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DISTRICT OF HARBOROUGH

Medium Term Financial Strategy

2016/17 – 2019/20

8th February 2016

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1. Introduction

The Medium Term Financial Strategy is Harborough District Council's key financial planning document and acts as bridge between the Council's Corporate Delivery Plan and the financial resources available for service delivery.

Vision and Corporate Delivery Plan

The Council's vision for the District is as follows:

"Working with communities in a vibrant, safe and prosperous District"

The Corporate Delivery Plan is structured around four priorities:

- Working with communities to develop places in which to live and be happy
- Enable public services which are effective and deliver value for money
- Encourage a vibrant and sustainable business community intent on prosperity, employment and learning opportunities
- Support the vulnerable in the communities where they live.

Aim of the Medium Term Financial Strategy (MTFS)

The aim of Harborough District Council's Medium Term Financial Strategy (MTFS) is to support longer term planning and deliver a stable and sustainable financial environment to support the achievement of its vision and strategic objectives. The MTFS is a key element of the Council's corporate governance arrangements and an integral element of the Council's corporate planning process.

The overarching objective behind the MTFS is to ensure that the Council's financial resources are applied in a manner which achieves the strategic priorities set out in the Corporate Delivery Plan. By striving to ensure the costs of delivering its service objectives over the term of the strategy are commensurate with the overall forecast financial resources available, the Council can maintain the financial health of the authority in a manner which does not place an unreasonable burden on local taxpayers.

The financial strategy also recognises the requirement to maintain a balance between the desire to continue to deliver quality services and to build capacity to further improve service performance where required. It acknowledges the need to manage any reliance on balances and reserves utilised to bring about the introduction of service initiatives. It will provide a framework for the detailed financial plans over the period 2016/17 to 2019/20 and in particular the budget framework for 2017/18 financial year.

2. Background

The MTFS is set against the background of continued public sector austerity which has seen a reduction in core government funding of £3.044 million (55%) since 2010. This has been significant and required a major corporate wide transformation programme, renegotiation of external contracts, delivery of the property strategy and income generation initiatives to reduce the size of the Council and the available resources to the Council - whilst protecting front line service provision. This has been successful and has assisted the Council in funding significant additional cost pressures, for example a £1.4 million reduction in external funding sources for the Council's core Environmental Services Contract by 2018 without an increase in Council Tax.

Set against the reduction of core Government funding, has been a series of incentives to promote housing and business growth through the new homes bonus grant and the ability of Councils to retain 50% of the business rate growth since 2013. The Council has been very successful in both areas with the highest amount per head within Leicestershire from these sources.

The strategy has been produced against a background of continuing economic uncertainty in the world economy resulting in continued low interest rates, yearly amendments to growth forecasts, volatility in the financial markets and uncertainties about the UK membership of the European Union. Whilst the British economy is relatively stable, volatility in the world markets could impact on the later part of this MTFS period.

The Government's last Comprehensive Spending Review (CSR), published in the Autumn of 2015, set out its plans to reduce the fiscal deficit over the life of the current parliament and provided some headline funding announcements for local government over the next four years. Whilst, the overall reduction in funding for local government was less than expected there are significant re-distributional impacts over the next three years with a focus on redirecting resource to upper tier authorities with social care responsibilities, with a consequential larger reduction for lower tier District Councils. Alongside this is a move to cease Revenue Support Grant over the course of this parliament for all Councils which will mean that Councils will become solely dependent on local generated funds from council tax, business rates and housing growth. This is a significant change which brings opportunities but also significant risk and volatility. At time of writing the MTFS there is not a consultation paper on the proposed 100% retention of business rates and proposed changes in New Homes Bonus is just a consultation paper. There will be a need to revisit the MTFS when further clarity is available in these areas.

In proposing the 2016/17 Budget the Council has had to plan and propose solutions for a 19% reduction in core Government funding compared to 2015/16.

This will increase to a 40% reduction by 2019/20. Alongside this, Government forecasts of New Homes Bonus indicate that changes in the methodology for allocating New Homes Bonus (if approved) would result in a 36% reduction in this funding source by 2019/20.

Building on a sound financial planning base and through planned utilisation of reserves to help deliver change and profile the impact of changes over the next few years the Council will develop an Efficiency Plan and recommend significant changes in services to transition to a smaller Council over the course of the next four years. The Council will aim to maximise income through application of the Operating model and ensure services are provided by those most suitable to provide. Inevitably, some services will cease to be provided by the Council.

3. MTFS Objectives and Financial Principles

3.1. Financial Strategy Objectives

The objectives of the Council's financial strategy are:

- To be responsive, targeting resources to priorities; aligning spending plans with the Council's vision and critical outcomes set out in the Corporate Delivery Plan.
- To deliver an affordable but prudent and realistic level of Council Tax
- To manage and meet the challenges thrown up by the reduction in the Council's funding and secure its financial position for the medium term.
- To deliver value for money to local taxpayers.

3.2. Financial Principles

The financial principles underlying the Council's financial strategy are:

- To manage financial resources within the context of a four year rolling business planning framework.
- To achieve an acceptable balance between resource constraints and the expectations of the community.
- To maintain net spending to affordable and sustainable levels over the medium term.
- To maximise external income through grants, income generation and through locally driven funding sources (Business Rates, Council Tax and New Homes.
- To work consistently towards achieving balanced budgets, where annually occurring expenditure is funded by annual income and where utilisation of reserves is planned and not reactive.

- To maintain a robust financial planning framework to assist the corporate decision making process.
- To exercise probity, prudence and effective financial management.
- To manage risk, including maintaining reserves and ensuring sustainable levels of debt.
- To provide realistic appraisals of future resources and events.
- To continuously pursue efficiency, effectiveness and value for money in the use of resources.
- To seek to lever in external funding to support key priorities where appropriate.
- To achieve better financial outcomes through a pro-active approach to partnerships and shared arrangements.
- To carry out effective consultation with stakeholders.

4. Delivering the Council's Priorities

4.1 The Executive Portfolios are:

- Business Planning and Performance
- Communities
- Corporate Services
- Environment and Regulation
- Finance and Commercialisation
- Planning and Regeneration
- Strategy/Economic Development.

4.2 Service developments or enhancements are linked to the critical outcomes and key activities which have been used to underpin the business planning process. These activities are required to be delivered within the available funding envelope which determines the overall net budget requirement of the Council.

5. Financial Funding - Context

5.1. The Government's Spending Review, published in the autumn of 2015, set out its plans to reduce the fiscal deficit over the life of the current parliament. The overall level of core Government grant support for local authorities reduces by 27% over the period 2015/16 to 2019/20. There is a major shift of funding to upper tier authorities with Adult Social Care responsibilities with a consequential impact on Government funding for District Councils.

5.2. The Council's core funding from Government (excluding New Homes Bonus) decreased by 19% between 2015/16 and 2016/17 (compared to the MTFS forecast of a 12% reduction). However, the Government has introduced a new definition of core spending power which includes New Homes Bonus. On this measure Government funding is anticipated to decrease by 11.3% by 2019/20 (compared to an all-England reduction of 0.5%). The success in house building and bringing empty properties back into use has generated £802K grant in respect of year six of the New Homes Bonus scheme, resulting in an increase of core spending power of 3.3% between 2015/16 and 2016/17. However, a recent consultation paper on the future of the New Homes Bonus means that the Council needs to balance the use of the bonus as a core funding source and to put some of the increase in an earmarked reserve to prepare for a potential reduction in New Homes Bonus in the future.

5.3. The Council receives the lowest settlement funding assessment of all Leicestershire Authorities but has mitigated against this through the promotion of proportionate business and housing growth. This is defined by Government as spending power. Based on this assessment and the fact that Harborough District is the best performer in Leicestershire it means that Harborough District moves from the lowest-funded Council in Leicestershire to the Council with the best core spending power. This is shown in Tables 1 and 2 below:

Table 1: Comparison of Leicestershire Settlement Funding 2016/17

Settlement Funding Assessment	**£ per head**
Oadby and Wigston	36.80
Melton	35.09
North West Leicestershire	35.04
Charnwood	34.92
Hinckley and Bosworth	34.07
Blaby	31.27
Harborough	27.63
All English Districts	36.51

Harborough District has benefited significantly from Housing Growth in recent years. Using the Government's new definition for 2016/17 called core spending power (which takes into account Council Tax, Settlement Funding Assessment, New Homes Bonus and other Government Grants) the Council has the highest spending power in the County.

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Table 2: Comparison of Leicestershire Core Spending Power 2016/17

Core Spending Power	**£ per head**
Harborough	123.22
Melton	121.21
North West Leicestershire	120.26
Oadby and Wigston	104.76
Blaby	102.09
Hinckley and Bosworth	101.16
Charnwood	100.94
All English Districts	118.54

The figures in Table 2 show the success of Harborough District in securing and sustaining proportionate housing growth. However, the consequence is that changes in Government policy, for example, New Homes Bonus methodology to reduce the number of years awarded has a disproportionate impact on the Council's overall funding.

5.4. The Government, for the first time in the Local Government Finance Settlement, announced indicative four-year settlement announcements for all Councils if they were to approve four-year efficiency plans (details of which are still awaited from Government). The indicative forecasts are based on a series of assumptions that may changes and are subject to the outcome of consultation. However, it does provide the financial context against which the MTFS is set. The indicative financial totals are detailed in Table 3 below:

Table 3: Indicative Funding Announcements 2016/17 to 2019/20

	2016/17	**2017/18**	**2018/19**	**2019/20**
	£000s	**£000s**	**£000s**	**£000s**
Revenue Support Grant (RSG)	785	300	8	0
Business Rate Baseline	1,620	1,652	1,701	1,755
New Homes Bonus	2,984	3,005	1,887	1,811
Total	**5,389**	**4,957**	**3,596**	**3,566**

5.5. The Council has a sound record of strong financial management which has consistently contained spend within approved budgets each year. This has allowed for the retention and growth of both the General Fund Balance and Earmarked Reserves. The Council retains a healthy level of reserves, estimated to be in excess of £10.434 million (detailed later in the MTFS) at the end of 2016/17 that is available to the Council to assist in its financial planning over the medium term. The MTFS seeks over the next four years to use reserves to smooth the impact of funding changes but to seek that by 2020 the Council is not utilising reserves on a recurrent basis to support the budget.

5.6. The Council has been successful in securing business rate growth since 2013 when the Government policy changed. Once again, Harborough District's retained business rate levy is the highest in Leicestershire.

Table 4: Retained Business Rates 2016/17 (Estimate)

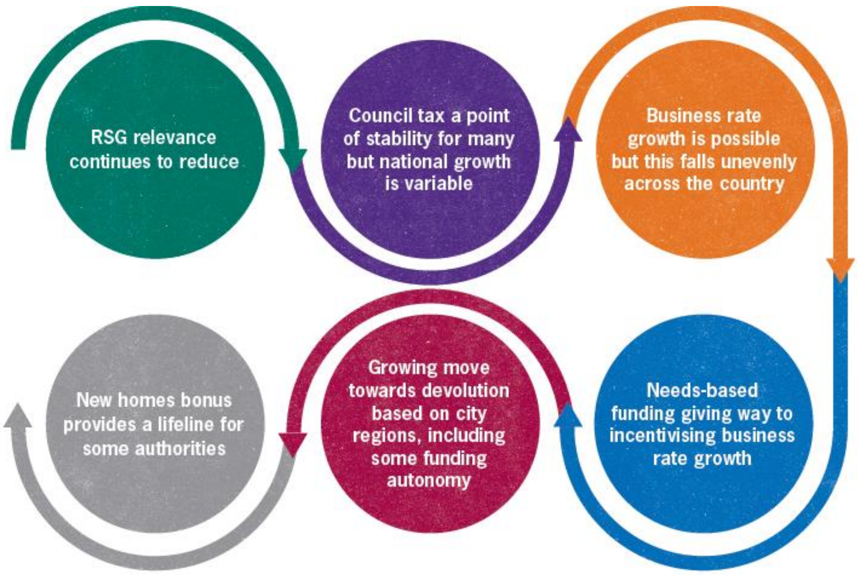
Council	**Estimated Retained Business Rates 2016/17**
	Levy
	£000s
Blaby	724
Charnwood	134
Harborough	1,117
Hinckley & Bosworth	1,035
Melton	322
NW Leicestershire	796
Oadby & Wigston	54
Total Districts	**4,182**

Through the Council being a member of the Leicester and Leicestershire Business Rate Pool an additional £4.2 million is retained in Leicestershire. Current projections of the cumulative pool is that £4.2 million will be available through the LLEP to distribute to growth priorities whilst the pool retains £2 million contingency against future volatility in appeals, business rate yields or Government policy changes.

5.7. The sound financial planning of the past five years has enabled the Council to be in a good position to plan for the future. Whilst the next five years will be tough there are a number of funding options linked to the Corporate Plan, Corporate Delivery Plan and Efficiency Plan that will assist the Council over this MTFS period. Key to this is the Council's continued success in securing high levels of housing growth and business rate growth.

6. Financial Sustainability

6.1. Nationally the National Audit Office and leading commentators such as Grant Thornton have undertaken reviews into the financial sustainability of local government and the ability of Central Government to manage and understand the financial health of individual local authorities. Auditors are forecasting nationally that many types of Council are experiencing difficulties in delivering sustainable budgets over the medium term. This is not the case in Harborough where the Council received an unqualified opinion from its external auditor in respect of its arrangements for delivering value for money, effectiveness and efficiency. However, despite the Council's firm foundations it is essential to plan for a sustainable future. The challenges and opportunities in delivering financial sustainability is summarised in the diagram below.



Source: Grant Thornton, Creating a Sustainable Financial Future

6.2. The diagram clearly shows a move from 'fixed' annual funding settlements to the generation of locally driven funds. This provides opportunities and volatility in forward planning and by implication less certainty. This requires the development of a MTFS that is agile over this period and will be subject to change.

7. Key Financial Assumptions

7.1. The effect of combining localism and growth is that local authorities find themselves responsible for developing economic regeneration in a way that they have not had to deal with in the past. The Government has applied a carrot and stick approach to this, in that more funding is available for those who do well and less is available for those who do not do so well.

7.2. This has led to a significant change in the way local authorities are funded (and will be funded in the future) and also highlighted the risks and rewards that are inherent in the new regime. The financial sustainability of the sector therefore is closely correlated to whether the new funding regime is advantageous to their local characteristics such as demographics, vibrancy of the local economy, closeness of transport links and appropriate 'space' to develop economic generation and housing.

The following points highlight some of the key assumptions that are factored into the MTFS and impact on Council's long term economic sustainability.

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7.3. Non Domestic Rates (NDR) / Business Rates

One of the biggest changes over recent years in local government funding is the move to a localisation of business rates. From April 2013, funding is now intrinsically linked to economic growth; if you are able to attract new business into your area then in financial terms, you are a winner, as you get to retain an income/NDR share of this growth. The system does have ‘tariffs’, ‘top ups’, levies and ‘safety nets’ - which are essentially floors and ceilings to stabilise and equalise any significant funding variations. However, as seen since 2013 Harborough District has benefited significantly from growth in business rates and is therefore a ‘gainer’ from the system.

These new reforms mean that Councils have had to ensure that planning decisions are made with regard to the business rate opportunity they offer. Equally, closure or relocation of businesses should be afforded equal regard in terms of the impact on the Council’s finances. Significant volatility has been created by appeals administered by the Valuation Office, especially in the 2014/15 financial year. The Council closely monitors these and makes provision for appeals in its forecasts.

Within Leicestershire, a NNDR pooling agreement is in place (with the exception of the 2014/15 financial year) which both mitigates against volatility in business rate yields (e.g. large closures of businesses) whilst contributing at a time of growth to the pool, LLEP and safety net. For the 2016/17 financial year this is forecast to have retained £4.2 million of business rate in the Leicestershire region.

The Council has consistently had the highest retained business rate level (retention) in the County. The budget assumes that this will be in the region of £1.2 million in 2016/17. Levels of retained business rate growth for each of the financial years since 2013/14 are detailed in the table below.

Table 5: Retained Business Rate Growth

	£000s
2013/14 Retained Business Rate Growth (actual)	903
2014/15 Retained Business Rate Growth (actual)	495
2015/16 Retained Business Rate Growth (forecast)	1,245
2016/17 Retained Business Rate Growth (forecast)	1,117

Looking forward, the Government will be increasing the retention of business rates from the current 50% to 100% by the end of the parliament. A consultation paper is expected to be issued during 2016 setting out the Government's intention in this area. It is clear that this will be the major driver in respect of funding for the future and that the Council should encourage business growth through its strategies and decisions.

Due to the volatility arising from appeals the Council has been very prudent in its utilisation of the 'rewards' of business rate growth. The Council in 2016/17 is planning to utilise £424K on a recurrent basis to support the revenue budget and is estimating a balance on the earmarked reserve of £2.256 million at the end of 2016/17.

Given increased stability of the forecasts in this area and the Governments stated aim that the Council should use locally generated business rates fund as part of its spending power, it is proposed within the MTFS that from 2017/18 a minimum of £1.2 million per annum of business rate growth funding supports the Revenue Budget with an assumed growth in business rate yield (and therefore retention) of 5% per annum thereafter. It is forecast over the MTFS period for the business rate retention reserve to remain over £2 million, thereby safeguarding against volatility. The Council will consider annually whether to utilise this reserve for any one-off growth or to assist the Council in its Efficiency Plan.

Through being part of the Leicester and Leicestershire Business Rate Pool (which is forecast to retain a further £4.2 million within Leicestershire in 2016/17) the Council would expect to benefit from economic growth priorities within the LLEP that will benefit the economic prosperity of Harborough District. At this stage no additional money from the retained business rate pool has been factored into the MTFS.

The Government has a stated aim to move towards 100% of the business rates being retained locally by 2020. However there is no detail on the mechanism or timing of this at the stage of preparing the MTFS. The Government has stated that the current systems of 'floors' and 'ceilings' will continue and that the move to 100% retention will come with new and transferred responsibilities and be fiscally neutral at a National level. For these reasons the MTFS does not anticipate any additional funds in this area until more clarity is provided by Central Government.

7.3 New Homes Bonus

Alongside business rate retention, referred to above, New Homes Bonus (NHB) is a key income stream for the Council. Harborough is currently receiving an overall annual sum of £2.984m of New Homes Bonus in 2016/17 of which £2.584 million is supporting the Revenue Budget on a recurrent basis. This represents nearly 24% of the net cost of services in 2016/17.

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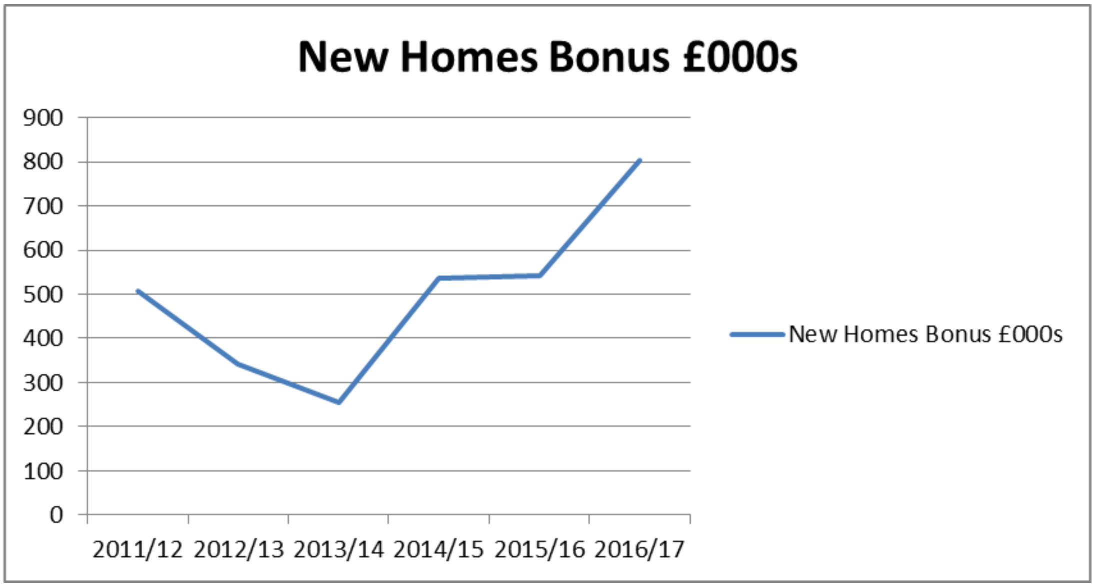
The Government has recently issued a [New Homes Bonus Consultation]() detailing a number of options and associated methodologies to top-slice £800 million nationally from the New Homes Bonus from 2018/19. Based on the Government's forecast this could lead to a reduction of £1.173 million between 2016/17 and 2019/20. However, with the high level of receipts in recent years (detailed in the graph below) and positive 'build out' forecasts from developers this reduction is viewed as being overly pessimistic. The MTFS therefore assumes that the net impact of the reduction in New Homes Bonus will be less than the £1.173 million and assumes a reduction of £1 million for the 2018/19 and 2019/20 financial years.

Figure 1: New Homes Bonus



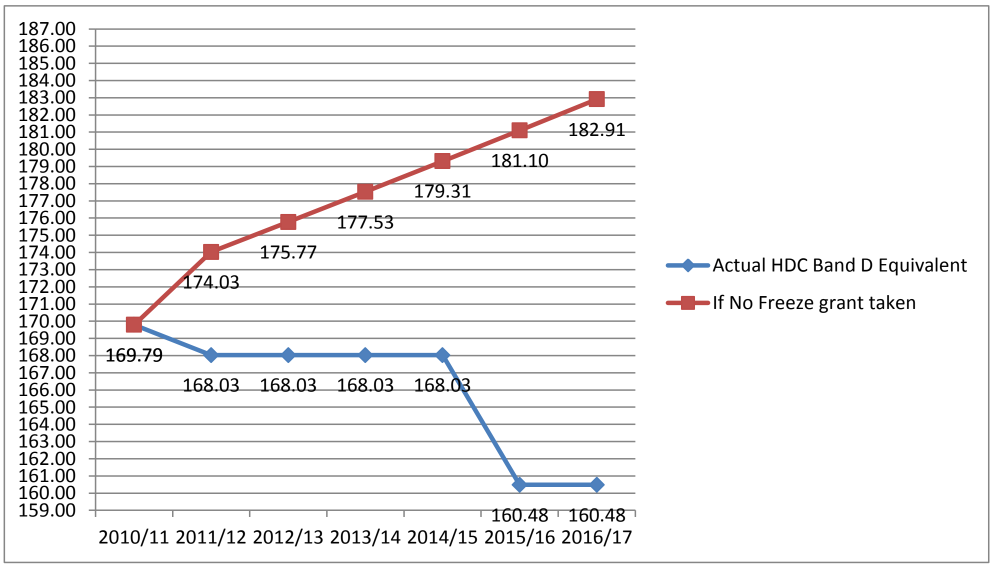
Only £2.584 million of the £2.984 million annual allocation has been used to support the budget for 2016/17, with £400K being transferred to an earmarked reserve to prepare for reductions in these funding sources in the future. It is intended that this is replicated in 2017/18 thereby adding a further £400K to the reserve in 2017/18. It is then planned to utilise this reserve in 2018/19 and 2019/20 at £400K per year to partially mitigate the impact of the £1.173 million reduction in 2018/19 and thereafter.

Apart from the risks arising from methodology changes the Council would be impacted upon by stagnation in the housing market and/or insufficient planning permissions being granted and associated build out by developers. If this was to happen the Council would consider using its General Fund Balances to smooth the impact of any such changes

8. Council Tax

The Council plans to have not increased Council Tax for 6 years in its budget proposal for 2016/17. In previous years the Council has availed itself of the Council Tax Freeze Grant which was equivalent to 1% increase in Council Tax. By implication, this has kept the Council Tax low compared to the potential Council Tax yield if the Council had increased Council Tax by the maximum permitted (if the Council had not taken up the offer of the Council Tax Freeze Grant) since 2010/11. This is demonstrated in the graph below.

Figure 2: Council Tax Increases 2010/11 – 2016/17



Over, this period the Government has limited Council Tax increases (to those who did not accept the freeze grant) to 2%. This is likely to remain Government policy for District Councils over the MTFS Period.

The cessation of Council Tax freeze grant from 2016/17 means there is no longer a financial incentive for the Council to keep Council Tax low, though decisions on Council Tax remains a local decision. It is the intention of the Council to provide forward visibility of potential Council Tax increases through the MTFS, though decisions will be made on an annual basis taking into account the detailed financial plan for each financial year.

The MTFS assumes the following Council Tax increases over the MTFS period:

Table 6: Assumed Council Tax Increase

Financial Year	Council Tax Increase
2016/17	0%
2017/18	1.99%
2018/19	1.99%

2019/20	1.99%

As a result of the level of house building within the District the MTFS assumes an increase in the yield from an increased tax-base of £100K per year in addition to the proposed increases arising from the Council Tax increases detailed in Table 6.

The Council in the MTFS period will review the local Council Tax support scheme, discounts and other local decisions with a view to increasing the Council Tax yield. These have not yet been factored into the MTFS.

Whilst Council Tax has traditionally been seen as a ‘local’ tax, there is clearly a move away from local to national determination. The risk to Councils is that they have less control over this source of income.

9. Local Government Financial Settlement

The provisional Local Government Finance Settlement for 2016/17 was announced on the 17th December 2016/17. The finance settlement is the process by which the Government announces its decisions on the core revenue support that it intends to provide local government at individual local authority level for the new financial year.

The amounts are set out in the table below together with a comparison with the previous year.

Table 7: Settlement Funding Analysis

2015/16		**2016/17**
£000s		**£000s**
1,367	Revenue Support Grant (RSG) (includes previous Council Tax Freeze Grants)	785
1,607	National Share of Business Rates (NNDR)	1,621
2,974	Total Provisional Settlement Funding	2,406

The Government has announced four year indicative funding announcements subject to Councils adopting an Efficiency Plan. The Council intends to adopt this arising from the MTFS. The four year projections are detailed in Table 3 above and indicate a reduction in core spending power and funding from Government of 34% between 2016/17 and 2019/20. This reinforces the requirement to maximise locally generated sources of income and to plan towards becoming a smaller and lower funded Council.

The speed of removal of the Revenue Support Grant makes it essential that New Homes Bonus receipts and business rate growth receipts are maximised over the MTFS period.

10. Cost Pressures

10.1. The Council over the past five years has made significant savings and addressed costs pressures arising from changes in funding or contractual costs. The most significant of these being in respect of the Environmental Services contract where the contractual changes and removal of funding has required £1.3 million of savings and income generation to retain a fortnightly waste collection service.

The MTFS is prepared against a sustained period of low inflation and interest rates. This allows the Council to continue its recent approach of a cash freeze for most services (i.e. a zero inflationary increase) unless embedded into contractual agreements. This approach means that the impact of price increases over the MTFS period are minimised. There is the potential that inflation could increase up to the Government target of 2% over the MTFS period. This would lead to increased pressure on services. Where possible the cash freeze principle will continue to apply, though this will be assessed on a service by service basis annually.

The Council is forecasting a significant cost pressure in 2018/19 arising from the reduction of removal of recycling credits for dry recyclates. This is estimated to be in the region of £300K to £400K and has been factored into the MTFS from 2018/19 onwards.

Inevitably, over the period of the MTFS the Council will have to consider the funding of legislative changes and un-forecast cost pressures. These will be identified through the annual business planning process. The MTFS assumes that these will be funded through efficiency savings and income savings as and when they are identified and included in the annual budget forecast.

10.2. A significant proportion of the Council budget is in respect of Employee Costs delivering front line services, regulatory services and efficient back office services. There are a series of cost pressures in this area arising from Government Policy, performance of the Pension Fund and pay awards. The key employee assumptions in the MTFS are:

- Pay Awards of 1% per year for the next four years
- Pension increases of 2% per year arising from the tri-annual pension review in 2017
- An apprenticeship tax of 0.5% of the pay bill from 2017.

In addition, but not yet quantified within the MTFS forecast is the impact of the planned change in the living wage by 2019/20 which will impact on the Council's pay budget and on the key third party contracts with FCC and Harborough District Leisure Trust. There are potentially significant costs that may arise from a need to commence a new pay and grading review that could impact on 2018/19 and 2019/20. These will need to be factored into the MTFS when quantified.

The Council intends to use the organisational change reserve and/or flexibilities to fund redundancies from capital receipts to assist with the delivery of the Efficiency Plan. For this reason, no separate revenue provision for change management costs and redundancies have been factored into the MTFS.

11. Efficiency Plan

11.1. The challenge for Councils is becoming increasingly difficult, the conundrum however is fairly simple – if grant income goes down, and Council Tax is not increasing, local authorities either reduce services and operational costs to compensate or look more imaginatively at options to generate new sources of income or expand existing income sources or combination of these.

The Council has successfully delivered a transformation programme in the past 5 years and delivered significant financial savings from:

- Portfolio Challenges
- Partnerships
- Income Generation
- Delivery of the Council's property strategy
- Contract negotiations
- Efficiencies

The above has provided a sound financial basis for future transformation of services.

In developing the Council's Efficiency Plan over the MTFS period the Council will apply four overriding principles

Innovation: The Council will adopt an 'Adaptive Innovation' approach to service change, creatively redefining the Council's role and being able to actively affect the operating environment, often working in close partnership with other Councils

Effective Leadership: Ensuring that the Council is well managed and led, shaping a positive future and ensuring there are no major shocks

Engagement: Engaging with Communities and Businesses and staff to help shape and deliver the future shape of local services

Maximising Income: The Council will apply its operating model with the intention to maximise income from external sources and through charging for all discretionary services where appropriate.

11.2. The Council has an operating model that provides a strategic focus to future efficiencies. This sets down the following objectives

The Council will:

- work with and through others for the benefit of the community.
- engage effectively with the communities it serves.
- ensure that elected members are accountable for the Council's services through effective governance processes.
- retain responsibility for providing public services without necessarily delivering those services itself.
- ensure that the services delivered to the community provide value for money, consistently high quality and are subject to democratic scrutiny.
- seek to reduce the dependency of the community on the Council and manage demand for services.
- generate income where possible to ensure the sustainability of its services.
- make its priority the provision of services that help those who are unable to help themselves.
- expect those who are able to do so to pay for services that the Council provides.

The operating model will be revisited in 2016/17 to be updated for the emerging financial framework of local government and the need to focus on locally generated funds.

11.3. The Council will actively progress the delivery of its property strategy over the MTFS period. This ensures that existing assets continue to be utilised efficiently, surplus assets are disposed of appropriately and opportunities for investment in new assets are backed up by robust business plans. The Corporate Asset Strategy concentrates on strategic property decisions based on suitability, sustainability and conditions. It is proposed that receipts from property disposals are used to support a capital investment strategy alongside strategic regeneration initiatives to promote economic growth. The Council will continue to actively seek external funding for delivery of its priorities.

11.4. The delivery of the Efficiency Plan will be supported by utilisation of reserves over the MTFS period with the aspiration that at the end of the MTFS period recurrent use of General Fund Balances is removed. At this stage of planning it is assumed that the efficiency plan savings would be tapered over the period

2017/18 to 2019/20. The MTFS assumes the requirement for the following net savings to be achieved each year:

Table 8: Provisional Efficiency Plan Targets

	Efficiency Plan Target
	£000s
2017/18	300
2018/19	600
2019/20	1,200

This will be subsequently re-profiled on production of a detailed plan. Opportunities will be taken to see whether efficiency gains can be commenced in the 2016/17 financial year to maximise savings.

There will be the need for growth to be identified within the Efficiency Plan. The savings targets identified in the MTFS are therefore the net of growth less savings.

11.5. It is anticipated that a more detailed efficiency plan will be produced for the Council arising from the business planning process for the Council in the Autumn of 2016.

12. Significant Partnerships

Partnerships form the basis of a range of the Council's services and extend from joint activities within a loose working arrangement to complex and formally structured vehicles for service delivery.

The Council welcomes the opportunity to work with partner organisations to deliver community priorities but will always seek to ensure that the:

- Financial viability of partners is assured before committing to an agreement;
- Responsibilities and liabilities of each of the partners is clearly understood by all parties to any agreement;
- Accounting and governance arrangements are established or agreed;
- Implications of the terms and conditions of any funding arrangements are fully considered before any commitments or liabilities are entered into or partnership or external monies accepted.

The MTFS and operating model reinforce the role of the Council as retaining responsibility for providing public services whilst not necessarily delivering services ourselves. The Council continues to develop a partnership approach which will aim to maximise the benefits from formal and informal partnerships and to ensure the community leadership, democratic accountability and influencing role of the Council with communities, residents and businesses are balanced.

13. Income Generation

13.1 Given the financial pressures upon it, the Council will be pro-active in the generation of income through existing and potential new income streams. Charges will be reviewed annually and new charges set in line with the following principles:

- Major sources of income (e.g. Development Control Fees and Building Control Fees) to be based on recent trend activity volumes.
- Fees and charges to be increased in line with the Government's target rate of inflation, as a minimum.
- Where relevant and deemed appropriate fees and charges will be set on a full cost recovery basis.
- Whether the level of service provision and/or the market rate justifies or makes viable a higher level of potential fee.
- Statutorily set fees and charges will be set in accordance with the legislative provisions and regulations and published guidance and/or as per schedules as may be/are set down by the government.

13.2 The Council will over the MTFS period move to a position where discretionary (non-statutory) services which can charge a fee or recover their costs - that these charges are maximised. The Operating Model has further reinforced the importance of income generation (by adopting a more commercial approach to the provision of services) and by adopting an approach which expects those who are able to do so to pay for services that the Council provides to achieve equity and customer choice. This approach complies with advice on best practice, namely that service users pay a realistic charge for services received, removes or alleviates the need for those services to be funded from general taxation or other funds. A different principle may be considered by the Council in circumstances where it wishes to ensure service accessibility by certain or targeted service users or a specific service should the Council deem this necessary.

14. Additional External Funding

14.1 External funding is progressively becoming a significant source of finance, especially in respect of certain Government initiatives, such as through pooled funding and regional allocations and for significant areas of expenditure such as for Supporting Leicestershire Families and partnership initiatives.

14.2 The Council will seek to maximise the funding it can obtain from external sources, provided that the following principles are complied with:

- That it furthers a Council policy or objective.
- It does not conflict or distract from existing service priorities.
- That the financial implications of any external funding opportunities are fully considered before they are committed to.
- That the terms and conditions upon the Council from accepting the funding can be met from existing Council resources.
- There is no additional ongoing commitment when "pump priming" money runs out, or should there be such an ongoing commitment, it is identified, quantified and approved for inclusion in the Council's financial strategy prior to the external funding being formally accepted.
- There is a clear withdrawal or sustainment strategy, addressing how the implication of the time limited funding will be managed.

14.3 There may be exemptions from the above principles. These will be highlighted in any report to decision makers so opportunities/risks can be assessed and future commitments quantified.

15. VAT Shelter Scheme

15.1 The Council has a VAT Shelter Scheme (approved by HMRC) sharing agreement with Seven Locks Housing Limited. This improves the tax efficiency of a major programme of repairs works on the transferred stock and shares the benefit between the Housing Association and the Council.

Under this agreement Harborough District Council receives 50% of the net VAT refund over the 10 years from the 2007 transfer date. It is not possible to exactly quantify the future benefit to the Council as it depends on the timing of the refurbishment programme and spend profile by Seven Locks Housing Limited and its VAT arrangements with HMRC. In line with current practice the Council will continue to use this as a windfall saving available to support priorities within the Revenue Budget. Though not built into the MTFS the VAT shelter may be used to mitigate against the impact of any part year savings arising from delivery of the Council's Efficiency Plan.

16. Balances and Reserves

16.1 The Council undertakes a thorough review of all its balances and reserves as an integral part of each budget setting process and each annual closedown of accounts. This is to ensure that the Council's overall reserves remain robust, sound and relevant to the needs of the organisation.

In order to mitigate against the impact of the adverse economic climate on the Council's services the balances and reserves are being used strategically to both support budget proposals in a measured way and fund new initiatives without putting the overall financial stability of the Council at risk.

16.2 General Fund Working Balance

A key element of the reserves is the General Fund working balance, which is held:

- to finance expenditure incurred in advance of council tax and other income being received,
- as a contingency against unexpected expenditure needs, including new regulatory requirements and changes in subsidies,
- support the introduction of non-recurring new service initiatives and/or priorities
- to enable the Council to maintain services at existing levels whilst seeking efficiency gains over the short to medium term.

The Council's recently amended policy is to maintain its General Fund working balance at between 7.5% and 15% of the total net direct expenditure and adopted a new policy to provide the Executive with in-year access to the General Fund balance within strict criteria. The estimated balance at the 1st April 2017 is £2.414 million. The General Fund Balance is also impacted upon by accounting entries in respect of the treatment of business rates - this is a volatile area.

16.3 Earmarked Reserves

The Council has a number of Earmarked Reserves which have been established for specific purposes. These reserves are monitored and will be drawn upon or topped up, as appropriate to ensure that the Council optimises its overall service and financial position.

16.4 Capital Reserves

Capital Reserves are available to support the Capital Programme and are primarily generated from the sale of assets creating capital receipts. It is intended that this reserve is used to prevent external borrowing (especially for shorter loan periods). However, it is anticipated that for the first half of the MTFS period the Council will continue to use internal investments to fund the capital programme and negate the need for more expensive borrowing and thereby retaining the capital receipt. The Government has issued a recent consultation allowing flexible use of capital receipts to support the revenue costs of transformation and delivering efficiencies between 2016/17 and 2018/19. The Council will seek to utilise this flexibility (if formally implemented by the Government) during the MTFS Period

16.5 Use of Underspends

The Council has a good track record of containing spend within the approved budget through tight financial management. It is intended that underspends would be utilised in full to support the MTFS in the year after which the accounts have been finalised in which the underspend has materialised. For example the 2015/16 projected underspend would be used within the MTFS for the financial year 2017/18. This will assist in retaining the General Fund Balance above the minimum 7.5 to 15% range detailed above. Request for creation of new earmarked reserves will be considered on an annual basis.

16.6 The estimated reserve balance at 1st April 2017 (detailed in the budget report) is detailed below:

Table 9: Estimated Balances

	Estimated Opening Balance 2016/17	**2016/17 Planned Use of Reserves**	**Estimated Closing Balance 2016/17**
	£000s	£000s	£000s
General Fund Balance	3,344	(930)	2,414
Earmarked Reserves (excluding General Reserve Fund)	4,233	928	5,161
General Reserve Fund	977	(150)	827
Capital Reserves	2,032	0	2,032
Total	**10,586**	**(152)**	**10,434**

The General Fund Balance is impacted upon by the accounting entries relating to business rates and the timing of submission of returns to Government. Recent estimates for the NNDR 1 (submitted at the end of January 2016) indicate that there will be the need to debit the general fund by approximately £900K in the 2015/16 Accounts. More detailed analysis is being undertaken to understand and forecast the funding flow for this area. The reserve table will be updated following the appropriate accounting treatment as part of the 2015/16 Statement of Accounts process.

16.7 Based on the overall MTFS projections detailed in Section 18 below it is anticipated that there will be a draw on the General Fund Revenue Balance linked to this MTFS of a net £218K between 2017/18 and 2019/20. Other movements may be required in the reserve due to funding timings or technical accounting entries. It is expected that the General Fund Balance will be retained significantly above the minimum 7.5% retained General Fund Balance of £802K set down in the Council’s Reserves Policy for the period of this MTFS.

17. Capital Programme and Resources

17.1 Capital expenditure represents major investment in new and improved assets and is therefore a key element in the development of not only the Council’s services but also of parish councils' and voluntary organisations. The Council is due to approve a three year capital programme on the 22nd February 2016/17 totalling £7.998 million with an unsupported borrowing requirement over the period of £1.895 million.

The MTFS assumes that any borrowing within the Capital Financing requirement for the development of affordable houses on redundant garage sites will be funded from the capital receipts reserve avoiding the need for short term borrowing. If this materialises there is a £166K savings in debt charges that can be applied in 2017/18 (arising from not borrowing in 2016/17 and 2017/18) and the need to provide for an additional £7K in 2018/19.

17.2 The 3 year Capital Programme proposes an ambitious Capital Programme delivering economic regeneration and investing in the Council's own assets. The financial implications of any additional capital investment on top of the recommended programme will be considered on a case by case basis with priority given to future schemes that will deliver a revenue income stream. Future Capital Investment plans will be linked to cost benefit analysis to ensure that prudential borrowing is only pursued where there is an economic benefit to doing so. The Council will, where possible, fund the capital programme from the realisation of capital receipts from the disposal of surplus assets rather than high levels of prudential borrowing.

17.3 It is expected that the Council will not need to borrow until the second half of the MTFS period and therefore in year savings are expected. These are not yet factored into the MTFS and will be treated as windfall savings. The Council will monitor the prudential indicators on an annual basis to ensure affordability, prudence and sustainability.

18. MTFS Forecast

18.1 The MTFS forecast for the period 2017/18 to 2019/20 is detailed below. The 2016/17 budget will be approved by Council on the 22nd February 2016.

Table 10: Provisional MTFS 2017/18 to 2019/20

Funding Pressure	**2017/18**	**2018/19**	**2019/20**
	£000s	**£000s**	**£000s**
Reduction in Revenue Support Grant	485	777	777
Reduction in New Homes Bonus	0	524	600
Employee Pressures (pay/pensions etc.)	230	420	610
Inflation	100	200	300
Remove Recurrent Use of Reserves	680	680	680
Removal of Dry Recyclate Recycling Credit	0	300	300
Additional Debt Charges	0	7	7
Sub Total Funding Pressures	**1,495**	**2,908**	**3,274**

APPENDIX A

Funding Options			
Use of Business Rates Retention Reserve	776	836	899
Utilisation of 2015/16 Underspend	652	0	0
Utilisation of 2017/18 net contribution to reserves	0	604	0
Council Tax Increase (% rise and tax base changes)	205	410	615
Reduction in Debt Charges through utilisation of Capital Receipts Reserve	166	0	0
Use of New Homes Bonus Reserve	0	400	400
Efficiency Plan Target	300	600	1,200
Utilisation of General Fund Reserve		58	160
Contribution to Reserves	(604)	0	0
Sub Total Funding Options	**1,495**	**2,908**	**3,274**
Surplus/Shortfall	**0**	**0**	**0**

18.2 The key drivers behind the MTFS are detailed earlier in the strategy:

- Increased use of the Business Rate Retention Reserve
- Council Tax Increases of 1.99% from 2017/18
- Planned Use of Reserves
- Efficiency Plan Targets rising from £300K in 2017/18 to £1.2 million in 2019/20
- Funding anticipated pressures in respect of pay costs and inflation.

18.3 The MTFS anticipates limited net drawing over the MTFS period from the General Fund. Other transitional accounting entries may be required to account for business rates.

18.4 The MTFS increases the use of retained business rate growth on an annual basis but retains a balance in excess of £2 million in the business rate retention earmarked reserve over the period of the MTFS to provide for volatility arising from appeals, economic activity and any changes in legislation.

18.5 The MTFS strategy does leave for 2020/21 (beyond the MTFS period) a need to draw down £560K of reserves (£400k from the depletion of the New Homes Bonus and £160K recurrent use of reserves). At this stage in the MTFS preparation it is not planned to initiate saving and efficiency proposals to eliminate these as by 2020 there should be 100% retention of business rates and other funding changes that may mean recurrent funding streams can reduce the need to utilise the reserves in 2020 onwards.

18.6 The most effective measure of the MTFS's sensitivity to changing circumstances affecting its revenue position is to consider the impact of an increase or decrease on net planned expenditure on the Council Tax level of the authority. Conversely, the level of tax that the Council wishes to set will determine the total resource envelope for the authority taking into account the government grants to be received plus any share of the Collection Fund surplus or deficit.

18.7 There are many variables within the MTFS that could impact on its delivery ranging from the generation of business rates and new homes bonus to inflation and delivery of the Efficiency Plan targets. It is considered that retention of General Fund balances (£2.196 million) and Business Rate Retention Reserves of £2 million plus over the period provides sufficient financial resilience to manage the impact of one or more of the variables not delivering as planned within the MTFS. Further sensitivity modelling will be undertaken as part of the annual Budget and Business Planning process and in the development of a detailed Efficiency Plan.

18.8 Some of the potential measures for achieving further budget reductions and efficiencies will have a long lead-time, and accordingly the process will commence early in the 2016/17 financial year to allow maximum time for informed and evaluated choices and considerations to be given for the future. The Council will continue to propose invest to save schemes where longer term sustainable savings will accrue. This is supported by the Council's reserves policy and current level of reserves.

19. Collection Fund

The Council seeks to operate the Collection Fund such that it creates neither surpluses nor deficits. In practice this is not possible as there will always be a small balance one way or the other. A deficit balance will increase the Council Tax in the following year whilst a surplus will reduce it. The three year revenue forecasts assume a neutral position.

20. Provisions

The Council will continue to make the appropriate level of provisions in respect of potential future anticipated expenditure, in accordance with best practice.

21. Treasury Management

The Council's approach to treasury management is detailed separately in the Treasury Management Strategy. This has also recently been reviewed with the objective of making the Council less risk averse and more risk aware in order to seek to improve the returns on the available funds. In principle this means extending the period for investments and allowing larger sums to be placed with the state owned/part owned banks rather than smaller amounts with a myriad of building societies.

In managing debt the objective is for a secure long term position rather than seeking to make short-term one-off gains which may lead to higher costs in the long term.

22. Risk and Contingencies

22.1 Risks

A detailed risk assessment will be prepared annually as part of the Budget Round including the required assessments from the S151 Officer.

22.2 Contingencies

The Council does not maintain a specific contingency reserve as such but both the General Fund working balance and the General Reserve provide adequate financial capacity to deal with all but the most extreme circumstances. The Council's practice where contingency situations arise is, wherever possible, to address their resource implications by the redirection of existing resources or by identifying savings.

Should an exceptional situation arise, the financial strategy of the Council would be reviewed and depending on the situation, external support sought, such as the Bellwin grant funding scheme in the event of a disaster affecting the district and/or arranging and maintaining adequate insurances.

23. Financial Monitoring and Review

The Council has in place procedures, including those set out in the Constitution, to ensure that the financial implications of all proposed policies and actions, whether capital or revenue (including the revenue implications of capital investment) are subject to due consideration prior to any commitments being made.

All "key decisions" which fall within the policy and budgetary framework of the Council are referred to the Executive for approval. Decisions outside of this framework are referred to Full Council. Other decisions are delegated, as covered by the Constitution.

The finances of the Council are strategically managed and scrutinised. The Council has a formal reporting process to Members and a timetable for developing budgets and business plans that ensures that budgets are aligned to corporate priorities.

The Council has approved a policy in relation to the in-year utilisation of the General Fund balance by the Executive subject to specific constraints and appropriate reporting mechanisms. This will provide some flexibility in allowing the Council to be agile where opportunities arise to lever in funding or support new initiatives.

24. Consultation

The Council recognises that the involvement of other partners in service delivery should be actively promoted and pursued. This is particularly important in the context of shared objectives, which are becoming more prevalent through the Council's constructive engagement with these partners. Shared services and the need to find more efficient methods and models of service delivery also require innovative approaches.

It is recognised however that the Council must continue to enhance the value of the consultation process with the community by using alternative approaches to impart a better understanding of the Council's finances and to show how the management of the finances relates to those services that are important to the public. Equally important going forward is for engagement with communities about informing decisions and helping to shape future service delivery.

25. Summary

This Medium Term Financial Strategy is not a fixed financial forecast, as the strategy will need to respond to national funding announcements and local priorities within the Council Plan. The strategy will be refreshed on at least on an annual basis and respond to emerging priorities, opportunities and risk.