develop more regular monitoring of the net additions to this 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. A further action is therefore to hold more regular reviews of the provision required for appeals against business rates valuations.

Partnerships

The Council currently hosts the Department for Work and Pensions and has an area for Loughborough Police within its offices. It also has a partnership with North West Leicester District Council to deliver Property Services. 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.

Estimates of income from the New Homes Bonus and Revenue Support Grant will be updated once more information will be given and this will be used to inform the 2017/18 budget setting process.

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.