Report to:	**Scrutiny**
Date:	**7 February 2022**
Title:	**General Fund Revenue Budget 2022/23 and Capital Programme**
Report of:	**Homira Javadi, Chief Finance Officer**
Cabinet member:	**Councillor Stephen Holt, Deputy Leader of the Council, Cabinet Member for Finance**
Ward(s):	**All**
Purpose of report:	**To agree the updated General Fund budget and updated Medium Term Financial Strategy, together with the updated Capital Programme position.**
Decision type:	**Budget and policy framework**
Officer recommendation(s) to the Cabinet:	**1. The Cabinet is asked to recommend the following proposals to Full Council:** **i) The General Fund budget for 2021/22 (Revised) and 2022/23 (original).** **ii) An increase in the Council Tax for Eastbourne Borough Council of 1.99% (per annum) resulting in a Band D charge for general expenses of £261.87 (per annum) for 2022/23.** **iii) The revised General Fund capital programme 2022/23 as set out in Appendix 3.** **iv) That Cabinet endorses the continuation of the Flexible use of Capital Receipts and refers on to Council for approval.** **v) To note the section 151 Officer's sign off as outlined in the report.**
Reasons for recommendations:	**The Cabinet must 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@lewes-eastbourne.gov.uk**

1 Background

1.1 The Council published its draft Medium-Term Financial Strategy (MTFS) for 2021/22 to 2025/26 in September 2021. 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.

The MTFS included a set of financial assumptions and forecasts up to the financial year 2025/26, based on the most up to date information available at the time.

1.2 This report presents the updated forecast financial position for 2022/23, considering the capital strategy and programme approved by Council in February 2021, budget changes identified since the publication of the MTFS and the latest intelligence regarding the Spending Review announcement in October 2021 and the provisional 2022/23 local government funding settlement subsequently announced on the 16 December 2021.

1.3 The 2022/23 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.

1.4 Government spending to continue 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.

1.5 The 2022/23 budget and medium-term financial strategy has been aligned to the Council's 5 Strategic priorities. One of the key outcomes of the Corporate Plan is achieving a robust financial strategy, as shown below:

1.6 This budget and medium-term financial plan seeks to provide the Council with a framework which allows it to continue delivering its services and achieve its strategic objectives without relying on ongoing drawdowns from reserves over the coming four-year period. The Council has a legal obligation to set a balanced budget for next year as well as sustainable balanced budgets for the medium term.

Key factors

2 Financial Impact of Covid19

2.1 The Council's response to the financial pressures caused by the COVID19 pandemic coupled with the uncertainties around economic recovery and local government future funding arrangements resulted in putting in place a number of key plans many of which have been encompassed in the Recovery and Reset Programme (R&RP).

2.2 The Council's overall recovery strategy is reliant on the outcome from the following:

- Delivery of the anticipated saving targets from the R&RP.
- Economic recovery and return of income levels to the pre COVID-19 levels.
- Greater control of the revenue and capital expenditure and financing costs.

2.3 In response to the Council's request for Exceptional Financial Support, on 2nd February 2021, the Minister of State for Regional Growth and Local Government in a letter addressed to the Leader of the Council, approved a total capitalisation direction to fund expenditure not exceeding £6.8m for the financial year 2020/21, and up to £6m for 2021/22.

2.4 Through its careful cost control, robust actions and commitment to delivery of the R&R programme, the Council's final submission to the Ministry for capitalisation for 2020/21 was £4.6m and the projected capitalisation for 2021/22 is expected to be £4.4m some £3.8m less than the approved levels.

2.5 As the country struggles to get back on its feet after the harm caused by COVID 19 the financial implications to the Councils' finances continue. The Council's income streams especially in relation to Tourism, leisure, commercial rents, sales, and fees are still at risk and continue to present a real challenge to the Authority's overall financial position in the medium term.

2.6 Following the emergence of the Omicron variant in the UK, the Prime Minister introduced new measures on 27 November 2021. The introduction of these measures had an immediate impact on the Council's income from its tourism, hospitality and leisure services with many Christmas bookings cancelled and ticket sales plummeting.

2.7 This impact triggered an immediate review of the draft budget which included additional impact assessments, scenario planning and further engagement with the Department of Levelling Up, Housing and Communities (DLUHC).

2.8 Assuming a continuation of the restrictions caused by the emergence of other variants, the scenarios estimated a potential loss of income in 2022/23 (if no further actions were taken) of between £1.4m- £3.8m.

However, since the Prime Minister's latest announcement on 19 Jan in relation to ending/ easing of the COVID restrictions, the Council's Chief Finance Officer has revisited the risks, likelihood and the impact and has concluded that at this point, any potential risk to the income is considered within the authority's financial resilience levels and has set out the following remedial measures:

- Ongoing and close monitoring of income levels
- Prompt action to stop/ reduce services reliant on sales fees (£500k)
- Use of contingency £250k
- Set aside a GF earmarked reserve of £500k; and
- Continuous engagement with the DLUHC

3 Economic Background

3.1 In 2020-21 Government borrowing increased by around £299bn largely to fund COVID support the most notable of which was £100 bn to finance the furlough scheme. Forecast of borrowing for 2021-22 were for an additional £200bn in 2021-22 although figures produced by the Office for Budget Responsibility for the first five months to August 2021 indicate net borrowing to have increased by around £93.8 bn, £31.9bn lower than expected. This outperformance is largely due to central government accrued receipts, which came in at £20.3 billion (6.9 per cent) above profile, while central government spending was also £10.3 billion (2.4 per cent) below profile. Borrowing by local authorities was £4.5 billion below profile, while borrowing by public corporations was £3.2 billion above profile.

3.2 The upside surprise in accrued receipts so far in 2021-22 is dominated by PAYE income tax and NICs (which are up £9.8 billion or 7.7 per cent on profile), corporation tax receipts (which are up £5.0 billion or 30.3 per cent), VAT (which is up £2.2 billion or 4.2 per cent) and stamp duties (which are up £1.7 billion or 31.2 per cent). Overall, the outperformance of receipts in the year to date looks broadly consistent with the higher-than-expected economic output compared to our March forecast, with stamp duties also boosted by the faster than expected rise in house prices this year.

3.3 Growth forecasts measured by changes in Gross Domestic Product (GDP) compared to previous forecasts are as were lower than forecast in 2020-21 by 1.3% at -10.9% and 1.3% higher in 2021-22 at 10.8% compared to previous forecasts. On average over the period 2022-23 to 2025-26 revised forecasts are on average -0.25% less per annum at 4.2% to 1.6%.

3.4 Inflation forecasts have risen since last review and it indicates that forecasts for CPI are 1.6% higher for 2021-22. 1.8% higher for 2022-23 and 0.4% higher for 2023-24 than at Budget 2021.

4 Spending Review 2021

4.1 On 27th October 2021 the Chancellor announced details of the Government Spending Review. For two years the government has only held single-year Spending Reviews. This spending review sets revenue and capital budgets for a three-year period 2022-23 to 2024-25.

The following significant points affecting local authorities are:

a) In relation to national pay bargaining the freeze on public sector pay increases will end from 1st April 2022. Additionally, the National Living Wage for those aged 23 and above will increase from £8.91 per hour to £9.50 per hour.

b) Core spending power i.e. The Government's assessment of increased income to local authorities is reported to have increased by 3% in real terms per year over the 3-year period 2021-22 to 2024-25 on average. At individual local authority level this percentage increase will be considerably less.

c) No announcement has been made on business rates retention (BRR) reset or funding reform although the Government has announced that the BRR pilots will continue throughout the spending review period. It was expected that the pilot would end when there was a reset so their continuation may represent a signal that a reset will not be undertaken during this spending review period.

d) The referendum threshold for increases in Council tax is expected to remain at 2% throughout the spending review period with an additional 1% per year for social care authorities. District Councils have in the past few years been able to increase Council tax by up to 2% or £5 whichever is the higher. For district Councils the referendum level is exceeded if Council tax is to be increased by 2% or £5.00 on a Band D property – i.e., an increase of more than 2% is permitted if it does not exceed £5.00 on a Band D property. Eastbourne BC is proposing an increase of £5.13; this is line with current legislative limits, and this equates to a 1.99% increase.

e) Social care authorities will be able to charge an adult social care precept of up to an additional 1%

f) Additional £3.6 bn of Social Care Reform Funding from the Health and Social Care levy derived from a 1.25% increase in national insurance announced earlier.

g) No specific announcement on New Homes Bonus although it is included in the government's figures for core spending power and therefore the assumption must be that this continues for the three-year spending review period.

h) There will be £38m to support modernisation of local authorities' cyber security

i) The spending review confirmed the first 105 places to receive funding from the Levelling Up, Fund, Eastbourne was successful in this bid and £12.68m has been secured.

j) £560 million was announced for youth services and £850 million over the SR period for cultural and heritage infrastructure

k) £7.5 bn for affordable homes programme with £300 million distributed to local authorities to support the development of smaller brownfield sites.

l) £639 million in funding by 2024-25 as part of the government's commitment to end rough sleeping through the Rough Sleeping Initiative and Homeless Prevention Grant.

m) Business rates multiplier for 2022-23 for the second-year running will not be increased and businesses in the retail, leisure and hospitality sector will benefit from a 50% business rates discount for one year in 2022-23 following the 66% discount introduced from 1st July 2021.

n) £65 million to digitise the planning system o) Authorities will now be allowed to spend Right to Buy receipts over a longer framework (increasing to five years from three years), to pay up to 40% of the cost of a new home (up from 30%) and to allow them to be used for shared ownership and First Homes. Interest Rate Forecasts

4.2 Link Asset Management, the Councils Treasury advisors, have given their view on interest rate forecasts as shown below:

Table 1: Interest rate forecasts from December 2021 to December 2024.

Link Group Interest Rate View 20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30

4.3 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

4.4 As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

4.5 **Some of the significant risks to the forecasts are:**

- Mutations of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- Labour and supply shortages prove more enduring and disruptive and depress economic activity.
- The Monetary Policy Committee acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- The Monetary Policy Committee tightens monetary policy too late to ward off building inflationary pressures.
- The Government acts too quickly to cut expenditure to balance the national budget.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

4.6 The table below is provided by the Council's funding advisors LG Futures who specialise in assessing local government funding allocation. It shows the impact of relevant funding streams on the Council's budget and is based on a business rate retention reset for 2023/24. Officers will be monitoring the outcome of any other corresponding funding announcements and implications in setting the budget for future years.

Table 2: Provisional Finance Settlement and Other Funding Resources

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£m	**£m**	**£m**	**£m**	**£m**
Business Rates	5.4	4.1	4.9	3.4	3.9
Change to baseline need	0	0	0	(0.2)	(0.2)
New Homes Bonus	0.3	0.0	0.1	0.1	0.1
Grants	1.5	1.0	0.8	0.8	0.8
Council Tax	8.7	8.9	9.1	9.5	9.8
Covid Grants	1.8	0.8			
Total Resources	**17.6**	**14.8**	**14.9**	**13.9**	**14.7**
Annual change	**35.8%**	**(16.2%)**	**0.6%**	**(6.4%)**	**5.6%**
Expected BRR income			0.7	1.9	1.4

Based on LG Future modelling – not adjusted for surplus/deficit or one-off funding

5 Council Tax

5.1 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 of 2% and the current ceiling on rises that would otherwise require a referendum. Within this context, for 2022/23, the Council will raise £9.1m 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 £261.87 per annum.

6 2021/22 Revised Budget

6.1 The 2021/22 budget continued to be impacted by the Covid-19 pandemic in terms of income losses and additional costs. The actions taken by the Council in delivering the targets set in the Recovery and Reset, has enabled the authority to reduce its capitalisation requirements from £6m in 2021/22 to £4.4m. This is in addition to 2.3m of savings and additional income delivered in 2020/21. A summary of key variations is as follow:

	2021/22 £'000
RESHAPING TOTAL	**1641.7**
ASSETS TOTAL	**530.0**
TOTAL SAVINGS	**2171.7**
Garden Waste income	50.0
SEESL Salaries	30.2
Misc. SEESL Adj	7.4
	2,259.15
2021-22 Savings target budget	**850**
(Shortfall)/surplus	**1,409.15**
Other variations	**£'000**
Additional Income Recovery Grant	539
Capital Financing – reduction in funding cost	249
Additional Pressures	
Reduced in year rental income	-520
Catering - net income shortfall	-133
Bandstand - net income shortfall	-123
Other Net Budget changes	-12
(Shortfall)/surplus	**1,409.15**

A more detailed list of key variations is included in Appendix 5 of this report.

7 Medium Term Financial

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 2022/23 budget.

7.2 The draft MTFS was approved by Cabinet on 15 September 2021. Cabinet has been updated with the latest forecast position. This incorporates the on-going impact of any pressures and mitigations identified in the second quarter's budget monitoring from 2021/22 and newly identified budget pressures.

Business Rate Retention

7.3 The Government has, for the fourth year running, deferred implementation of its reforms to the local government funding system, (most of which reaches local authorities via retention of Business Rates). It has long been believed that the proposed reforms might lead to EBC losing a large proportion of its current retained Business Rates, (c. £2m pa).

7.4 Further, the Government has, recently, given clear indications that the current proposals, originally conceived under the Cameron/Osborne administration, no longer have full Government support as they may not go far enough in delivering the Government's 'levelling up' agenda. Consequently, beyond 2022/23, although the previously assumed loss of £2m income continues to be assumed, (in the absence of any better figure), the Government's medium-term funding intentions are increasingly uncertain.

7.5 However, in the meantime, as part of the Local Government Finance Settlement, the Government has awarded three grants (New Homes Bonus, Lower Tier and Services Grants), for 2022/23 only, and indicated that the funding used for these grants will be predominantly used to progress the 'levelling up' agenda, from 2023/24.

7.6 The forecast budget gap for 2022/23 has reduced from a £5.917m deficit to a balanced position, mainly due to additional funding from the provisional settlement, improved assumptions on income targets and the implementation of the R&R agreed savings.

The following analysis provides a summary of the key movements between 2021/22 and 2022/23 budgets:

Base Budget 2022-23 – net of capitalisation		**£ 14,137,990**
Pay Inflation @ 2.5%	£ 223,350	
NNDR	53,500	
Contract Inflation	249,900	
Utilities	138,500	
Insurance	18,550	683,800
One Off Changes (including reversal of capitalisation directive)	5,986,510	
Recovery & Reset savings	-4,702,750	1,283,760
Total Budget cost		**16,105,550**
Funded by Revenue Income		**-16,105,550**
Current 2022-23 Shortfall/(surplus)		**0**

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

Table 4: Summary of Revised MTFS Position

	2021/22 £000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Budget Forecast	20,146	16,106	16,979	16,728	16,697
Expected Funding (2023-26 estimates)	-14,138	-16,106	-15,504	-15,841	-16,185
Initial Budget Gap	**6,012**	**0**	**1,475**	**888**	**512**
Additional savings/ income required	**(6,012)**				
Budget Gap	0	0	-1475	-888	-512
	0	**0**	**0**	**0**	**0**

A detailed analysis of key budgets is provided in Appendix 1(General Fund Budget Summary) of this report.

7.8 It should be noted that the business rates income figure for 2022/23 could change following the completion of the National Non-Domestic Rate (NNDR1), which is due at the end of January.

7.9 The amounts to be allocated will be subject to the finalisation of the business rates income estimates and will form part of the final budget proposals to Full Council.

Further papers will be developed and submitted to Cabinet in due course.

7.10 **Reserves**

The following table sets out the reserves position as at end of 2021/22. This position will be updated at the yearend.

Table 5: Reserves Summary –

Summary	**01-Apr-20 £000's**	**Transfers (In)/Out £000's**	**31-Mar-21 £000's**
General Fund Earmarked Reserve	-	-566	-566
Strategic Change Reserve	-245	-46	-291
Capital Programme Reserve	-336	0	-336
Commercial Reserve	-250	-221	-471
Revenue Grants Reserve	-614	-451	-1065
Business Rates Equalisation Reserve		-1,104	-1104
SHEP Properties Works Reserve	-1		-1
Total Earmarked Reserves	**-1,446**	**-2,388**	**-3,834**
General Fund Reserve	-2,025	-550	-2575
ICE Reserve	-1,750	-50	-1800
CPO Compensation Reserve	-829	579	-250
Total Reserves	**-6,050**	**-2,409**	**-8,459**

Note that the balances as of 01 April 2020 are still subject to audit.

The General Reserve is forecast to be £2.575m by 31 March 2022 which is within the appropriate levels and £0.575m above the recommended minimum level of £2m.

8 Section 151 Officer Section 25 report.

8.1 The final budget report to Full Council will include a review of reserves and their adequacy as part of the Section 151 Officer Section 25 report. This will also include a more detailed narrative on the application and purpose of each reserve and will also include details relating to the proposals set out in section 7.10 of this report.

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 the key budget assumptions for 2022/23 and beyond.

Since the publication of the MTFS in September, the Council has reviewed its 2022/23 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 2021.
- 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 2020/2021 and 2021/22 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 4.

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 2021 index, which will provide the relative position for the 2020/21 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 2019/20 and 2020/21 financial statements, a going concern review was undertaken considering Covid19. The Council has demonstrated that it is currently in a strong financial position with the level of reserves it has, and the funding received from the Government mitigating the financial impact forecast at this stage.

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, Climate Change initiatives, and funding specific projects. As such, 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 expected 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 took part in the first workshop in February 2021 to develop awareness and understanding of the requirements of the code. Work will continue throughout 2022/23 to ensure the Council adopts best practice.

11 Capital Programme

11.1 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.

Table 6 – Capital Programme	**Revised Estimate Total**	**Estimate Total**	**Estimate Total**	**Estimate Total**
	2021/22	**2022/23**	**2023/24**	**2024/25**
	£000	£000	£000	£000
General Fund	28,361	17,272	17,274	2,280
HRA	9,251	18,210	19,529	20,697
Total Programme	**37,612**	**35,482**	**36,803**	**22,977**

11.2 The Council's Draft Revenue Budget and Capital Programme 2022/23 to 2024/25 forecasts £95.26m (HRA of £58.4m and GF of £36.8m) of capital investment over the next three years with £55.2m met from existing or new resources. The amount of new borrowing required over these periods are therefore £40.0m (HRA of £28.8m and GF of £11.2m). Full details are contained within Appendix 3.

11.3 Capital programme recognises the spending limitations within the Finance Settlement for 2022/23 on the resources available. Therefore, the programme prioritises delivery to incorporate those projects that are either a statutory requirement or are essential to delivery of the Council's Corporate Plan. 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.

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

- maintain an affordable four-year rolling capital programme.
- ensure capital resources are aligned with the Council's Corporate Plan,
- maximise available resources by actively seeking external funding and disposal of surplus assets; and
- not to anticipate receipts from disposals until they are realised.

11.5 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.

11.6 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.

11.7 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 £10.3m has been assumed for the General Fund Capital Programme.

11.8 The Council's external authorised borrowing limit for 2022/23 is set at £223m and no external borrowing as of 31 March 2022. The 2022/23 borrowing is estimated as £16.2m for both the General Fund and HRA. 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 can borrow money within their HRAs in order to build more homes to provide more income, or even to refurbish or regenerate existing homes. The 2022/23 HRA borrowing is estimated as £7.9m.

11.9 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 realised.

12 Financial Appraisal

12.1 The S151 Officer will submit her Section 25 report on the robustness of estimates and adequacy of reserves to Full Council in February 2022. This report will be based on a detailed financial resilience and stress test of the Council's proposed income and expenditure plans.

13 Legal Implications

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

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

13.3 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 Risk Management implications

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

15 Equality analysis

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

16 Conclusion

16.1 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.

17 Appendices

- Appendix 1 - General Fund Budget Summary
- Appendix 2 – MTFS Assumptions
- Appendix 3 – Capital Programme
- Appendix 4 – Risks
- Appendix 5 – Key Variations 2021/22 revised

18 Background papers

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

- Provisional Local Government Finance Settlement 2022/23
- Recovery and Reset Report