Report to:	**Cabinet**
Date:	**10 February 2021**
Title:	**General Fund Revenue Budget 2021/22 and Capital Programme**
Report of:	**Homira Javadi, Chief Finance Officer**
Cabinet member:	**Councillor Stephen Holt, Deputy Leader of Council, Cabinet Member for Finance**
Ward(s):	**All**
Purpose of report:	**To agree the updated General Fund budget and updated MTFS, together with the updated Capital Programme position.**
Decision type:	**Budget and policy framework**
Officer recommendation(s):	**Members are asked to recommend the following proposals to Full Council:**

i) The General Fund budget for 2020/21 (Revised) and 2021/22 (Original).

ii) The Capital Programme and Financing for 2020/21 (Revised) and 2021/22 (Original).

iii) An increase in the Council Tax for Eastbourne Borough Council of 2% resulting in a Band D charge of £256.74 for 2021/22.

iv) The revised General Fund capital programme 2021/22 as set out in Appendix 3.

v) To note the section 151 Officer's sign off as outlined in the report.

Members are also asked:

vi) To delegate authority to the Chief Finance Officer in consultation with the Lead Member for Finance to:

- **approve the making of all future loans to Aspiration Homes LLP and all drawdowns under both future and existing facilities;**

- **approve the loans as a Restricted Matter under the LLP Agreement with Lewes District Council;**

- **approve all documentation required to ensure compliance with the UK's new subsidy control regime and so that Right to Buy receipts are appropriated in accordance with all relevant requirements; and**

- **determine the terms of all agreements and associated documentation required to put into effect these delegations and to authorise the execution of all such documentation on behalf of the Council.**

Reasons for recommendations:	**The Cabinet has to recommend to Full Council the setting of a revenue budget and associated council tax for the forthcoming financial year by law.**
Contact Officer(s):	**Name: Homira Javadi** **Post title: Chief Finance Officer** **E-mail: Homira.Javadi@Eastbourne-eastbourne.gov.uk**

1. Background

1.1 The Council published its draft Medium-Term Financial Strategy (MTFS) for 2020/21 to 2024/25 in September 2020. This is a key document, which demonstrates alignment with the Council Corporate Plan, and how the Council plans to target its financial resources in line with its key priorities and stated aims and objectives.

1.2 The MTFS included a set of financial assumptions and forecasts up to the financial year 2024/25, based on the most up to date information available at the time.

1.3 This report presents the updated forecast financial position for 2021/22, taking into account:

- the capital strategy and revised capital programme and financing requirements,
- the budget changes identified since the publication of the MTFS;
- the latest intelligence regarding the Spending Review announcement on 25 November 2020;
- the provisional 2021/22 local government funding settlement subsequently announced on the 17 December 2020; and
- the Secretary of State's approval for a total capitalisation direction to fund revenue expenditure of up to £6.8m in 2020/21 and up to £6m in 2021/22.

The 2021/22 budget has been prepared during one of the most challenging and uncertain times due to the ongoing impacts of Covid19 on the Council's finances, staff, residents, and local economy.

Government spending to combat Covid19 and mitigate its impact on businesses and individuals has led to record levels of public sector borrowing, and there is continuing uncertainty over the core funding that will be available to local authorities over the medium term.

One of the key outcomes of the Corporate Plan is achieving a robust financial strategy, the 2021/22 budget and medium-term financial strategy has been aligned to the Council's 5 Strategic priorities as shown below.

1.4 The MTFS report highlighted the following key points that:

a) The Strategy was prepared at a time of massive uncertainty with regard to the Covid-19 pandemic and its impact on the economy.
b) The Council has seen a significant drain on its service budgets and revenues due to the impact of Covid19. Although lockdown had eased (at that time), the full impact of the virus was still to be seen but the estimated net cost to the Council had been estimated to be circa £21m over the 4-year model based on the position in September.
c) The financial position over the medium term showed a revenue budget deficit of £8m for 2020/21, with future years as follows:

Forecast Deficits	**2021/22** £000's	**2022/23** £000's	**2023/24** £000's	**2024/25** £000's
Worst Case Scenario	9,748	5,571	4,699	4,482
Current Position	5,398	2,421	1,299	582

The MTFS report added that:

The range of financial outcomes depended on two key factors:
- the pace of recovery for the tourism economy; and
- the savings generated from the Recovery and Reset (R&R) Programme.

d) The saving targets identified for the R&R programme are based on early estimates. More detailed work is being carried out to specify the targets on project by project basis. In addition, the savings will need to be sufficient, not only to cover the deficits, but also to replenish the Council's reserves to ensure future financial resilience.

e) The Council's financial recovery and MTFS is highly dependent on approval of the Authority's request to MHCLG for capitalisation of its net expenditure in 2020/21 and 2021/22.

1.5 **Statutory Requirements**

The Local Government Finance Act 1988, places certain responsibilities on the Chief Finance Officer. Section 114(3) of the Act states:-

'The Chief Finance Officer of a relevant authority shall make a report under this section if it appears to him/ her that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure.'

1.6 **Modification to the S114 guidance**

At the start of the Covid19 pandemic earlier this financial year, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry Of Housing, Communities and Local Government (MHCLG) agreed a temporary modification to the existing S114 guidance.

The rationale for the temporary modification was to allow Local Authorities to explore what further options or financial assistance may be available ahead of formally issuing a S114 notice.

This temporary modification included Local Authorities engaging in informal conversations with MHCLG to make the Ministry aware of financial concerns ahead of issuing a S114 notice.

1.7 **Approach**

The Council's Chief Finance Officer has been monitoring the financial impact of the pandemic on the Council's resources since the first national lockdown in March 2020. In helping members to assess the likely impact of the virus in a difficult to predict and plan for environment, a scenario based planning approach was introduced. This was to provide a range of outcomes and impacts based on a number of assumptions. The scenarios were based on the following potential assumptions:

Scenarios	Key assumption	Based on	Impact
1 – Best Case	July recovery and bounce back	MHCLG advice	Financial impact manageable
2 - Mid Case	Partial lockdown, slow recover and a longer term bounce back	broader information	Financial impact in excess of available resources
3 - Worst Case	Full year of lockdown	Developed at the time of the first lockdown	Financial impact far in excess of available resources

In August 2020, it became very clear that a July recovery and bounce back was no longer an option and the Council's Chief Finance Officer initiated a formal notification process with MHCLG asking for financial support or capitalisation directive.

The Council's request for support included the following options:

Options	**Cost of capitalisation (financing of the anticipated shortfall c£13m for 2020/21 & 2021/22)**
100% funding	None
50% funding 50% capitalisation Asset backed	C.£375k per annum
100% capitalisation Asset backed	C. £750k per annum

On 2nd February 2021, Luke Hall, MP and Minister of State for Regional Growth and Local Government in a letter addressed to Cllr Tutt, Leader of the Council, approved a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, for the financial year 2020/21 and up to £6m for 2021/22.

The letter included:

With respect to the financial year of 2020/21, the Secretary of State is content to approve a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, subject to conditions. The conditions would be set out in the capitalisation direction when issued.

With respect to the financial year of 2021/22, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £6m. Again, such a direction may be subject to conditions, which would be set out in the capitalisation direction when issued.

The budget has been updated to reflect the corresponding changes.

2 Key Factors

2.1 Financial Impact of Covid19

The Council has played a significant role in responding to Covid19, in supporting businesses and the most vulnerable in our communities as well as running essential services.

The financial impact of Covid19 has been an evolving picture throughout 2020/21 and this will continue into 2021/22. The Council is forecasting additional costs in 2020/21 in the region of £3.7m including homelessness prevention, unachieved savings, redeployment costs, support for the Leisure services, additional PPE, community grants and cleaning costs.

The Council's income streams have also been affected, with projected losses in the region of £10m including admissions, sales, trade waste, car parking, planning income, and rental income.

The Government has provided support to local authorities through £4.6bn, new burdens funding, and income compensation support (75p compensation in every 95p of income loss from fees and charges). However, Eastbourne Borough Council's share of these financial supports, falls short of the projected costs and losses in 2020/21.

The Council's capital programme has also been severely impacted by COVID19 with several projects having to be reviewed and rephased.

The financial impact of Covid19 for 2021/22 and beyond is difficult to predict, income streams have been reviewed and revised where appropriate. The programme may also be impacted by supply difficulties, for example increased costs from suppliers or additional cost of Personal Protection Equipment (PPE).

The Council is putting in place an extended plan for the delivery of its uncommitted capital investments where possible to support its financial stability plans.

3 Economic Background

3.1 In November 2020, the Office for Budget Responsibility (OBR) published its independent economic and fiscal forecasts.

3.2 The coronavirus pandemic has delivered the largest peacetime shock to the global economy on record. It has required the imposition of severe restrictions on economic and social life; driven unprecedented falls in national income; fuelled rises in public deficits and debt surpassed only in wartime; and created considerable uncertainty about the future. The UK economy has been hit relatively hard by the virus and by the public health restrictions required to control it.

3.3 In the central forecast, the combined impact of the virus on the economy and the Government's fiscal policy response pushes the deficit this year to £394 billion (19% of GDP), its highest level since 1944-45, and debt to 105% of GDP, its highest level since 1959-60. Borrowing falls back to around £102 billion (3.9% of GDP) by 202526, but even on the loosest conventional definition of balancing the books, a fiscal adjustment of £27 billion (1% of GDP) would be required to match day-to-day spending to receipts by the end of the five-year forecast period.

3.4 The support provided to households and businesses has prevented an even more dramatic fall in output and attenuated the likely longer-term adverse effects of the pandemic on the economy's supply capacity. The Government's furlough scheme has prevented a larger rise in unemployment. Grants, loans, and tax holidays and reliefs to businesses have helped them to hold onto workers, keep up to date with their taxes, and avoid insolvencies. Nonetheless, OBR anticipate a significant rise in unemployment – to 7.5% in our central forecast – as this support is withdrawn in the spring.

3.5 The economic outlook remains highly uncertain and depends upon the future path of the virus, the stringency of public health restrictions, the timing and effectiveness of vaccines, and the reactions of households and businesses to all of these. It also depends on the outcome of the continuing Brexit negotiations. In such circumstances, the value of a single 'central' forecast is limited.

3.6 CPI inflation falls from 1.8% last year to 0.8% in 2020, due in part to lower indirect taxes and energy prices, as well as increased slack in the economy. Thanks primarily to relatively weak average earnings growth, inflation remains subdued over the next three years, returning to the 2% target by the end of 2024. Whole economy inflation (as measured by the GDP deflator) is erratic in the short term, driven by the statistical treatment of public sector output (for example, school closures and the cancellation of non-virus-related operations are treated as raising the implicit price of education and health services). In the medium term, GDP deflator inflation settles at 2%.

4 Spending Review 2020 (SR20) 2021/22

4.1 The Governments three year Comprehensive Spending Review (CSR) was planned to conclude in July 2020, however, on 24 March 2020 the Chancellor announced that the CSR would be delayed 'to enable the Government to remain focussed on responding to the public health and economic emergency'

4.2 On 21 October 2020, the Chancellor announced the decision to provide a one-year Spending Review in order to prioritise the response to Covid19 and focus on supporting jobs. Details of this SR20 were published on 25 November 2020. The key points that are relevant to Local Government are as follows:

a) Core spending power for local authorities in 2021/22 is estimated to increase by 4.5% in cash terms. In calculating CSP, it has been assumed that authorities will increase Band D by the maximum amount, and that each authority's taxbase has increased in line with their average taxbase growth since 2016-17.

b) £3bn worth of financial support to local authorities in 2021/22 in relation to Covid19 pressures as follows:

• £1.55bn of grant funding to meet additional expenditure pressures as a result of Covid19.

• £670m grant funding to help households that are least able to afford council tax payments.

• Estimated £762m compensation payments for 75% of irrecoverable loss of council tax and business rates revenues in 2020/21.

• Extending the current sales, fees and charges reimbursement scheme for a further 3 months until the end of June 2021.

c) Maintaining the existing New Homes Bonus scheme for a further year with no new legacy payments. This was confirmed in the provisional settlement on 17 December 2020 as two payments in respect of years 8 and 9 as planned, and a further one-off payment (year 11). The Government is inviting views on a replacement for NHB.

d) Continuation of the option for shire Boroughs with the lowest council tax levels allowed increases in council tax of up to 2% or £5 whichever is higher, the £5 was confirmed in the provisional settlement.

e) Rural Services Delivery Grant (RSDG) will continue in 2021/22

f) £254m of additional resource funding to tackle homelessness and rough sleeping in 2021/22.

g) The Government have indicated that they are unlikely to extend further Covid19 related support through business rates reliefs, outline plans for2021/22 reliefs are expected in the New Year

h) Public sector pay freeze in 2021/22 for some workforces, pay rises for NHS workers and increases for the lowest paid. The Government has no formal role in the decisions around annual local government pay increases, these are developed through negotiations between the LGA and the relevant trade unions.

i) Confirmation that the Fair Funding Review, Business Rates Review and business rates reset will be delayed. A fundamental review of the business rates system will be undertaken, and the Government are considering responses to the call for evidence. A final report with conclusions of this review is expected spring 2021.

j) To support businesses in the near-term, the Government has decided to freeze the business rates multiplier in 2021/22, saving businesses in England an estimated £575m over the next five years. Local authorities will be fully compensated through S31 grants.

k) Reform of the Public Works Loan Board (PWLB) lending terms, ending the use of the PWLB for investment property bought primarily for yield. The Government cut PWLB lending rates to gilts + 100bps for Standard Rate and gilts + 80bps for Certainty Rate, with effect from 26 November 2020.

l) The government is launching a new Levelling Up Fund worth £4bn (£600m in 2021/22), to invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery. Bids for projects of around £20m that can be delivered in 2-3 years will be considered. The Prospectus is likely to be released early in the New Year.

m) £300 million of new grant funding for adult and children's social care, in addition to the £1bn announced at SR19 that is being maintained in 2021/22. In addition, local authorities will be able to levy a 3% adult social care precept.

n) Negative Revenue Support Grant is now fully funded.

o) £20 billion of investment underpinning the government's long-term housing strategy, including £7.1 billion for a National Home Building Fund and confirming over £12 billion for the new Affordable Homes Programme. Although typically a consideration for the HRA, AHLLP as a Registered Provider, also has access to the funding to meet the Corporate Plan objectives for housing and reduce costs to the General Fund.

4.3 The Provisional Finance Settlement was announced on the 17 December 2020 and provided Eastbourne with additional funding of £760k which has been built into the 2021/22 budget.

This can be broken down as follows:

• a new Lower Tier Services grant of £156k to help mitigate the reduction in core spending power as a result of the New Homes Bonus changes

• New Homes Bonus was £6k more than originally estimated.

• Additional Emergency Covid-19 grant of £598k.

The headlines are as follows:

• No increase to the Busines rates baseline funding

• £150m compensation for under-indexing the Business Rates multiplier, Eastbourne's share will be included in the final budget calculation once this the National Non Domestic (NNDR) work is complete. At this stage, this has not been built into the baseline numbers as this will form part of the forecast Business Rates budgets that will be calculated in January along with the Suffolk Business Rates Pool forecasts.

• New one-off Lower Tier Services grant introduced of £111m to ensure no council will have less funding available in 2021/22 than 2020/21. Eastbourne's allocation is £156k.

• Eastbourne's share of the £1.55bn 5th tranche of Covid19 grant funding has been confirmed at £598k.

• New Local Council Tax Support Grant £670m – outside the core settlement and is to fund authorities for the expected increase in Local Council Tax Support in 2021/22. This grant is to be allocated between East Sussex County Council, Police and Crime Commissioner and Eastbourne Borough Council. Provisional allocations are as follows:

East Sussex County Council	£965k
Sussex Police and Crime Commissioner	£129k
East Sussex Fire Authorities	£62k
Eastbourne Borough Council	£163k

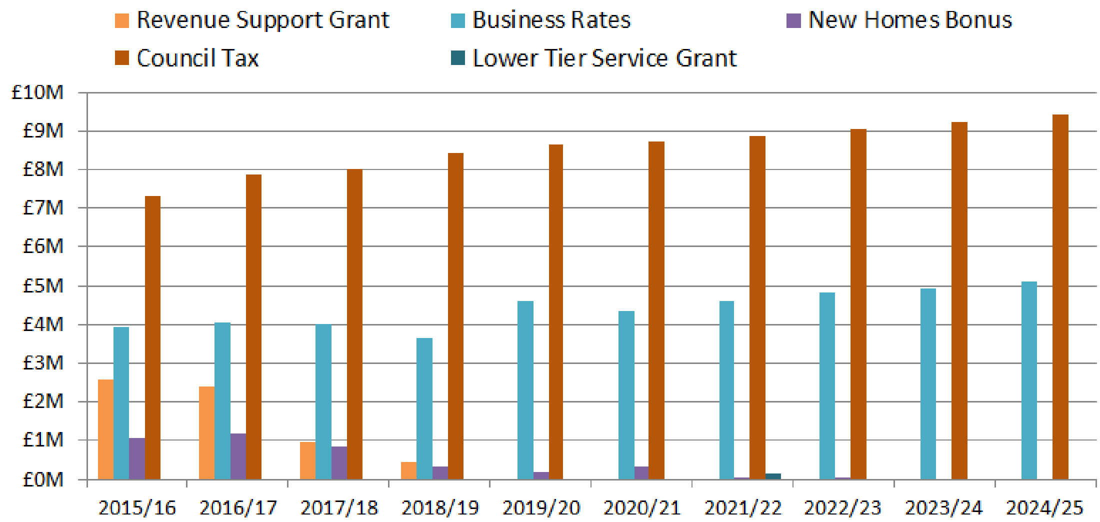
This has not been included in the funding at this stage until further work can be undertaken to establish how to fairly allocate Eastbourne's share.

4.4 The impact of above funding streams in the Council's budget and MTFS are summarised and included in the table below:

Table 1: Provisional Finance Settlement and Other Funding Resources

	2020/21 £000's	**2021/22 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2024/25 £000's**
Business Rates	4,362	4,820	4,916	5,015	5,115
Business Rates (Deficit)	(15)	(213)	(99)	(99)	-
Council Tax	8,772	8,867	9,043	9,224	9,409
Council Tax (Deficit)/Surplus	(60)	45	-	-	-
New Homes Bonus	332	32	11	-	-
CTax Support Grant	131	132	130	130	130
Lower Tier Service Grant	-	155	-	-	-
Total Resources	**13,522**	**13,838**	**14,001**	**14,270**	**14,654**

Chart 1: Funding Resources



Note the above includes annual surpluses and deficits relating to business rates and council tax. The forecasts for business rates from 2021/22 onwards are modelled on a worst case scenario with no transitional funding arrangements.

5 Council Tax

5.1 The proposal is for an increase in council tax of 2% for 2021/22 which results in a Band D rate of £256.74 for Council services.

5.2 The Council has to give an indication of likely future council tax rises, it is still expected that council tax will rise by 2% per annum in line with inflation for each of the next three years. This is within the Government's target for inflation (1-3%) and the also current ceiling on rises that would otherwise require a referendum.

5.3 Within this context, for 2021/22, the Council will raise £8.866M from its share of the council tax. This is determined by multiplying the council tax base of Band D equivalent dwellings by the Band D tax rate of £256.74 per annum.

5.4 In addition, there is a surplus of £45k payable to EBC from the collection fund due to an overall collection fund surplus of £362k.

6 2020/21 Revised Budget

6.1 The 2020/21 has been significantly impacted by the Covid-19 pandemic in terms of income losses and additional costs. The Council's Chief Finance Officer has been monitoring the financial impact of the pandemic on the Council's resources since the first national lockdown in March 2020. In helping members to assess the likely impact of the virus in a difficult to predict and plan for environment, a scenario based planning approach was introduced. This was to provide a range of outcomes and impacts based on a number of assumptions as summarised in the following table:

Scenarios	Key assumption	Based on	Impact
1 – Best Case	July recovery and bounce back	MHCLG advice	Financial impact - manageable
2- Mid Case	Partial lockdown, slow recover and a longer term bounce back	Broader information	Financial impact in excess of available resources
3- Worst Case	Full year of lockdown	Developed at the time of the first lockdown. Prior to receiving any financial support.	Financial impact in excess of available resources

Following campaigns by various networking groups and the ministry's greater understanding of the financial impact on councils resources, series of financial support packages such as emergency COVID-19 (T1,£64k- T2 £1.026m, T3-£191k and T4- £474k) and income compensation grants were introduced.

Whilst the Government has provided encouraging amounts of funding, the impact from the pandemic has left the Council with a significant shortfall. The following table sets out the key variances for 2020/21 and the funding being used to ensure a balanced budget is maintained.

Table 5: 2020/21 Major Movements

2020/21 Budget Variances	
	£
Corporate Services:	
Increased ICT costs	113,700
Democratic Services - mainly remote working savings	(39,550)
Regeneration & Planning:	
Reduced Rental Income	474,700
Reduced Maintenance & Facilities costs	(56,300)
Service Delivery:	
Mainly reduced Car Parking income	369,950
Net Additional Housing Benefit cost	781,250
Net Summons Costs and Liability Order income	320,350
Reduction in Recycling Credits	81,000
Grounds Maintenance savings - deferred	300,000
Reduction in Trade Waste income	150,000
Reduced SEESL contribution	61,200
Net Reduction in Crematorium income	241,550
SolarBourne - increased maintenance costs/reduced income	128,550
Tourism & Enterprise:	
Tourism - net income loss	20,600

Events - net income loss	52,150
Theatres - net income loss	2,032,950
Sports - net additional cost of Sovereign Centre	552,400
Seafront - net income loss (Bandstand £276k, Beach Huts £108k)	393,550
Heritage - net income loss (Heritage Eastbourne £99k)	108,650
Tourist Information Centre - net income loss	85,300
Catering - net income loss	603,600
Other Operating Income & Expenditure:	
Allocation of Contingency Budget	(61,350)
Corporate Efficiency savings target removed	2,215,500
Income Recovery Grant	(2,800,000)
Capital Financing & Interest - net reduction	(289,400)
Other Net Budget Changes	59,650
Provisional Budget Shortfall	**5,600,000**

6.2 A breakdown of the general fund summary is included at Appendix 1.

7 Medium Term Financial Position

7.1 The MTFS sets out the Council's four-year spending and funding plans, and is the financial framework for the development of the detailed 2021/22 budget.

The latest MTFS, as approved by Cabinet on 01 September 2020, forecast budget gaps in each of the next four financial years as follows:
Table 6: Previous MTFS Forecasts

	2020/21 £000's	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Budget Forecast	21,530	23,251	19,326	18,717	18,828
External Funding	(13,519)	(13,503)	(13,755)	(14,018)	(14,346)
Annual Budget Gap	**8,011**	**9,748**	**5,571**	**4,699**	**4,482**
Cumulative Budget Gap	**8,011**	**17,759**	**23,330**	**28,029**	**32,511**

7.2 The MTFS has been updated with the latest forecast position. This incorporates the on-going impact of any pressures and mitigations identified in the first quarter's budget monitoring from 2020/21 and newly identified budget pressures. The forecast budget gap for 2021/22 has reduced by £3.737m to £6.011m, mainly due to the following:

- Reduced capital financing costs - £1.3m
- Additional funding from the Provisional Finance Settlement - £0.760m
- Recovery and Reset Savings - £0.850m
- Pay Award Freeze - £0.288m
- CMT Savings - £0.150m

7.3 A summary of the revised position, including the updated savings requirement, is shown in following sections.

Table 7: Summary of Revised MTFS Position

	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
Budget Forecast	19,122	19,336	20,688	20,895	21,706
External Funding	(13,522)	(13,838)	(14,001)	(14,270)	(14,654)
Initial Budget Gap	**5,600**	**5,498**	**6,687**	**6,625**	**7,052**
CMT Savings	(50)	(150)	(250)	(250)	(250)
Grants Review	-	(60)	(250)	(250)	(250)
Recovery and Reset Programme	-	(850)	(2,500)	(2,500)	(2,500)
Redundancy and Set Up costs	1,250	1,850	-	-	-
Pay Award savings	-	(288)	(288)	(288)	(288)
Capitalisation Direction	**(6,800)**	**(6,000)**	-	-	-
Annual Budget Gap	**-**	**-**	**3,399**	**3,337**	**3,764**
Cumulative Budget Gap	**-**	**-**	**3,399**	**6,736**	**10,500**

8 Reserves

8.1 The following table sets out the reserves position for 2020/21 and 2021/22.

Table 8: Reserves Summary

Summary	01-Apr-20 £000's	Transfers (In)/Out £000's	31-Mar-21 £000's	Transfers (In)/Out £000's	31-Mar-22 £000's
Strategic Change Reserve	(244)	-	(244)	-	(244)
Capital Programme Reserve	(336)	-	(336)	-	(336)
ICE Reserve	(1,750)	-	(1,750)	-	(1,750)
Commercial Reserve	(250)	-	(250)	-	(250)
Revenue Grants Reserve	(614)	(207)	(821)	-	(821)
SHEP Properties Works Reserve	(1)	-	(1)	-	(1)
Business Rates Equalisation Reserve	0	(1,104)	(1,104)	-	(1,104)
Total Earmarked Reserves	**(3,195)**	**(1,311)**	**(4,506)**	**0**	**(4,506)**
General Fund Reserve	(2,025)	-	(2,025)	-	(2,025)
Total Reserves	**(5,220)**	**(1,311)**	**(6,531)**	**0**	**(6,531)**

It should be noted that the April 2020 figures are still subject to audit.

8.2 There has been one budgeted transfer in the current year of £207k, This is in relation to grant income that has been received in Service Delivery which is not currently budgeted to be used, and has therefore been transferred to the Revenue Grants Reserve.

9 Financial Planning Cycle

9.1 A typical financial planning cycle for a local authority is a continual process of review and challenge of future years' budget assumptions over a medium-term horizon. This is based on performance against the current year's budget, incorporating the costs and benefits of business change and responding to political and economic factors within the external environment.

Following the publication of this report, work will continue to further validate and monitor delivery against all of the key budget assumptions for 2021/22 and beyond.

Since the publication of the MTFS in September, the Council has reviewed its 2021/22 budget following consideration of the following areas:

- Priority objectives and service plan delivery;
- Planned business change and opportunities for increased value for money;
- Current levels of service demand and performance against budget; and
- The statutory environment that each directorate operates in.

9.2 The key financial assumptions within the MTFS have been refreshed to include the impact of:

- The capital strategy and rolling capital programme approved by Council in February 2020;
- Demographic and service demand pressures, which have been reviewed based on the latest national and local trends and management information available.
- Expenditure and income inflation indices, which have been reviewed using the latest economic data and contract information.
- An assessment of changes to government grants and funding;
- The Council's operational and financial performance in 2019/20 and 2020/21 with due regard given to the on-going impacts in future years.
- Validation of MTFS savings proposals.

Full details of the updated financial assumptions are contained within Appendix 2.

10 CIPFA Resilience Index

10.1 CIPFA's Financial Resilience Index, made publicly available for the first time in 2019, aims to support good practice in the planning of sustainable finance. The index does not come with CIPFA's own scoring, ranking or opinion on the financial resilience of an authority. However, users of the index can undertake comparator analysis drawing their own conclusions.

10.2 The 2020 index, which will provide the relative position for the 2019/20 financial year, will be made publicly available shortly. Councils performance will be ranked relative to those in the selected 'comparator group'.

10.3 As part of the audit work for the 2018/19 and 2019/20 financial statements, a going concern review was undertaken in light of Covid19. The Council is awaiting the outcome of its request for capitalisation request from MHCLG. This is critical to the authority's long-term financial sustainability and to demonstrate its ability to regain a sound financial position and maintain the appropriate levels of reserves to support the Council's financial and delivery plans.

10.4 The Council will continue to become financially self-sufficient and to use its reserves as a last resort. Earmarked Reserves may be drawn on for their intended function, such as to mitigate the impact of Covid19 and funding specific projects. As such, and subject to above, the reserves indicators within the resilience index could move either way in future years.

10.5 **CIPFA FM Code of Practice**

CIPFA has developed the Financial Management Code (FM Code) 'designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.' The FM code has several components including six Principles of Good Financial Management, setting the benchmark against which all financial management should be judged.

10.6 CIPFA expect the first full year of compliance with the FM Code to be 2021/22 and it is for individual authorities to determine whether they meet the standards. The Council's Leadership will be taking part in the first workshop in February to develop awareness and understanding of the requirements of the code. Work will continue throughout 2021/22 to ensure the Council adopts best practice.

11 Fees and Charges

11.1 Fees and charges have been reviewed by budget holders as part of this budget setting process and the impact of the charges have been built into the draft budget for 2021/22.

12 Capital Programme

12.1 As part of the budget setting process, the Council is required to agree a programme of capital expenditure for the coming four years. The capital programme plays an important part in the delivery of the Council's Corporate Plan and Medium-Term Financial Strategy (MTFS), which in turn supports wider service delivery.

Capital expenditure within the Council is split into two main components, the General Fund Capital Programme and the Housing Revenue Account (HRA) Capital Programme.

The Council's Draft Revenue Budget and Capital Programme 2021/22 to 2023/24 forecasts £112.6m (HRA of £73.3m and GF of £39.3m) of capital investment over the next three years with £46.2m met from existing or new resources. The amount of new borrowing required over these periods are therefore £66.4m (HRA of £45.6m and GF of £20.8m). Full details are contained within Appendix 3.

12.2 Capital programme recognises the significant spending limitations within the Finance Settlement for 2021/22 and the impact of the pandemic on the resources available. Therefore, the programme is revised to prioritise delivery to incorporate those projects that are either a statutory requirement or are essential to delivery of the Council's key priorities whilst reducing demand on its borrowing requirements. The programme includes schemes where the Council has been successful in securing funding from external grants and contributions, and schemes where the

Council is pro-actively working with external bodies to secure funding. For these schemes to go ahead it is important that the funding is secured.

The programme has been compiled taking account of the following main principles, to:

- maintain an affordable four-year rolling capital programme;
- reduce external borrowing
- ensure capital resources are aligned with the Council's key priorities,
- maximise available resources by actively seeking external funding and disposal of surplus assets; and
- not to anticipate receipts from disposals until they are realised or have a high degree of certainty to realise.

12.3 The current economic climate also places further emphasis on ensuring that the levels of capital receipts are maximised through improved asset management and through the sale of surplus and underused assets. The Council recognises disposal of its surplus assets key to its overall financing of capital investment and at the same time reduced the demand on the revenue costs of capital.

12.4 The Council is under significant pressure to spend its Right to Buy (RTB) receipts in accordance with strict government timelines. The use of RTB receipts fundamentally supports the delivery of the Council's affordable housing pipeline and reduces the overall reliance on borrowing. Although the government has granted limited temporary extensions, it remains challenging for the Council to meet the demand of the spending deadlines solely through the activities of its Housing Revenue Account (HRA) alone. AHLLP, however, is able to also utilise RTB receipts within its affordable housing and regeneration objectives, together with other opportunities including access to other grant funding streams, such as the government's Affordable Homes Programme 2021-2026.

As part of the General Fund capital programme, the Council previously approved loan facilities to finance the activities of AHLLP and support the wider housing delivery objectives of the Corporate Plan. In consideration of the partnerships ability to provide an increased range of affordable housing tenures, more flexibly access RTB receipts, and potentially secure additional grants, it is therefore proposed an additional facility is made available to enable AHLLP to access new opportunities in the market and provide the Council with an additional resource when considering the most appropriate vehicle to hold current and future housing assets.

12.5 Capital Funding Sources - The capital investment proposals contained within this MTFS rely upon an overall funding envelope made up of several sources, including borrowing, capital receipts, capital grants and revenue contributions.

Borrowing - The local Government Act 2003 gave local authorities the ability to borrow for capital expenditure provided that such borrowing was affordable, prudent and sustainable over the medium term. The Council must complete a range of calculations (Prudential Indicators) as part of its annual budget setting process to evidence this. These make sure that the cost of paying for interest charges and repayment of principal by a minimum revenue payment (MRP) each year is considered when drafting the Budget and Medium-Term Financial Strategy. Over the course of this MTFS, prudential borrowing of £66.4m (HRA of £45.6m and GF of £20.8m) has been assumed for the General Fund Capital Programme.

12.6 The Council's external authorised borrowing limit for 2021/22 is set at £199m with an operational limit of £181m and no long-term external borrowing as at 31 March 2021. The 2021/22 borrowing is estimated as £19.3m (GF of £11.4m and HRA of £7.9m). The HRA has no borrowing limit/cap as it takes its income from rents and services charges collected from tenants and spends this money exclusively on building and maintaining housing. Councils are able to borrow money within their HRAs in order to build more homes to provide more income, or even to refurbish or regenerate existing homes.

12.7 Capital Receipts - These are generated when a non-current asset is sold, and the receipt is more than £10K. Capital receipts can only be used to fund capital expenditure or repay borrowing. In determining the overall affordability of its capital programme, the Council is taking a prudent approach of not including anticipated capital receipts as a source of funding in the programme until such a time when the income is received and very likely to be realised.

12.8 Capital Grant - The Council receives additional grant funding for a variety of purposes and from a range of sources. These include the Ministry of Housing, Communities and Local Government (MHCLG) funding for Disabled Facility Grants and Environment Agency funding for Coastal Management projects.

12.9 Revenue Contributions - Although the Council can use its General Fund to pay for capital expenditure, as it has done in the past, the current financial constraints that are on the Revenue Budget means that this option is limited in the medium term.

12.10 General Fund Capital Reserves - Capital Short Life Asset Reserve – It is anticipated that this reserve will continue to fund assets with a life of less than 10 years, primarily being IT equipment and vehicles purchases.

12.11 HRA Right to Buy (RTB) Capital Receipts – The Right to Buy scheme helps eligible council tenants to buy their home with a discount of up to £84,200 (2021/22). The Council receives the sale proceeds of the Council House.

12.12 HRA Other Capital Receipts - These are generated when a fixed asset is sold, and the receipt is more than £10k. Capital receipts can only be used to fund capital expenditure.

12.13 HRA Contributions – Funding for capital expenditure on housing can be met from within the HRA. The future funding requirements will be informed by the Council's newly revised 30-year HRA business plan.

12.14 HRA Capital Reserves – Although the HRA subsidy system has ceased to exist, transitional arrangements allow the Council to continue to place the Major Repairs Allowance, as detailed in the settlement determination, in the Major Repairs Reserve. This is exclusively available for use on HRA capital expenditure.

13 Financial Appraisal

13.1 The S151 Officer will submit her Section 25 report on the robustness of estimates and adequacy of reserves in February 2020.

14 Legal implications

14.1 Section 151 of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

14.2 Sections 42A of the Local Government Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

14.3 The Chief Finance Officer, appointed under section 151 mentioned above, has a duty to report on the robustness of estimates and adequacy of reserves under section 25 of the Local Government Act 2003.

14.4 Capital finance considerations

The Council has the power under section 1 of the Local Government Act 2003 (LGA 2003) to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. The Council has the power under section 12 of the LGA 2003 to invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs.

14.5 Under section 3 the SOS may make regulations governing the use of the borrowing power and section 15 of the LGA 2003 requires that a local authority must "have regard to" such guidance as the SOS may issue and to such other guidance as the SOS may by Regulations specify.

14.6 The SOS has made the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, S.I 2003/3146, as amended ("the Capital Finance Regulations") in relation to the exercise of the borrowing power. Paragraph 24 of the Capital Finance Regulations provides that a local authority must "have regard to" the document entitled "Treasury Management in the Public Service: Code of Practice and Cross-Sectoral Guidance Notes" published by the Chartered Institute of Public Finance and Accountancy ("CIPFA") as may be amended or reissued from time to time. CIPFA has duly issued Treasury Management Guidance.

14.7 The SOS has also issued statutory guidance on local government investments (3rd edition) effective from 1st April 2018. This is primarily about investments made under section 12 LGA 2003 but also relates to borrowing for investments. The SOS view is that an investment includes covers loans made by a local authority company to one of its wholly-owned companies or entities.

14.8 Subsidy Control

The new Subsidy Control regime applies from 1 January 2021 as the EU State aid rules no longer apply due to Brexit. In place of the EU State aid rules the UK has committed to introducing its own domestic subsidy control regime. The recommendations in this report ensure that funding will be given in compliance with these new requirements and that Right to Buy receipts will be used in accordance with all relevant requirements.

15 Risk Management implications.

15.1 Appendix 4 provides an analysis of risks associated with the MTFS and mitigating actions.

16 Equality analysis

16.1 The equality implications of any individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports.

17 Conclusion

17.1 The Council faces considerable financial challenges in the medium term, primarily relating to changes and uncertainty in both public finances and the wider economic environment.

18 Appendices

- Appendix 1 - General Fund Budget Summary
- Appendix 2 - MTFS Assumptions
- Appendix 3 - Capital Programme
- Appendix 4 – Risks

19 Background papers

The background papers used in compiling this report were as follows:

- Provisional Local Government Finance Settlement 2021/22