Hinckley & Bosworth Borough Council

Medium Term Financial Strategy 2019/20-2023/24

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1. MEDIUM TERM FINANCIAL STRATEGY 2019/20 - 2023/24

1.1 The purpose of the Medium Term Financial Strategy (MTFS) is to:

- Outline how the Council wants to structure and manage its finances and to ensure it fits with and supports the direction of the council's objectives set out in its Corporate Plan.

- Engage officers and members in "owning" the process by which Council finances are managed.

1.2 The MTFS has been prepared taking into account the Corporate Plan 2017 to 2021 and should be read in conjunction with the Capital Programme, General Fund and HRA budgets, which are presented separately.

2. EXECUTIVE SUMMARY

2.1 The MTFS has been fundamental to securing the key ambitions and objectives of the Council's Corporate Plan adopted in2017. The MTFS refresh 2019-2024 sets the framework for continuing to deliver high quality local services to residents and businesses. It enables the Council to deliver on its key flagship projects including Parish and Community Initiatives, Developing Communities Fund programmes, the development of a new crematorium, the delivery of new affordable housing schemes and investment in new economic initiates to improve our market towns and for investment in our business units.

2.2 The 2019/20-2023/24 MTFS comes at the end of the four-year financial settlement entered into in 2016/17, with 2019/20 being the final year. Central Government have not replaced this with a clear intent of what will happen in future years. There is a fair funding review during 2019 and a review of business rates retention at the local level. The results are due in December 2019. This makes forecasting a future five-year period challenging.

2.3 Information from ongoing consultation is not definitive and covers potential areas of change, which indicates a risk to sources of income that have been a core part of HBBC's financing in the past. This involves changes to business rates and the baseline funding that may be retained. This means there could be a sizeable reduction to district council funding.

2.4 There have also been hints that other areas of funding, such as New Homes Bonus (NHB) may also have changes made. This is another key part of HBBC's funding.

2.5 The main pressures on the budget come from reductions in New Homes Bonus (NHB) and increased pay costs. The national agreement on pay increases has affected both 2018/19 and 2019/20. There was also the TUPE inwards of staff as part of the waste service changes made in 2018/19 This means that the expected pay bill for 2019/20 is £12.5m, which is £1.2m (11%) higher than in 2017/18. There was an offset saving on the waste contract of about £0.5m, but this still leaves a large pressure.

2.6 The NHB is lower payment in 2019/20 than expected, due to a fall off in new properties and an increase in empty properties. This has reduced the forecast income over the MTFS by £0.7m, and if repeated next year similar amount will be lost.

2.7 However, the council has £9.1m of expected total reserves at the end of 2018/19, and this MTFS has £6.1m expected at the end of the 2023/24, which means it can deal with these pressures in the short term. These level of reserves should give the Council time to take action, should the fair funding review prove be detrimental to the expected level of funding forecast, which is currently a key risk

3. BACKGROUND TO THE REPORT

Introduction

3.1 The MTFS has ensured that the Council has been able to deliver on its commitments in its adopted Corporate Plan (2017-2021). This refresh of the MTFS builds on the position agreed at the February 2017 and 2018 Council meeting. The MTFS underpins the council's Corporate Plan going forward and ensures that resources are allocated and used effectively to achieve corporate targets. In addition, the MTFS is an integral element of the financial planning procedures of the Council and forecasts how the Council will remain financially resilient and sustainable as an organisation, whilst at the same time not placing an unreasonable burden on local taxpayers. The MTFS update sets out the council's financial position for the years 2019/20 to 2023/24, giving a total five-year outlook. The further into the future predictions are made, particularly in uncertain times, means that information should be interpreted with care.

3.2 The update to the MTFS comes at a time of significant uncertainty, which will have an effect on public sector finances. We are currently entering the last year of the four year settlement, with 2020/21 being the period when the fair funding review results are released. There is also the uncertainty of the "Brexit" outcome, which could influence the financial outlook and growth and room for increasing public spend. However, spending on public services will grow 1.2% above inflation a year from next year until 2023-24. However, it is not clear that this will benefit district councils as it is mainly earmarked for:

- NHS funding will increase by £20.5 billion after inflation by 2023-24.
- Local authorities in England will receive a further £650 million in social care funding next year.
- £400 million extra for schools this year

- £28.8 billion National Roads Fund, paid for by road tax, includes £25.3 billion for the Strategic Road Network (motorways, trunk and A roads)

- Over £1.5 billion to support the high street, this is aimed at small retail businesses which will see their business rates bills cut by a third for two years from April 2019, saving them £900 million, and

- Local high streets will benefit from £675 million to improve transport links

3.3 Other recent issues affecting the Council during the term of the MTFS update are the significant changes to the administration of Business Rates as part of the baseline reset in 2020/21. There is still uncertainty over the exact impact this will have, therefore longer term forecast are becoming more uncertain.

3.4 It is expected that as part of the fair funding review that the baseline funding from business rates will be recalibrated, which will take affect from 2020-21. This would be at the same time that local business rate share will increase from 50% to 75% in 2020-21. If this is a full reset, then accumulated growth going back to 2013/14 will be lost, this will be via an amendment to the tariff. In addition, there is no definitive information on tier split or any transitional funding to soften the impact of lost growth for districts councils. Also, the methodology for redistribution from lower need to higher need areas via tariffs and top up is still not clear. This MTFS uses a reset of the baseline that would leave some income growth and a partial levy of 25%, but this may turn out to be optimistic.

3.5 No major changes were made in relation to Council Tax. However, Local Authorities will be given the powers to charge a 100% premium on empty properties. This is being reviewed and the County are encouraging all districts to move to a 100% premium. This may also aid in reducing empty properties and increase New Homes Bonus funding.

3.6 No additional funding will be made available for public sector pay in Local Authorities. Therefore, the second stage of the national pay agreement will fall fully on the general fund and HRA. This is at a cost of about £200k per year and £1m over the five years of the MTFS.

3.7 The main financial implication of the recent budget was the proposal to lift the cap in HRA borrowing. This was covered in the recently approved HRA investment plan and options are being considered separately to this MTFS, which deals with the general fund budget and forecast.

3.8 Looking forward there are significant pressures for 2019/20, and beyond, which are mainly caused by the:

- Lower than expected New homes Bonus,

- Pay increase above the expected 2% due to spinal point changes,

- Lower than expected income from Block C at the Crescent, and
- Increased ICT pressures.

3.9 The same ten strategic financial objectives, as agreed by Council in previous iterations of the MTFS have been used during this update. These objectives serve to ensure the delivery of the council's corporate strategic objectives of delivering the council's MTFS with a sustained focus on the council's priorities whilst working to resolve the continuing pressure of service requirements in the context of available resources. The objectives are listed in Appendix 3.

3.10 The MTFS update (Full details are contained at Appendix 1) is one of a suite of documents, which inform the financial strategy of the Council. These include the Capital Programme, HRA Investment Strategy and Treasury Management Policy, all of which should be read in conjunction with this document. A summary of the overall MTFS excluding Special Expenses is given in the table below.

3.11 Note that the four-year settlement agreed in 2016 comes to an end in 2019/20 and a fair funding review is in progress (see section 8 below). The results will not be announced until the financial settlement in December 2019. This makes the years 2020/21 to 2023/24 challenging to forecast due to the lack of information from Central Government on its intentions, in relation to the fair funding review and the baseline reset for retained business rates income. Therefore, the MTFS updated in this report is based on the most recent announcements and advice, which could be impacted positively or negatively than forecast when the final announcement is made. This is covered by inclusion of some alternative scenarios in the report that follows.

3.12 The table below gives a high-level overview of the expected budget and general fund reserve movements between 2019/20 to 2023/24. The table shows three years of achieving the 15% target and then it drops below in the final two years, ending at just over 10%. Further reserves of £580,000 could have been used to hit the 15% target in all years, but due to the uncertainty, it was considered prudent to hold as much is in reserve a possible until the fair funding review is completed and there is clarity in terms of funding levels.

2019/20-2023/24	2019/20	2020/21	2021/22	2022/23	2023/24
FINANCIAL FORECAST	Budget	Forecast	**Forecast**	**Forecast**	**Forecast**
	£000	£000	**£000**	**£000**	**£000**
Net Service Expenditure	11,385	11,083	11,407	11,345	11,665
Net Budget movements	-302	324	-62	320	352
NET Borough Budget Requirement	**11,083**	**11,407**	**11,345**	**11,665**	**12,017**
Pension adjustments	-328	-328	-328	-328	-328
Contribution to Reserves	1,578	378	176	212	282
Contributions from unapplied grants	-158	-54	0	0	0
Contribution from Reserves	-1,503	-1,128	-758	-332	-411
Contribution to/(from) Balances	156	-123	46	-326	-82
NET BUDGET/FORECAST EXPENDITURE	10,827	10,153	**10,481**	**10,892**	**11,479**
Performance against target of 15%	**15.26%**	**15.06%**	**15.03%**	**11.47%**	**10.17%**
15% minimum balances	1,624	1,523	1,572	1,634	1,722
General Fund (Balances)	1,652	1,529	1,575	1,249	1,168
Amount above or below minimum balance	28	6	3	-384	-554

Corporate Plan and the MTFS update

3.13 The MTFS is the mechanism by which the finances are managed to ensure the Corporate Plan priorities can be delivered. The Council has already made difficult decisions to agree previous budgets that enable a balanced position to be achieved as included in the prior MTFS. However, there are still challenges ahead, the Council is well placed to deliver its corporate priorities in the short term whilst maintaining future balanced budgets over the life of the updated MTFS based on the assumptions used, but caution is needed due to the high level of uncertainty due to the fair funding review and business rates baseline reset. The Council will need to be prudent when there is any consideration of taking on new costs and will need to begin to consider where possible savings and new income can should be sought.

3.14 It should be noted that the Council have already taken action to generate income to become more self reliant, by looking for income from other sources. It has also had to make difficult decisions in relation to the level of charges it makes. Key decisions in this area have been:

- to accept the government’s offer to increase the Council Tax by £5 each year of the four year settlement,
- levy a £24 garden waste charge, which is subject to annual confirmation as part of setting the fees and charges of the Council,
- last year’s 10p increase in car parking charges,
- maintaining a 5% vacancy factor saving in the region of £0.6m a year, and

- managing working capital to minimise borrowing, with a current under-borrowed level of almost £22m saving considerable costs in interest.

3.15 Other areas include entering into agreements that have generated significant management fee income over the life of this MTFS, obtaining other commercial rents, and encouraging business to the area, which has increased business rate growth. In addition, work is ongoing to establish a crematorium that will generate income, while meeting the needs of local residents.

3.16 In order to drive efficiency savings within the cost of supplies and services, a rate of 0% has been applied to non-contract related expenditure. As the Retail Price Index (RPI) has stood between 2-4% in year, the application of 0% represents an effective saving on running costs.

3.17 It is this level of commitment to efficiency, which means we remain in the bottom 15 out of 201 district councils for the level of council tax charged, and the lowest out of the seven Leicestershire District Councils.

3.17.1 The MTFS poses challenges that may occur if the fair funding review leads to a loss of income. The Council is in a reasonable financial position in the short term, but is currently spending more than it has coming in. The council is currently planning to use the reserves to support the general fund. This is reasonable in the short term, but this cannot be done indefinitely and indicates actions are necessary to bring the longer terms finances into balance. This will need a mix of new income and controlling costs. The MTFS in this report uses approximately £0.5m a year to support the expected pressures on the general fund, and leaves little scope to renew our earmarked reserves. There is a lot of uncertainty over the fair funding review and the baseline reset for business rates in 2020/21, which may be more favourable than anticipated, but in the face of uncertainty it is better to ensure suitable action is taken to ensure finances are used prudently.

3.18 Other risks to the Council's funding that central government are considering garden waste becoming a free service, and the collection of food waste being separate to general domestic waste. The Department for Environment, Food & Rural Affairs (DEFRA) is carrying out a consultation on the issue. This would remove £760,000 of income for garden waste and would cost approximately £800,000 for separate food collection. There maybe some government funding, but this is not clear from current information. There would also be about £1.2m for capital outlay to deal with food waste collection.

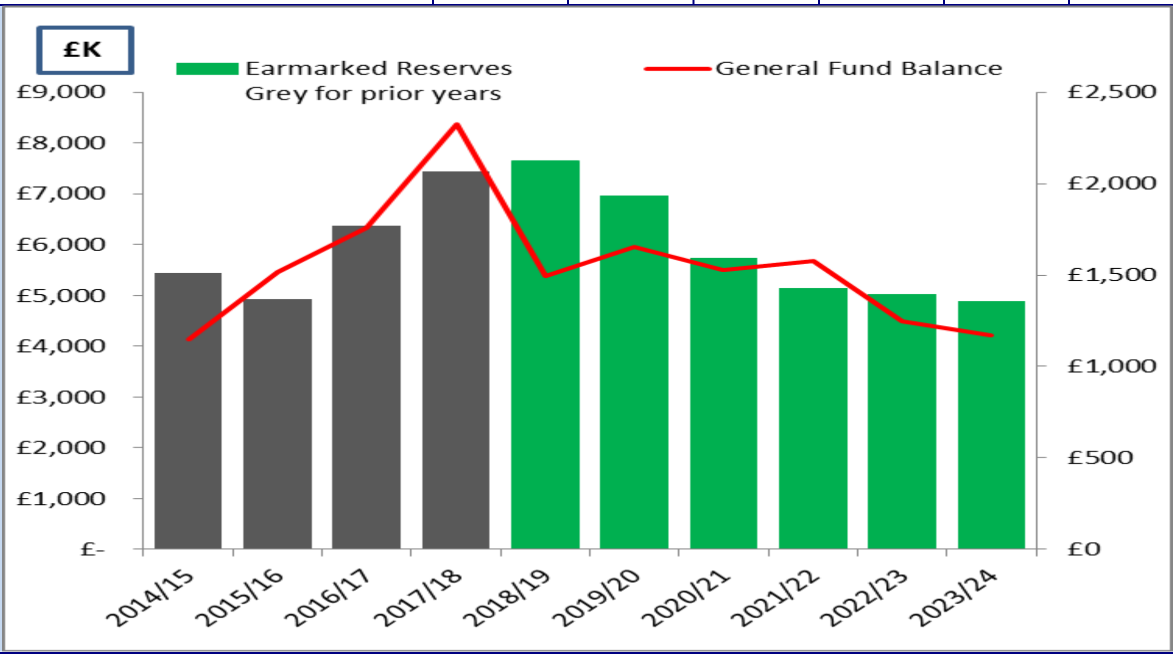
3.19 Other income opportunities are open to members in relation to a review of fees and charges, and investments in economic initiatives that bring n further income. It should be noted garden waste charges that are amongst the lowest in the country and are static at £24 over the life of the MTFS. At £24 HBBC is currently the cheapest out of the six districts currently charging in Leicestershire.

4. Review of the key changes of the MTFS update

4.1 Appendix 2 of the MTFS details the level of reserves and balances that the Council will hold at the end of each financial year of the MTFS. Table 1 below shows any surplus/deficit on the General Fund balance after applying the proposed Council's policy of holding 15% of the net budget requirement in balances at the end of each financial year. The updated MTFS gives an average of 13.35%, including 2022/23 and 2023/24, but 15.4% for the first three years prior to that. The council could use a further £580,000 of its reserves to show 15% being achieved in each year, but these would leave the reserves with less flexibility to meet contingencies. Care is needed over the MTFS period to ensure there is tight control over the management of the cost base of the council and to increase income where possible due to the uncertainty of the fair funding review.

4.2 The graph in Table 1 gives an overview of the general fund and earmarked reserve position expected over the life of the MTFS. The graph shows that the total of all reserves are reducing by about £3.2m over the life of the MTFS. Based on the assumption used, this is affordable over the period of the MTFS, but care is needed not to overcommit reserves until further information is released in relation to the fair funding review, which is due in December 2019.

Table 1	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
General Fund Balance	1,496	1,652	1,529	1,575	1,249	1,168
Percentage of net budget	**13.56%**	**15.26%**	**15.06%**	**15.03%**	**11.47%**	**10.17%**
Earmarked Reserves	7,644	6,968	5,744	5,137	5,016	4,887
Total Reserves	**9,140**	**8,620**	**7,273**	**6,712**	**6,266**	**6,055**
General Fund Surplus/(Deficit)	-827	156	-123	46	-326	-82



4.3 When interpreting the graph above, it should be kept in mind that part of current earmarked reserves are intended for capital purposes, and are not available for revenue support. Also, the outcome of the fair funding review may mean we do not have the level of income expected.

Changes to reserves

4.4 The key change underlying the reserves that support the MTFS is the increase in pressure that has been placed on the finances of the council in 2019/20 and over the MTFS period, further detail is given below at Table 4. These pressures are set out in paragraph 3.8.

4.5 These pressures are in place and are based on costs being incurred or about to be incurred have we are using, support from reserves to maintain a reasonable balance.

4.6 Table 2(a) and 2(b) below gives the earmarked reserve balances as noted in the prior MTFS approved by the Council in February 2018 compared to the updated MTFS. This demonstrates how the Council will use the earmarked revenue reserves to maintain the general fund position. If we did not have these reserves to fall on, the general fund would not be able to maintain the forecast performance against target as reported in this MTFS. However, Capital reserves are not so heavily committed and two of these reserves have been closed at the end of 2019/20. The remaining balances on these reserves of £425,000 are to be transferred to the Business Rates Equalisation reserve, along with the £0.5m pilot bid gain, to provide a greater level of cover for risks stemming from the fair funding review and business baseline reset (See table 3c).

Table 2(a) Updated MTFS	£000 2018/19	£000 2019/20	£000 2020/21	£000 2021/22	£000 2022/23	£000 2023/24
Earmarked Revenue reserves	5,196	5,768	4,994	4,387	4,266	4,137
Earmarked Capital reserves	2,447	1,200	750	750	750	750
Total	**7,644**	**6,968**	**5,744**	**5,137**	**5,016**	**4,887**
As a % of the 2018/19 position	100%	91.2%	75.1%	67.2%	65.6%	63.9%
Table 2(b) Prior MTFS	**£000 2018/19**	**£000 2019/20**	**£000 2020/21**	**£000 2021/22**	**£000 2022/23**	**£000 2023/24**
Earmarked Revenue reserves	4,971	5,606	4,868	3,936	3,193	n/a
Earmarked Capital reserves	1,650	1,190	580	420	385	n/a
Total	**6,621**	**6,796**	**5,448**	**4,356**	**3,578**	**n/a**
As a % of the 2018/19 position	100%	102.6%	82.3%	65.8%	54.1%	n/a

Table 2 (c)	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Updated Earmarked Revenue Reserves MTFS	5,196	5,768	4,994	4,387	4,266	4,137
Earmarked Revenue Reserve balances MTFS 2017/18	4,971	5,606	4,868	3,936	3,193	n/a
Net increase/Decrease	**225**	**162**	**126**	**451**	**1,073**	n/a

4.7 To support the general fund position as noted in the MTFS forecast at Table 1 above, the Council is using about £1.6m of reserves, mainly form the Business Rates Equalisation Reserve between 2020/21 to 2023/24, which is to cover shortfalls in business rates income and to cover appeals not covered by our appeals provision. This is possible due to strong growth in 2016/17 and 2017/18, and the decision to strengthen this reserve by £1,059,000 in 2019/20 to provide a cushion against uncertainties that may impact on the council income. The forecast use on this level of reserve indicates that a tight control on costs and seeking additional income will be needed due to the high level of uncertainty caused by the fair funding review and baseline reset of business rates. The reserves movements are included below (Table 3).

4.8 The table below gives and indication of the potential impact of some of the risks discussed later in this report occurring. The profile below assumes that the fall of £170,000 in building control income noticed in 2018/19 is recurring and that the fall in NHB awarded for 2019/20 of £0.35m is repeated for 2020/21. This is to demonstrate how just two factors going against the forecast can have a dramatic impact on the level of reserves needed.

Table 2 (d)	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Earmarked Revenue reserves Forecast	5,196	5,768	4,994	4,387	4,266	4,137
Earmarked Revenue reserves Forecast with loss of Planning income and NHB	5,196	5,598	4,654	3,877	3,586	3,287
Loss Risk Total	**0**	**-170**	**-340**	**-510**	**-680**	**-850**

Earmarked Reserves

4.9 The following use of reserves needs to be noted and agreed by members as they represent a set aside of general fund balances to meet future pressures and costs. No new reserves are being created in this MTFS. Note, that the business plan equalisation reserves has had £925,000 put transferred in for 2019/20, this is made up of the transfer from capital reserves (£425k, table 3c) and the set aside of the forecast business rate pilot gain expected for 2019/20 of £500,000. This is needed to maintain the gain on the business rate pilot in reserves until the governance arrangements are agreed, and to enable reserves to be in a better position to deal with any income reductions that may arise from the fair funding review. The other large revenue based movement is on the Asset management reserve (£397,000), which has been released to the general fund following members' decision to market Block C. These reserve movements help to support the achievement of the 15% performance target for the general fund.

4.10 Table 3 gives the transfers in and out of reserves for 2019/20 and 3a gives the expected net use of reserves over the remaining years of the updated MTFS.

Table 3 £	2019/20 (1/4/2019)	Transfer out	Transfers in	Closing Balance
Hub Future Rental	400,000	0	0	400,000
Special Expenses Reserve	136,360	-10,000	0	126,360
Local Plan Procedure	573,532	-238,650	71,880	406,762
Business Rates Equalisation	2,210,585	0	1,059,000	3,263,685
ICT Reserve	239,765	-139,500	162,000	262,265
Waste Management Reserve	375,260	-55,000	0	320,260
Asset Management Reserve	797,400	-397,400	0	400,000
Enforcement and Planning Appeals	230,000	0	0	230,000

Earl Shilton Toilets	100,000	-50,000	0	50,000
Building Maintenance costs	588,120	0	0	588,120
Minor Capital Projects	175,000	-175,000	0	0
Hinckley Community Development Fund	350,000	-150,000	0	200,000
PCIF	375,000	-375,000	0	0
Developing Communities Fund	750,008	-400,000	250,000	600,008
Smaller than £100k	342,737	-262,849	35,000	120,788
Total	**7,643,767**	**-2,253,399**	**1,577,880**	**6,968,248**

Table 3a Anticipated use (Balances over £100k)	Bal 31st March 2020	2020/21	2021/22	2022/23	2023/24	Remaining balance
	£000	£000	£000	£000	£000	£000
Hub Future Rental Management Reserve	400	0	0	0	0	400
Special Expenses Reserve	126	-10	-10	0	0	106
Local Plan Procedure	407	-105	-25	-25	-21	231
Business Rates Equalisation Reserve	3,264	-465	-507	-173	-252	1,867
ICT Reserve	262	-102	8	-84	-84	0
Waste Management Reserve	320	-80	-80	137	103	400
Asset Management Reserve	400	0	0	0	0	400
Enforcement and Planning Appeals	230	0	0	0	0	230
Earl Shilton Toilets	50	0	0	0	0	50
Building Maintenance costs	588	0	0	0	0	588
Minor Capital Projects	0	0	0	0	0	0
Hinckley Community Development Fund	200	-200	0	0	0	0
PCIF reserve (Future Top up pressure)	0	0	0	0	0	0
Developing Communities Fund	600	-250	0	0	0	350
Smaller than £100k	121	-13	7	25	25	165
Total	**6,968**	**-1,225**	**-607**	**-120**	**-129**	**4,887**

Table 3c Transfers between Earmarked reserves	Bal 1 April 2019	Transfers to General Fund	Transfers From General Fund	Transfers between reserves	Bal 31 March 2020
Revenue Reserves	**£000**	**£000**	**£000**	**£000**	**£000**
Business Rates Equalisation Reserve	2,211	-236	500	425	2,810
Capital Reserves	**£000**	**£000**	**£000**	**£000**	**£000**
Minor Capital Projects	175			-175	0
PCIF reserve (Future Top up pressure)	250			-250	0

4.11 As well as an increase in pressures, which are covered by reserves, there is still the risk that income will be lower than expected due to the baseline funding reset and fair funding review.

4.12 Further details of all reserves movements are given in Appendix 2.

5 Pressures in 2019/20 and over the MTFS period

5.1 Due to the reduction in more certain income streams such as RSG, and the move to more changeable income streams from business rates and New Homes Bonus (NHB), the level of general fund minimum balances has been set to a target level of 15% over the life of the MTFS. This does not mean that a range of 10% to 15% in any one year is problematic, but that the longer-term average should have a target level of 15%. The MTFS in this report has an average to 2023/24 of 13.35%, which is less than the desired target, but a deliberate decision in for this five year forecast. The later years forecast post the fair funding review and baseline reset, are less certain due to a lack of clarity from Central Government at this stage, but current information available suggests pressures will mean the general fund is reducing to 10.17% in 2023/24, and the trend based on current assumptions would be downwards after that. However, this is subject to the fair funding review and any actions taken to generate income by the Council.

5.2 Income streams continue to be less certain with the potential for a rebase of baseline funding in relation to business rates likely in 2020/21, which will remove some or all the levels of growth realised to date.

5.3 The forecast scenario includes significant pressures and is only achievable in 2019/20 through use of reserve balances. The table below gives the overall savings and pressures included in the 2019/20 General Fund revenue budget report.

Table 4	Pressures	Income/ Savings	Net
	£	£	£
Pay cost increases	411,092		411,092
Local Plan	94,000		94,000
Elections and related costs/ grant income	85,000		85,000
Flexible Homeless Grant -Expenditure	58,875	-58,875	0
Allowance for inflation - costs and fees	125,131	-78,596	46,535
B&B pressure -chance in legislation	40,000		40,000
Apprenticeships/interns	38,140		38,140
Car parks		-28,400	-28,400
Block C Rentals/Service charges	28,570		28,570
Housing Repairs DSO	20,000		20,000
Reduction in Market Income		-2,000	-2,000
Strategic Growth plan	20,000	-28,289	-8,289
ICT costs	40,500	-50,000	-9,500
Increase in tipping away fees		-11,000	-11,000
Increase in Bulky items collection		-14,800	-14,800
Rev and Bens - contributions		-15,000	-15,000
Insurance costs savings		-15,000	-15,000
Debtor management savings		-16,970	-16,9700
Middle Manager Training & other training		-25,000	-25,000
Waste and Dry Recycling - Increase in customer base	30,600	-58,000	-27,400
Rentals on industrial units		-28,767	-28,767
Town Centre Events (Removal of one off costs form budget)		-36,000	-36,000
Other small movements	65,760	-152,570	-86,810
Investment income and provision change		-155,193	-155,193
Reversal of one prior year supplementaries		-246,641	-246,641
Total	**1,057,668**	**-1,021,100**	**36,568**

5.4 The net difference between the costs and pressures is £36,568, but when only the recurring items are considered this becomes much higher at £0.4m, which puts significant pressure on the general fund over the MTFS period. The General Fund Budget has further details of these pressures and savings, which should be read in conjunction with this report. The more significant pressures, over £50k, and savings or Income changes are covered below.

6 Payroll pressures

6.1 The Tables below gives the change in pay pressures between the current and prior year MTFS. Following further information and negotiations with unions, the second part of the national settlement has been agreed. The spinal point changes to our pay structure means that pay costs will increase at a higher rate than forecast. This puts an annual pressure of £200,000 on average and an overall impact of £1,011,129 onto the Council's employee costs; £760,000 falls on the general fund and £241,000 on the HRA. This is after taking into consideration the 5% managed vacancy factor in place, which will save the Council £0.6m in 2019/20 and £3m over the life of the MTFS. Note, there is a further £35,000 (at 2019/20 costs) not included in the table below of payroll pressures budgeted for in relation to posts about to be filled, but who have not yet been appointed. Including pay inflation this will add a further ££0.2 to the five year costs total.

Table 5, payroll pressures	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Updated MTFS	£m	£m	£m	£m	£m	£m
Capital	0.21	0.21	0.22	0.22	0.23	1.09
GF	10.57	10.89	11.22	11.49	11.72	55.88
HRA	1.77	1.83	1.88	1.94	1.97	9.39
Total	**12.54**	**12.93**	**13.32**	**13.65**	**13.92**	**66.36**
Prior MTFS	£m	£m	£m	£m	£m	£m
Capital	0.21	0.21	0.22	0.22	0.22	1.08
General	10.57	10.81	11.03	11.25	11.47	55.13
HRA	1.74	1.79	1.83	1.87	1.91	9.14
Total	**12.52**	**12.81**	**13.08**	**13.34**	**13.60**	**65.35**
Net increase/Decrease	**0.02**	**0.12**	**0.24**	**0.31**	**0.32**	**1.01**

The Local Development Plan (LDP)

6.2 The table below gives the comparisons of the updated MTFS and prior year MTFS position on the LDP. The Strategic Growth plan (SGP) has been added to the costs in to this table as well as the LDP reserve is being used to fund that cost. The first three years, 2018/19 to 2020/21 have been costed, but the following years are based on an average prediction, as there is likely to be ongoing LDP costs. If the assumptions are reasonable, this indicated that there are sufficient reserves to fund our ongoing LDP, and there will be £231,112 of the LDP reserve left at the end of 2023/24. These costs re covered by reserves based on current expectations of spend

Table 5 (a),	2019-20	2020-21	2021-22	2022-23	2023-24	Total
LDP	£	£	£	£	£	£
Updated MTFS	200,000	339,000	75,292	75,292	75,292	764,875
Prior MTFS	84,000	268,000	100,000	100,000	100,000	652,000
LDP Net increase/Decrease	**116,000**	**71,000**	**-24,708**	**-24,708**	**-24,708**	**112,875**
SGP	20,000	34,650	23580			
Total pressure	**136,000**	**105,650**	**-1,128**	**-24,708**	**-24,708**	**191,105**

6.3 The main change for 2019/20 and 2020/21 are given below. These have been costed at £67,000 (light blue highlight) of the 2019/20 costs are from carry forwards arising before 2018/19. It is assumed some of the £150,000 of 2019/20 pressures will be managed within the budget allocation of £200,000.

Table 5(b) Description	2019/20	2020/21
Habitat Survey Refresh	£15,000	
Agricultural Land Survey	£20,000	
Strategic Flood Risk Assessment	£10,000	
Green Infrastructure Strategy	£9,000	
Employment Sites and Premises Study - new study	£20,000	
Gypsy and Traveller Accommodation Needs Study refresh	£17,000	
Sustainability Appraisal - Reg 19	£22,000	
Strategic Flood Risk Assessment	£10,000	
Gypsy and Traveller Accommodation Needs Study refresh	£17,000	
Commonplace Consultation Software	£10,000	
Sustainability Appraisal		£6,000
Infrastructure Capacity Study - Infrastructure Delivery Plan		£25,000
Counsel Support		£40,000
	£150,000	**£71,000**

Other pressures over £50,000

6.4 The other pressures over £50,000 are:

- £85,000 the cost of elections in 2019/20, which is covered by a reserve
- £58,875 of Flexible Homeless Grant –Expenditure, which covers homelessness officers, currently grant funded, but as grant carried forward the growth is needed in 2019/20 to spend the carry forward
- £35,000 other payroll pressures for a monitoring officer in planning.

7. Savings and income growth in 2019/20 and over the MTFS period

7.1 There are underlying savings that support the budget on an ongoing basis, such as the senior management restructuring, the vacancy factor of 5% that saves in the region of £0.6m a year. Other areas of income such as Garden waste charges, which raise £0.75m a year and the leisure centre fee of around £1m a year over the life of the MTFS are all successes of action taken by the Council to increase it income.

7.2 The table below gives items that are included in the base budget as annual saving or income targets currently rolled forward that are built into the overall budget for the MTFS to 2023/24.

Table 6	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£	£	£	£	£	
Capital Financing	29,780	29,780	29,780	29,780	29,780	148,900
Development control	170,000	170,000	170,000	170,000	170,000	850,000
Fees and Charges	78,596	80,482	82,413	78,600	80,480	400,571
Legal cost	50,000	50,000	50,000	50,000	50,000	250,000
Training	25,000	20,000	0	0	0	45,000
Total	**353,376**	**350,262**	**332,193**	**328,380**	**330,260**	**1,694,471**

7.3 The MTFS has been updated to reflect the decision by members to sell some commercial assets in the Crescent and use the capital receipt to support the building of the crematorium investment. The table below summarises the changes made. If block C is sold in 2020/21 and the crematorium can commence operation, the additional funding obtained is £295,556. However, the income from the crematorium is considered more certain. In 2018/19 the rental income from Block C is expected to be £331,143, compared to the forecast income last year of £416,835.The crematorium has been moved back a year for when income commences, a further slippage of one year would lose the Council up to £377,272 of income, assuming that it is fully operational in its first year. This may not be the case.

Table 7	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Updated MTFS	**£**	**£**	**£**	**£**	**£**	**£**
Crematorium	0	377,272	394,379	412,253	430,929	1,614,833
Block C (net)	100,810	0	0	0	0	100,810
Total	**100,810**	**377,272**	**394,379**	**412,253**	**430,929**	**1,715,643**
Prior MTFS	**£**	**£**	**£**	**£**	**£**	**£**
Crematorium	63,266	79,641	96,749	114,622	133,299	487,577
Block C (net)	186,502	186,502	186,502	186,502	186,502	932,510
Total	**249,768**	**266,143**	**283,251**	**301,124**	**319,801**	**1,420,087**
Net increase/Decrease	-148,958	111,129	111,128	111,129	111,128	295,556

8. Local Government funding - Fair Funding review

8.1 Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.

8.2 The Government has recently announced some generalised information regarding the shape of its Fair Funding Review and the date for implementation which is now expected in 2020-21. The review determines the starting position of funding for local authorities based on an assessment of the relative level of needs and resources of all councils across England. The outcome of the review will determine the level of business rate tariffs and levies chargeable against locally collected business rate income, and the level of income that can be retained by local authorities.

8.3 The aim of the fair funding review is to ensure local government funding allocated in a fair, robust and evidence based way. The results of the Fair Funding Review are due in December 2019 as part of the financial settlement. This makes elements of forecasting post 2019/20 problematic as there is little detail on issues, in particular the baseline reset for business rates, and or how tariffs or top up will be applied and what levy on growth there will be.

8.4 The Fair funding review is not yet complete, but some consultation and initial views have been published. The Government is "working towards implementing the outcome of the first part of the review as part of the 2020-21 local government finance settlement", with a further stage of formal consultation before the provisional settlement itself in December 2019.

8.5 The overall direction of travel represented in this latest consultation paper is towards a flatter distribution of "needs". We were expecting the distribution of "needs" to be flatter to counter-act the effects of council tax equalisation. Some key areas that have been covered by the consultation and initial intentions are:

- It is proposed that deprivation will no longer form part of the Foundation Formula of the fair funding basis. This is a blow for the more deprived authorities that there will be no deprivation indicators in the third largest funding block. The foundation formula applies to all authorities so everyone is affected.

- There are options for partial council tax equalisation, with a cap being used to control the impact. This proposal is not clear from the consultation as to what it will mean in practice

- There are still some very large gaps in what we know about the outcome of the FFR, particularly in respect of the Adult's and Children's social care formulae, which is likely to cover half of the "needs" assessment. This has the potential to change other areas of consideration as a key area of central government to fund.

- Rurality is to be removed from the Foundation Formula and will instead be funded through the Area Cost Adjustment (ACA) as a specific item. Instead of using sparsity. It will be based on the Department of Transport's travel time data, but again the details are unclear. An ACA can be adjusted to apply more specifically to an areas needed.

- For urban authorities, it is probably helpful that density will now be included in the ACA, alongside sparsity. There is no information on weighting of the density factor in the ACA, but it is likely to have a lower weighting than it currently enjoys.

- The outcome of the FFR looks particularly bleak for London, therefore there may be significant push back from London Boroughs.

8.6 The proposals in the consultation do allow for transitional arrangements (or damping) will be something of a relief for local government as a whole. The Government's intention appears to be that damping should encompass all the changes in funding in 2020/21, including the business rate baseline reset. Our advisors have done some initial modelling should all the issues hinted at in consultation turn out to go fully against district councils. This indicates there is maximum potential loss of overall funding of 9.8%, which could mean up to £0.9m of further pressures a year for the Council. This is felt to be an extreme position but does give some indication of the level of possible risk.

8.7 The MTFS forecast to 2023/24 has taken into accounts the Government's consultation paper on its plans to reform the Business Rate Retention System issued on the 13 December 2018 and modelling provided by our professional advisors. The full baseline reset is still ministers' preferred option; this is very bad news for most districts and for the class as a whole. There would be large funding reductions if this went ahead, as our growth is about £1.2m. There should be a smaller levy which means that more of future growth will be retained (assuming no requirement to fund the pool at it current level), but the higher share of growth is likely to go to counties in two-tier areas. Therefore, districts are likely to lose a large share of the growth built up since 2013/14. A decision still needs to be made on this, and there will be significant push back from districts.

8.8 Although there are many risks highlighted based on consultation on the formula for the fair funding review (FFR) and baseline reset, the outcome of the FFR will need to be politically acceptable and capable of securing a parliamentary majority in late January or early February 2020. This may not be possible, so there could be further delays as other consideration may be taking precedence. Also, it is felt that the outcome cannot be one that threatens the financial viability of individual authorities or classes of authority. Therefore, many of the risks highlighted in the MTFS may be lessened by feedback and pressure on the proposals over the months up to December 2019. In the end, ministers will have to make decisions on how all the elements come together, including the FFR, reform of business rates and the Spending Review.

Local Governing Funding allocations 2019/20

8.9 Each year the council receives a significant amount of financial support from central government in the form of grants and allocations. The allocations to the council are determined by Government carrying out Comprehensive Spending Reviews (CSR) which enables it to decide how much it can afford to spend, what its priorities are and targets for improvements to be funded by additional resources.

8.10 The last full review was undertaken in 2015 (CSR15) following the General Election in May 2015 and covered the four years following and is why the four year agreed financial position comes to an end in 2019/20. The spending targets set in this review were significantly influenced by the Government's desire to remove the deficit and move into surplus by 2019/20, which has not been achieved.

8.11 In the two years before 2018/19 HBBC have done well, mainly from higher than anticipated retained growth from business rates, coupled with higher levels of Section 31 grant to cover reliefs given. Table 8 below gives the prior MTFS period compared to the updated MTFS for the same period. This indicates the Council is £0.5m better off over the period to 2022/23 in comparison to the last MTFS. However, this includes:

- the £0.5m pilot bid gain, and
- half the level of funding for the local business rate pool, which would cost £1.5m if a 50% levy as opposed to a 25% levy was retained. .

The final decision on the how local pools will be funded under the revised business rate scheme has not yet been decided.

8.12 In addition, there is continued uncertainty over the longer-term NHB baseline funding (see table 10). Therefore, there is a risk that the higher income level post 2020/21 will not be realised. These risks are covered in the rest of this report. In particular this MTFS assumes a partial reset for the business rates baseline for 2020/21, a full reset would considerable reduce this source of income, by about a further £0.8m a year.

Table 8	2019-20	2020-21	2021-22	2022-23	Total	2023-24
Updated MTFS	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Council Tax	4,365	4,591	4,830	5,081	18,867	5,345
NNDR	3,933	3,800	3,882	3,967	15,582	4,053
NNDR pilot bid share	500	0	0	0	500	0
Collection fund loss/Surplus	-243	-179	-179	-179	-781	-179
New Homes Bonus	2,272	1,941	1,948	2,023	8,184	2,260
Revenue Support Grant	0	0	0	0	0	0
Total	**10,827**	**10,153**	**10,481**	**10,892**	**42,352**	**11,479**
Prior MTFS	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Council Tax	4,359	4,584	4,778	4,972	18,694	n/a
NNDR	3,712	3,666	3,754	3,848	14,980	n/a
New Homes Bonus	2,696	2,220	2,020	1,908	8,844	n/a
Collection fund loss/Surplus	-229	-169	-169	-169	-737	n/a
Revenue Support Grant	80	0	0	0	80	n/a
Total	**10,618**	**10,301**	**10,382**	**10,559**	**41,860**	**n/a**
Difference	**209**	**-148**	**99**	**333**	**492**	**n/a**

8.13 The financial settlement and budget gave some indications of other changes being made, such as:

- The proposal to allow local authorities to retain 75% of business rates income is positive, but details on the allocation (between District and Counties in the two-tier area) and redistribution (to enable low-growth areas to have a degree of protection - called 'damping') have yet to be announced.

- Balanced against the Business Rates proposal will be the withdrawal (over the same period - to 2019/20) of Revenue Support Grant.

- NHB is now on a four year basis, and there remains the risk that the 0.4% disregard threshold in relation to all housing stock held may increase, moving more properties into being disregarded for NHB.

- One area of good news is that the negative RSG proposal is now likely to be removed.

9. Business rates

9.1 Leicestershire was one of the successful areas in its submission for a business rate pilot for 2019/20. The expected benefit to HBBC is a share of the agreed allocation of any gain to districts as per the bid. For the purpose of this MTFS it is assumed our share of this gain will be £0.5m, but the exact amount will depend on performance in year and may be more or less than this. The bid noted that the gain would be used by districts for the following broad areas:

- Financial Sustainability (~46%) and

- Housing & Commercial Infrastructure (~54%)

The Governance arrangements for this are currently being agreed, and how it will be monitored. The amount budgeted has been transferred to the Business Equalisation Reserve. Without the £0.5m gain from the pilot, the 2019/20 year would be £121k down on the prior forecast.

Table 8 a	2019-20 Pilot year	2020-21	2021-22	2022-23	2023-24
Updated MTFS	**£000**	**£000**	**£000**	**£000**	**£000**
NNDR	3,933	3,800	3,882	3,967	4,053
NNDR pilot bid share	500	0	0	0	0
Collection fund loss/Surplus	-257	-202	-202	-202	-179
Total	4,176	3,598	3,680	3,765	3,874
Prior MTFS	**£000**	**£000**	**£000**	**£000**	**£000**
NNDR	3,712	3,666	3,754	3,848	n/a
Collection fund loss/Surplus	-229	-169	-169	-169	n/a
Total	3,483	3,497	3,585	3,679	n/a
Difference	£693	£101	£95	£86	n/a

9.2 Business rates and the level of retention of growth is a key element of the funding of the Council. The Business Rates Retention Scheme (BRR) commenced on 1st April 2013. Under the scheme, the council can retain a proportion of locally generated business rates over a set baseline where growth occurs. Whilst this financing regime provides the opportunity to financially reward the council, the volatility of the market makes it difficult to budget for. The recent financial settlement and budget statement have indicated that there will be changes to both the level of local retention and the level of growth that will be retained due to a baseline reset following a funding review.

9.3 Current indication from the consultation process are that:

- Councils will not lose all growth from 2018/19 and 2019/20 as the baseline year will be from the beginning of 2018/19,
- The future is likely to be generally more changeable with regular baseline resets based on 3-yearly revaluations, and
- Government wants to “scrap” the levy but is unable to do so without to changes primary legislation, but they can alter the rate it is charged at without this. Therefore this may be the mechanism for allowing some further income to be retained, but it is unclear then how business rate pools will be funded.

The basic calculation is expected to be based on 40% of the business rates collected in 2020/21, but with amendments to the level of baseline funding, tariff and levy if one is retained. There may also be a lower tier split used for districts if there is a desire to transfer funding to upper tiers.

9.4 This comes at the same time as the move to a 75% retained business rates model. No details have been given, other than the Business Rate Retention Scheme (BRRS) will increase from 50% to 75% in 2020-21. It is not expected that the tier split will increase from 40% for district councils, although it may be changed and any changes potentially compensated via tariffs and top up transactions. A 75% retained business rates should mean the levy on growth, if used, should be 25%, not 50% as currently. This is because the 50% used presently is the element that is paid to central government or to a local pool where one is in place. However, this does not have to be the case, and a higher rate could be set.

9.5 The last baseline was set in 2013/14 with inflation and formula amendments since then. These forecast changes are key assumption for these later years of the MTFS. A lower retention or a harsher settlement on growth could adversely affect these predictions. There is no agreed detail on how a full reset, phased or supported reset of the baseline will be implemented or to what extent it will reduce the impact of the reset on the finances of local authorities. Central Government have made it clear their preference is a full reset, but are aware of the problems this may cause. If support or transitional funding options are applied then the position may be improved on that forecast. The table below gives more detail on the forecast position, included in the MTFS. Note, that 2019/20 reflects the successful pilot bid position.

Table 8	2019/20 Pilot year	2020/21	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m	£m	£m
NNDR collected	32.53	33.96	34.64	35.34	36.04	172.51
HBBC share 40% (37.5% pilot year)	12.20	13.59	13.86	14.13	14.42	68.19
Tariff	-8.65	-10.73	-10.95	-11.17	-11.39	-52.89
S31 funding	1.44	1.31	1.34	1.38	1.41	6.88
Retained (Pre-levy)	4.98	4.16	4.25	4.34	4.44	22.18
Allowed baseline	2.64	2.70	2.77	2.84	2.90	13.85
Retained above base line	2.34	1.46	1.48	1.51	1.53	8.33
Levy	-1.29	-0.37	-0.37	-0.38	-0.38	-2.79
Retained post Levy	3.69	3.80	3.88	3.97	4.05	19.40
Adjustment for renewables as keep 100%	0.00	0.00	0.00	0.00	0.00	0.00
Share of gain on Pilot bid	0.50	n/a	n/a	n/a	n/a	0.50
Total	**4.19**	**3.80**	**3.88**	**3.97**	**4.05**	**19.90**
Simplified	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**Total**
	£m	£m	£m	£m	£m	£m
Baseline funding	2.64	2.70	2.77	2.84	2.90	13.85
Retained growth, pilot bid gain and renewables	1.55	1.10	1.11	1.13	1.15	6.04
Total	**4.19**	**3.80**	**3.88**	**3.97**	**4.05**	**19.90**

9.5.1 The above table has key assumptions that may be affected by the fair funding review and baseline reset for 2020/21. The lines for “retained above baseline” and “Levy” are areas that are potentially going to change. In particular the 2019/20 year has a levy (and pool payment) element based on the current 50% level. After the 2019/20 year the retained element drops and it is the reduced levy that prevent to full impact falling on the general fund. If there was a full reset, then the Council could be potentially only going to get its baseline-funding element, which would be a significant loss of growth. Previous consultation does note that there will be suitable procedures for tapering relief or alterative dampening processes when the rebase is completed, but there remains a risk that not all current income levels will be retained.

9.5.2 In table 8 b above, for 2019/20 the Levy is set at 50%. This is because although we have won a 75% pool bid, the agreement agreed to ensure the business rate pool payment to the LLEP would be protected, so 25% of the 50% is due to that agreement. This element of the agreement means that we give the pool the same contribution as if the pilot had not been won. In the years 2020/21 to 2023/24, I have assumed there will be a levy of just 25%. This is a key assumption, as this is what we would pay to central government if there were no pool. There is the possibility a higher levy may be used or as noted in consultation that there may be no levy.

9.5.3 If the levy was kept at the current 50% for the length of the MTFS, then the Council would lose £1.3m of funding, if it were scrapped, then there would be a gain of £1.3m. Government have noted if the levy were scrapped, they would encourage local arrangements to be developed for funding the local pool out of business rates income.

Business Rates Appeals

9.6 Business rates have been subject to a new rateable value listing as from the beginning of 2017/18, which is expected to lead to a significant increase in appeals. There has been a consideration by the DCLG in consultation with Society of County Treasurers Technical Support Team that indicates that a figure of as much as 4.5% of gross rates after the multiplier has been applied can be expected (£1.5m). Following on from information provided by our advisors, it is felt that this may be slightly too high for our area based on the portfolio of property held, and the likely threat of appeals that poses. Therefore, the provision increase for 2019/20 is to be at the £1m level for the 2017 listing. This will bring the level of provision to 2.5m. The expected increase in the provision is in the table below. The years 2017/18 and 2018/19 are actuals, the others years are forecast. It ends in 2021/22 as a further revaluation exercise is expected at that time, as it would have been 5 years since the 2017 listing was released, but the MTFS assumes a further £1m will be needed in 2023/24.

Table 9	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Threats report	0.75	1.00	1.16	1.26	1.37	5.53
National (DCN Technical guidance 4.5%)	1.43	1.46	1.50	1.53	1.58	7.50
Difference	**0.68**	**0.46**	**0.34**	**0.28**	**0.21**	**1.97**
HBBC Provision	1.43	1.08	1.00	1.01	1.01	5.53

9.7 The appeals risk for the 2010 rateable listing has decreased from £3.2m to £2.6m as at January 2019, for which we are expecting to make a total provision of £1.1m once we have the year end position. The level of successful appeals for 2018/19 are still being collated, so the level of increase is not yet finalised. This appeal provision is expected to reduce over time as appeals are lost or settled.

9.8 As with all provisions, there remains a risk that the final settlement will be higher than forecast and provided for. In the case of the 2010 listing, we currently have £1.5m of appeals not covered by a provision. However, it is unlikely that all appeals will be successful or that those that are will be for the full amount appealed. Therefore, the current level of provision is considered prudent.

Business rates and Collection Fund Losses

9.9 The collection of business rates is included in the collection fund and the Council is left with a share of the surplus or loss on the collection fund based on the tier split percentage. The methodology for NNDR returns to DCLG means the loss or Surplus falls in the year after it is generated. The loss forecast in the prior MTFS was £182,000, but as net business rates income collected in 2018/19 is £31,685,808, compared to the expected £32,640,413, this was not sufficient. Therefore, the actual NNDR element of the collection fund loss now needed for 2019/20 is £0.25m. This impacts on the general fund as it is our share of the total shortfall. For future losses the average collection fund loss over the last 5 years of £ -201,922 has been used. If losses are higher than this, the general fund will be worse off than forecast. This is a key risk as collection fund deficits are volatile.

Enterprise Zone and business rates

9.10 In addition to “standard” business rates collected, the creation of the Enterprise Zone (EZ) at MIRA Technology Park will also generate significant increases in business rates. In order to stimulate such growth, these uplifts are not subject to business rate retention rules. This currently means that 100% of the growth from the EZ is retained locally. The Council resolved in September to secure 50% retention in its negotiations with local LEPs. Any agreement will seek to avoid being prejudicial to the Council's position.

9.10.1 In order to be prudent, this income has **not** been included in this version of the MTFS.

10 Council Tax

10.1 The amount of council tax an authority needs to raise is the difference between its budget requirement (the Council’s planned spending less any funding from reserves and income, excluding income from the Government and council tax) and the funding it will receive from the Government. The level of council tax and any increase is approved by Council annually, and forecast figures will alter depending on those decisions. HBBC are currently the 14th lowest district council out of 201 in terms of the Council Tax charged for our services in 2018/19. This implies that significant cost controls must have been in place to enable this to be done and continue to deliver the level of services currently in place.

10.2 For 2016/17 the financial settlement offered the ability to councils that have been prudent in council tax increments and find themselves in the bottom quartile for the level of council tax charged, to level a £5 increase for a four year period. The Current MTFS refresh has assumed the £5 will be maintained and for forecasting purposes that a 3% increase will be charged from 2020/21. The recent financial settlement offered councils the option to raise tax by 3% without consultation. This has been adopted in the forecast used in the MTFS. The table below gives the forecast used compared to the alternatives of 2% or 0% increases in Council Tax being implemented after the current four years of £5 are completed.

10.2.1 The table below includes special expenses and demonstrates that a 2% Council Tax increase in each year would reduce income by £571,024 and a 0% rate increase would reduce it by £1,679,313. Therefore, relatively small percentage changes have a significant impact on the level of income available to invest in services.

Table 9 b	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**Total**
Council tax	£5,096,718	£5,361,437	£5,639,905	£5,932,836	£6,240,981	£28,271,877
Increase	£5	**3%**	**3%**	**3%**	**3%**	
Average band D	£132.09	£136.05	£140.13	£144.34	£148.67	
Table 9c	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**Total**
Council tax	£5,096,718	£5,309,384	£5,530,923	£5,761,707	£6,002,120	£27,700,853
Increase	£5	**2%**	**2%**	**2%**	**2%**	
Average band D	£132.09	£134.73	£137.43	£140.17	£142.98	
Table 9d	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**Total**
Council tax	£5,096,718	£5,205,279	£5,316,151	£5,429,385	£5,545,031	£26,592,564
Increase	£5	**0%**	**0%**	**0%**	**0%**	
Average band D	£132.09	£132.09	£132.09	£132.09	£132.09	

10.2.3 The level of council tax also depends on the assumption made about the level of the council tax base. The increase in the base for 2018/19 is low by comparisons to the last few years, an increase of 1.23% (467 dwellings) for 2019/20 compared to the average of the four years including 2019/20 of 2.13% (849 dwelling). The average has been used to predict future increases as 2019/20 is an unusually low year. This is a key assumption and if 2019/20 is now more typical of future movements then the forecast increases may be overstated. Table 9e below, compares the forecast to an alternative forecast using the growth seen in 2019/20. If that is typical of future growth, the loss of income is £446,392 over the MTFS period.

Table 9e Taxbase used	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Council Tax charge	£113.12	£116.51	£120.01	£123.61	£127.32
Tax base	38,585	39,407	40,246	41,104	41,979
Increase in Band D	467	822	839	857	876
Council tax generated	£4,364,758	£4,591,459	£4,829,935	£5,080,797	£5,344,688

Taxbase with lower growth	2019/20	2020/21	2021/22	2022/23	2023/24
Council Tax charge	£113.12	£116.51	£120.01	£123.61	£127.32
Tax base	38,585	39,058	39,537	40,021	40,512
Increase in Band D	467	473	479	485	491
Council tax generated	£4,364,758	£4,550,803	£4,744,778	£4,947,021	£5,157,885
Difference (lost income)	**£0**	**£40,656**	**£85,157**	**£133,775**	**£186,803**

11. New Homes Bonus (NHB)

Table 10 New Homes Bonus	2019-20	2020-21	2021-22	2022-23	Total	2023-24
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£	£	£	£	£	£
MTFS Update	2,271,759	1,940,983	1,947,891	2,023,106	8,183,739	2,259,904
Previous MTFS	2,696,201	2,219,799	2,019,511	1,864,601	8,800,112	n/a
Difference	-424,442	-278,816	-71,620	158,505	-616,373	

11.1 The Financial settlement for 2019/20 is based on a four-year basis of funding. Table 10 above indicates that there has been a fall in NHB income. This is due to a reduction in the number of eligible properties being brought into use from either new build or from empty properties as at the 1 October 2018, which has reduced the NHB for 2019/20 by almost £350,000. The 1 October is the date when all councils submit data returns. For HBBC there were 541 properties eligible in October 2017, but in October 2018 (The return that informs the NHB for 2019/20), the comparable figure was 382. After the 0.4% of stock levels held being disregarded for NHB, this left 177 properties attracting NHB. Therefore the net payment for 2019/20, which is set for a four year period, was only £281,563 (total £351,954, but 20% goes to County). This compares to the average in the past of between £500,000 to £600,000.

11.2 For the remainder of the MTFS I have used the expected trajectory provided by Planning adjusted for the normal level of empty properties coming back into use. This is because the return for 2019/20 was not typical of past years. In addition, I have been made aware a further 300 properties are expected to be into the tax base by the year-end, which would leave a further six months before next years data return is sent. This should be enough to return to normal levels of properties eligible for NHB. However, this is a key assumption, and if the lower level is typical of future years, then a worse case situation could be that we will lose £2.9m of income form NHB. This is unlikely, but with uncertainty in the property market, it is possible that new house build slows and we lose some income.

Table 11 a	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Actual	580,637					
Actual	935,636	935,636				
Actual	594,652	594,652	594,652			
Actual	459,908	459,908	459,908	459,908		
Actual		281,563	281,563	281,563	281,563	0
Forecast			604,860	604,860	604,860	604,860
Forecast				601,560	601,560	601,560
Forecast					535,123	535,123
Forecast						518,361
Total	**2,570,833**	**2,271,759**	**1,940,983**	**1,947,891**	**2,023,106**	**2,259,904**

11.3 There is also some risk that the NHB may be removed as part of the fair funding review as central government are not fully supportive of this initiatives as a means to stimulate new homes to be built., This may mean that post 2019/20 that only the legacy payments will be honoured; which are those figures highlighted above. It is assumed that there will be some compensation in the fair funding review as part of the reallocation of business rates. However, this is still to be agreed and any dampening or alternative methods of meeting our needs under the fair funding review to be finalised. If there was no adjustment for this impact in the fair funding review the loss would be unmanageable without major service redesign as the forecast elements total £5.7m.

11.4 The current MTFS uses the national baseline for growth in housing stock increases that will be disregarded for NHB of 0.4%the number of dwellings on the authorities valuation list . This is the level of growth expected from all councils and is not rewarded with NHB. This means that 189 properties were disregarded in HBBC's case for NHB, which is equivalent to £236,000 of lost income. If the expectation moves to 0.5% for the level of disregarded dwellings, then the Council would lose in the region of £350,000 to £450,000 of income over the MTFS period depending on how many properties were delivered.

12. Other Factors

12.1 In addition to those risks relating to financing detailed above, this MTFS highlights a number of other key factors that will impact on the financial positon of this Council over the next five financial years. These include, but are not limited to:

- **Capital Programme -** The council's capital investment plans are outlined annually in the Capital Programme (the "Programme") which is approved at the same time as the revenue budget. The Capital Programme forecast spend of over £12.1million, and is concentrated around:

  - Rural Community assistance through the Developing Community Funds
  - New facility (Land off A47) - A report has already been presented to members outlining the proposed new facility. The Development will result in an increase in the Council's Bowering requirement of £4.76 million. The borrowing costs and associated income have been allowed for within the Business Case presented to members.

- Although capital expenditure is clearly separated from revenue spend within the council's budget, the use of capital resources has an impact on revenue in the following ways:-

  - The use of capital resources will result in a corresponding reduction in investment income.
  - Any borrowing will incur interest payments and minimum revenue provision which is charged as a "cost" to the Council's revenue budget
  - The creation of new assets will require running costs that will have to be funded from revenue sources.

- **Local external pressures-** The County Council are withdrawing funding all contributions to Leicestershire billing authorities (i.e. the seven district councils) to support the administration of the Localisation of Council Tax Support schemes (LCTS) and to the Discretionary Discount Funds administered by the billing authorities. The district council will try to continue this funding, but the amount may vary in future years. Currently HBBC have a £20,000 budget to cover this area, which should cover current conditions in 2019/20 but may be insufficient in future years if demand increases due to hardship.

- **Income Levels -** A significant proportion of council expenditure is financed from income from fees and charges. A number of these income streams are extremely volatile and depend on external factors such as take up, demand and local economic conditions. The most significant and sensitive changes in income levels include:

- Planning fees - Whilst the council has seen a large increase in planning fees in the last two to three financial years, this income stream is highly dependent on both the housing and commercial market and therefore large “windfalls” often occur in times of prosperity. In addition to income received for planning fees, the council has seen significant costs for appeals against decisions taken by Planning Committee. In order to prudently budget for future costs, scenarios for appeal costs have also been considered in this Strategy.

- Car Parking - Going forwards, the level of income received from parking will be affected by the continued development of the town centre and new capital developments, therefore is variable based on those factors. This MTFS includes an increase of 10p in 2018/19.

- Refuse and Recycling Income - The council continues to charge for a number of refuse and recycling services such as trade waste and bulky waste.

- Garden waste charges continue to be a significant contribution, this MTFS assumes no increase in this charge over the period of the MTFS, but all fees and charges are reviewed annually.

- Rental Income - In addition to the council’s current portfolio of industrial units, the MTFS considers the income currently known as due from Block C within the new town centre development.

12.2 In addition to this, the following general assumptions will be used for all forecasts:

- The Collection Fund will be have an average deficit of £117,000 after 2019/20.
- There is no change to the Local Council Tax Scheme over the life of the MTFS.
- Pay increase compliant with the national agreement for 2018/19 and 2019/20 and 2% thereafter.
- 5% vacancy factor each year delivering and efficiency saving of £0.6m for 2018/19.
- 0.5% base rate for 2019/20
- Retail Price Index of 3.5% for 2019/20 and 2.4% for the life of the MTFS.

Appendix 1- Detailed MTFS movements

FINANCIAL FORECAST 2019/20-2023/24	2018/2019	2018/2019	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget	**LA Budget**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	£		**£**	**£**	**£**	**£**	**£**
Net Service Expenditure	9,596,209	9,596,209	11,372,598	11,082,610	11,406,989	11,344,541	11,664,975
Budget movements							
Channel Shift savings	31,901	31,901					
Fluctuations in subsidy income	0	13,000					
Increase in legal fees/Infrastructure Cap and Housing needs	50,000	102,000	-50,000				
Building Control	20,000	40,000	-20,000				
Development control income and regulation changes	-173,000	-3,000	-170,000				
Investment of increased planning fees in service improvements and capacity	60,000	60,000					
Efficiency savings from refuse collection and street cleansing	-201,820	-201,820					
Rent allowances	-20,000	-20,000					
Atkins Service Charge	-18,760	-18,760					
Car parks	-89,000	-29,000	-28,400				
Local Plan	-54,500	-128,500	94,000	139,000	-263,708		

Rev and Bens - contributions	59,610	51,610	-15,000	15,000			
Admin support grant changes	10,000	10,000					
Waste and Dry Recycling	-72,000	-72,000	-27,400				
Dry Recycling - move in house (Payroll pressure)	350,385	350,385					
Dry Recycling - move in house (Vehicle pressure insurance, repair and fuel)	112,985	112,985					
Extra Waste Round & changes	171,900	171,900					
Hackney carriage drivers licence period to 3 years from one year.	-13,810	-13,810					
NNDR Increase due to change in RV HBBC properties (Co-op)	0	-18,000					
Housing Repairs DSO	45,000	45,000	20,000				
Debtor management savings	0	0	-16,970				
Elections and related costs/ grant income	-15,000	-15,000	85,000	-85,000			
Reduction in Market Income	0	17,000	-2,000				
Town Centre Events (Removal of one off costs form budget)	0	0	-36,000				
Members allowances	37,700	25,700	24,620				
LCTS support and universal credit	0	-66,000					
Trade waste, Kerbside recycling and bulky items	98,300	-3,700	-11,000				
Trade Waste additional net income	6,000	6,000					
Rentals on industrial units	0	0	-28,767	-22,693	-23,136		

Block C Rentals/Service charges	39,630	39,630	28,570	100,810			
Leisure Centre income	-108,200	-108,200	3,100	76,838	10,611	-68,213	-30,278
Insurance costs	-24,000	-44,000	-15,000				
Expected additional contribution to reserves - section 31	-650,378	-378	0				
Other small movements (less than or =£10k)	32,726	2,726	-86,810	-32,620		1,800	-1,800
Pay cost increases (all elements, NI, Pensions and increments)	320,269	320,269	376,092	323,210	325,057	269,829	275,226
Other pay pressures (new posts and restructure costs			35,000	1,000	1,000	1,000	1,000
Community Planning Officer	25,000	25,000					
Salary Savings	0	-25,000					
Apprenticeships/interns			38,140				
B&B pressure -chance in legislation	30,000	30,000	40,000	-25,000	-15,000		
Inflationary increases	122,198	122,198	125,131	128,134	131,209	125,130	128,130
Inflationary increases Fees and Charges	-76,753	-76,753	-78,596	-80,482	-82,413	-78,600	-80,480
Increase in Bulky items collection	31,200	31,200	-14,800				
Strategic Growth plan	28,289	28,289	-8,289	14,650	-11,070		
LCC Pension Lump Sum	64,070	64,070	63,300	65,700	66,531	67,361	68,709
IAS 19 pension adjustments	64,810	64,810	-206,670				
Capital Financing	-93,670	-93,670	-29,780				
Additional interest payable/(receivable)	-25,233	-115,233					
Investment income and provision change on Sundry Drs			-155,193	40,000	30,000	20,000	10,000
Microsoft licences	84,000	84,000					
ICT costs	-51,320	-51,320	-9,500	17,428	-3,000		

VCS / Town Centre support	-35,000	-35,000					
Middle Manager Training & other training	45,000	45,000	-25,000	-20,000			
Waste Fleet and wider Fleet replacement	315,123	315,123					
Crematorium	0	0		-220,075	-174,304	-17,874	-18,676
Flexible Homeless Grant -Expenditure	108,060	-49,940	58,875	-111,522	-54,223		
Flexible Homeless Grant - income	-108,060	-108,060					
Supplementaries /net reversals in 2019/20		863,737	-246,641				
NET Borough Budget Requirement	**10,129,861**	**11,372,598**	**11,082,610**	**11,406,989**	**11,344,541**	**11,664,975**	**12,016,806**
Pension adjustments	-534,260	-534,260	-327,590	-327,590	-327,590	-327,590	-327,590
Contribution to Reserves	2,282,000	2,272,300	1,577,880	378,000	176,000	211,740	281,995
Transfer to DCF	499,000	499,000					
Contribution from Reserves	-1,067,811	-1,524,419	-1,503,399	-1,127,578	-758,120	-332,000	-411,000
Transfer from unapplied grants	0	-239,139	-158,000	-54223	0	0	0
Contribution to/(from) Balances	-688,276	-826,566	155,527	-122,882	46,069	-325,599	-81,633
NET BUDGET/FORECAST EXPENDITURE	**10,620,514**	**11,031,514**	**10,827,029**	**10,152,715**	**10,480,901**	**10,891,526**	**11,478,578**
Performance against target	**15.39%**	**13.56%**	**15.26%**	**15.05%**	**15.03%**	**11.47%**	**10.17%**
15% minimum balances	1,593,077	1,654,727	1,569,903	1,512,180	1,581,484	1,644,726	1,734,334
General Fund (Balances)	1,634,649	1,496,359	1,596,881	1,518,484	1,584,880	1,257,595	1,164,166
Amount above or below minimum balance	41,572	-158,368	26,977	6,304	3,396	-387,131	-570,168

			Pilot	**REBASE**			
`	**2018/2019**	**2018/2019**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Budget	**LA Budget**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	£	**£**	**£**	**£**	**£**	**£**	**£**
	10,620,514	**11,031,514**	**10,827,029**	**10,152,715**	**10,480,901**	**10,891,526**	**11,478,578**
Revenue Support Grant	437,461	437,461	0	0	0	0	0
Business rate growth (Baseline)P							
National Non Domestic Rates BLF	2,499,827	2,499,827	2,641,090	2,704,476	2,769,383	2,835,849	2,903,909
National Non Domestic Rates retained above baseline	1,192,997	1,603,997	1,292,168	1,095,114	1,113,007	1,131,091	1,149,393
Surplus from pilot		0	500,000				
Collection fund Deficit NNDR	-300,536	-300,536	-256,931	-201,922	-201,922	-201,922	-201,922
New Homes Bonus	2,570,833	2,570,833	2,271,759	1,940,983	1,947,891	2,023,106	2,259,904
Collection Fund Surplus - Ctax	71,551	71,551	14,185	22,606	22,606	22,606	22,606
Council Tax Income	4,148,382	4,148,382	4,364,758	4,591,459	4,829,935	5,080,797	5,344,688
Estimated Tax base	38,118.0	38,118	38,585	39,407	40,246	41,104	41,979
Estimated Band D Council Tax	**£108.83**	**£108.83**	**£113.12**	**£116.51**	**£120.01**	**£123.61**	**£127.32**
Year on Year Increase in Council Tax							
(i) Amount	**£4.29**	**£4.29**	**£4.29**	**£3.39**	**£3.50**	**£3.60**	**£3.71**
('ii) Percentage	**4.10%**	**4.10%**	**3.94%**	**3.00%**	**3.00%**	**3.00%**	**3.00%**

Appendix 1 (continued)

SPECIAL EXPENSES	2018/2019 Budget £	2019/20 Forecast £	2020/21 Forecast £	2021/22 Forecast £	2022/23 Forecast £	2023/24 Forecast £
NET BUDGET/FORECAST EXPENDITURE-Special Expenses	696,034	731,961	769,978	809,970	852,039	896,293
Estimated Taxbase	38,118.0	38,585.2	39,407.1	40,246.4	41,103.7	41,979.2
Special Expenses Council Tax	£18.26	£18.97	£19.54	£20.13	£20.73	£21.35
Year on year increase in Special Expenses Council Tax	**2018/2019**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
(I) Amount	**£0.71**	**£0.71**	**£0.57**	**£0.59**	**£0.60**	**£0.62**
(ii) Percentage	4.05%	3.89%	3.00%	3.00%	3.00%	3.00%

Council Wide Council	2018/2019	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	£	**£**	**£**	**£**	**£**	**£**
Total Net Budget Requirement	11,316,548	11,558,989	10,922,693	11,290,871	11,743,565	12,374,871
Taxbase	38,118.0	38,585.2	39,407.1	40,246.4	41,103.7	41,979.2
Council Wide Council Tax	£127.09	£132.09	£136.05	£140.13	£144.34	£148.67
Percentage Increase	4.10%	3.93%	3.79%	3.68%	3.57%	3.46%

Appendix 2- Reserves

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Benefits Reserve	(58,549)	0	0	0	0	0
Hub Future Rental Management	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)
Special Expenses Reserve	(136,360)	(126,360)	(116,360)	(106,360)	(106,360)	(106,360)
Local Plan Procedure	(573,532)	(406,762)	(302,112)	(277,112)	(252,112)	(231,112)
Business Rates Equalisation Reserve	(2,204,685)	(3,263,685)	(2,798,685)	(2,291,685)	(2,118,685)	(1,866,685)
Year End Carry Forwards	(38,000)	(38,000)	0	0	0	0
Maint Fund - Green Towers	(30,000)	(35,000)	(40,000)	(45,000)	(50,000)	(55,000)
Pensions Contribution	(53,800)	0	0	0	0	0
ICT Reserve	(239,765)	(262,265)	(160,337)	(168,000)	(84,000)	(0)
Waste Management Reserve	(375,260)	(320,260)	(240,260)	(160,260)	(297,000)	(400,000)
Asset Management Reserve	(797,400)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)
Planning Delivery Grant Reserve	(17,783)	(17,783)	(17,783)	0	0	0
Workforce Strategy Reserve	(50,000)	0	0	0	0	0
Election Reserve	(80,005)	(5)	(20,005)	(40,005)	(60,005)	(80,000)
Grounds Maintenance	(0)	(30,000)	(30,000)	(30,000)	(30,000)	(130,000)
Transformation	(20,500)	(0)	(0)	(0)	(0)	(0)
Enforcement and Planning Appeals	(230,000)	(230,000)	(230,000)	(230,000)	(230,000)	(230,000)
Earl Shilton Toilets	(100,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Building Maintenance costs	(588,120)	(588,120)	(588,120)	(588,120)	(588,120)	(588,120)
Minor Capital Projects	(175,000)	0	0	0	0	0
Hinckley Community Development Fund	(350,000)	(200,000)	0	0	0	0
PCIF reserve (Future Top up pressure)	(375,000)	0	0	0	0	0
Developing Communities Fund	(750,008)	(600,008)	(350,008)	(350,008)	(350,008)	(350,008)
Total	**(7,643,767)**	**(6,968,248)**	**(5,743,670)**	**(5,136,550)**	**(5,016,290)**	**(4,887,285)**

Appendix 3 - Strategic Financial Objectives

- The Council should allocate resources to services in line with the Corporate Aims and Ambitions
- Ensure regular monitoring of actual spend against budget to assess outcomes and inform the Performance Management Framework
- The Council must search for new sources of funding to support its activities and maximise opportunities from emerging economic initiatives such as City Deals and Local Growth Funds
- To review the scale of fees and charges at least annually
- To optimise the financial return on assets and ensure capital receipts are obtained where appropriate opportunities arise
- Capital expenditure is properly appraised
- When funding the Capital Programme, all funding options are considered
- To review levels and purpose of Reserves and Balances
- To maintain sustainable Council Tax increases
- To increase efficiency savings and generate funding through shared services and collaborative working