MEDIUM TERM FINANCIAL STRATEGY

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DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2020/21–24/25

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1. Introduction

1.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document for the provision of General Fund services. (The Housing Revenue Account has a separate thirty-year business plan, and is not considered within this MTFS.) In detailing the financial implications of the Corporate Plan over a five-year period, the MTFS provides a reference point for corporate decision-making and ensures that the Council is able to optimise the balance between financial resources and delivery of priorities.

1.2 Ordinarily, the MTFS is reported to Cabinet for approval each July, immediately prior to the start of the annual budget-setting process for the following year. This ensures that each year's budget can be set within the context of the Council's medium-term sustainability rather than being viewed in isolation, one year at a time.

1.3 However, in order to more accurately capture the potential implications of Covid-19 the refresh of the MTFS has this year been rescheduled to October. Whilst there is still great uncertainty over the short- and medium-term impact of Covid, information that's emerged over the last three months has enabled a more robust MTFS than would have been possible in July. Detail on the forecast impact of Covid is included in Section 4 of this report.

1.4 In order to forecast the Council's future financial position, the MTFS contains a number of assumptions, the bases of which are detailed throughout the Strategy. It should be noted that these assumptions are subject to change. The Corporate Director (Finance & Operations) will report back to Cabinet as a matter of urgency if there are changes to key assumptions in the Strategy that threaten the sustainability of the approved MTFS.

2. Recommendations

2.1 The MTFS makes the following recommendations for approval by Council. It is recommended that:

2.1.1 The financial projections within the 5-year Medium Term Financial Strategy be noted, and the Strategy approved;

2.1.2 A General Fund savings target of £590k be approved for the 2021/22 budget-setting process;

2.1.3 A total 4-year General Fund savings target of £2.7m, of which £1.8m is still to be identified, be approved for the duration of the MTFS;

2.1.4 The Corporate Director (Finance & Operations) works with the Council's Corporate Management Team and Portfolio Holders to deliver options that will achieve the saving targets identified within the strategy;

2.1.5 The Financial Planning Framework is approved to support the budget-setting process for 2021/22; and,

2.1.6 The Corporate Director (Finance & Operations) be requested to revise the Medium Term Financial Strategy and re-present to Cabinet and Council for approval if material changes to forecasts are required following future Government announcements.

3. Financial Planning Framework

3.1 The Financial Planning Framework, shown below, demonstrates the process by which the Council ensures that revenue and investment plans are developed in tandem, and that the annual budgets approved by Council each February are developed within the context of longer-term sustainability. The column on the left indicate the dates how the process would progress in a typical year. Changes caused by Covid disruption in the current year are noted in the column on the right.

July	The final 2019/20 audited accounts were approved by the Audit Committee in September 2020 rather than July. Completion of the audit remains subject to ongoing work on the pension fund managed by Herts County Council. This is in line with the amended timetable for local authorities to complete their accounts by the end of November 2020 rather than the usual September deadline. Reporting of the revised MTFS has been delayed from July to October to enable more robust forecasting of potential Covid impact on future years.
July – September	Budget Holders begin developing Service Plans, in consultation with Portfolio Holders, for the following year. These plans include revenue and capital bids, and highlight new savings proposals and budgetary pressures. Process has been compressed in 2020 following the delays to the MTFS and will now take place over September and October. The potential risks to service planning caused by this delay have been mitigated by keeping the savings target for 2021/22 the same as was identified last year.
September	Proposed Savings proposals and budget changes are scrutinised and challenged by the Corporate Director (Finance & Operations), Chief officers group and the Budget Review Group, supported by the Financial Services team. Slipped to October/November.
October	Final Savings proposals approved by COG and the Budget Review Group. Slipped to October/November.
December	Draft budget proposals presented to Joint Overview & Scrutiny Committee, for Members' scrutiny. On target. Provisional Local Government Finance Settlement announced by Government, which sets the level of grant the Council will receive over the next year(s). On target. Consultation events held with Town and Parish Councils.
January	Feedback from November Joint OSC is considered and incorporated within final budget proposal presented to a second Joint OSC meeting. On target
February	Final budget report presented to Cabinet for recommendation to Council. Council considers the recommendations of Cabinet for approval. On target.
April	The new financial year begins, and the approved budget is then assessed under the in-year budget performance monitoring process. On target.

4. Managing the implications of Covid-19

Current year Covid pressure

4.1 As at August 2020, the Council is forecasting a current year pressure of around £2.5m. In common with most district councils, the most significant financial threat to DBC is the loss of income due to falling demand for Council services. Despite having the benefit of 5 months of in-year data, forecasting the year-end position for these income streams remains far more challenging than under normal circumstances. The forecast year-end position could alter dramatically over the second half of the year depending on factors that cannot be estimated with any certainty and that are beyond the Council's control, e.g. the potential for future lockdown periods and the unknown severity of any recession.

4.2 The scale of this pressure and the likely movement before year-end means that seeking to offset the pressure through service reductions or increased income in year is not a feasible option. Whilst the use of earmarked reserves to plug the gap at year-end will inevitably mean that there is less funding available to the Council in future years, it has the benefit of protecting frontline services in the short-term, as well as enabling more informed medium-term decisions to be taken at year end.

4.3 The Reserves Statement at Appendix B, shows the forecast Covid call on reserves in future years, as well as 2020/21, as a separate line at the bottom. Highlighting the strain as a non-specific line at this stage enables the Council to delay the final decision over which specific reserves should be used until there is more context available, i.e. as the year-end draws closer and the budget setting process progresses.

Medium-term Covid pressure

4.4 The table below shows the material Covid-related income pressures assumed within this MTFS, and how they have affected previous savings targets. It should be noted that pressures in these categories will largely be driven by the future impact of Covid on the broader economy, and, whilst a recession is anticipated, the severity and duration will depend on virus containment measures and is currently unknown. As a result, the estimates below are necessarily high-level and susceptible to change. They will be kept under review and Members will be updated regularly throughout the year.

	21/22 £k	22/23 £k	23/24 £k	24/25 £k	Note
Pre-Covid savings required	**590**	**640**	**390**	**160**	
Income pressures	2,210	2,070	1,235	400	1
Council Tax collection/base	400	200			2
Business Rates contraction	380	265	150	150	3
Post-Covid savings required	**3,580**	**3,175**	**1,775**	**710**	

Notes:

1. Income pressures in 21/22 include: £1m commercial rents (20% of budget); £500k garages (15%); £100k commercial waste (10%); £600k leisure income (100%). The current working assumption is that there will be a gradual recovery over the planning period – to be updated as more information becomes available.

2. 21/22 assumes a 3.5% reduction based on shrinking tax base and falling collection rates. Current year collection at the end of September is down 2% on the previous year. However, it should be noted that inferring conclusions from direct year-on-year comparison is problematic at this stage because a number of residents have opted to reprofile their payments until later in the year. Meaningful comparison will not be possible until much closer to year-end.

3. 21/22 assumes that the £150k of Business Rates growth will be lost and that the Council’s Baseline Funding will be reduced by £230k, to safety net level, to reflect a shrinking Business Rates tax base. Subsequent years assume gradual recovery to baseline level by 23/24, but a recovery to pre-Covid growth levels has not been assumed. Forecasting based on current year payment trends is not possible due to the significant number of taxpayers on 12-month reliefs following Government Covid policy. As a result these are prudent assumptions that would require the tax base to shrink by c12.5% in 21/22 in order to fully materialise. In reality, this forecast is likely to be superseded over the medium-term by the Fair Funding review and the planned baseline reset.

Managing the Covid pressure

4.5 This MTFS aims to manage the additional Covid-related pressures within the context of the following principles:

- Embedding a sustainable medium-term model
- Protecting frontline services
- Continuing to drive a culture of continuous improvement through innovation
- Minimising the need to utilise earmarked reserves to fund the Covid pressure

4.6 Based on these principles, and the forecasts detailed in the previous section, the MTFS proposes to fund the pressures identified in paragraph 4.4 as follows:

	21/22 £k	**22/23 £k**	**23/24 £k**	**24/25 £k**	**Note**
Post-Covid savings (as above)	**3,580**	**3,175**	**1,775**	**710**	
Updated Govt funding assumption	(1,300)	(1,250)	(830)	(850)	1
Savings Target (smoothed)	(590)	(400)	(400)	(400)	2
Draw down from Reserves	(1,690)	(1,525)	(555)	540	3
Total funding identified	**(3,580)**	**(3,175)**	**(1,775)**	**(710)**	

Notes:

1. Expectation within the sector is that following the further-extended delay to the outcome of the Fair Funding Review (FFR), next year’s funding is likely to be a rollover of the current year.

   In previous versions of the MTFS, the Council has planned to gradually reduce its reliance on Government funding in future years, towards a position of self-sufficiency by 22/23. This means that a rollover of current year funding into 21/22 would result in £1.3m more than had previously been assumed.

In subsequent years, funding is assumed to continue reducing in line with the expected outcome of the FFR, to leave an annual amount of c£850k from 23/24 onwards. At c40% of current funding levels, this remains a prudent strategy.

2. The cumulative savings requirement over the four years has been kept as it was prior to the Covid pressure, i.e. £1.8m. The rationale for retaining this requirement rather than increasing it to meet some of the Covid strain is two-fold.

   Firstly, the savings requirement must be challenging enough to drive innovation and increased efficiency – reducing the Council's underlying operating cost to a level where quality services can still be delivered in the face of continued funding reductions is essential to its ongoing sustainability. However, it is essential that targets remain achievable – to set them too high would be counter-productive for the organisation's culture and would threaten the quality and range of services the Council is able to provide. The current savings requirement is testing, at c10% of Net Cost of Services, but it is driven by forecast funding reductions and is therefore necessary for the Council's future sustainability.

   Secondly, based on current information, the financial impact of Covid although severe is likely to be 'one-off', i.e. it is not currently predicted to affect the Council's underlying operation in the medium-to long-term. Where possible, the Council must guard against allowing a temporary financial threat to derail its underlying medium-term strategy of ongoing sustainability. It is unavoidable that the Council will suffer financially as a result of Covid, but by using reserves to offset this 'one-off' pressure the Council minimises the risk to its current sustainability-based strategy.

   This approach will be kept under constant review, and members will be updated if any additional threats emerge.

3. The forecast £3.23m draw down from reserves over the period is the balancing figure that the Council needs to meet the Covid challenge once the likely pressures and savings have been incorporated within the model. This is in addition to a potential £2.5m call on reserves in the current year – giving a total Covid impact on reserves of c£5.9m.

   Apart from 21/22, which at £590k remains as it was last year, the annual draw-downs are planned to equalise the savings target for each year of the period. This 'smoothing' effect assists managers to adopt a more evenly balanced approach to medium-term service planning rather than lurching from a high savings year to a lesser one.

   This strategy results in a forecast contribution of £540k to reserves in 2024/25. This is the result of the one-off Covid-related income pressures forecast to have recovered to current levels, and the Council starting to receive the benefit of the underlying efficiency gains.

Significant risks

4.8 The MTFS will be kept under constant review by the S151 Officer and Members will be kept up-to-date on the ongoing robustness of assumptions as more information emerges. The following are key risks to the Council's medium-term position:

- Future years' impact of Covid is worse than currently forecast

Prudent assumptions have been used in the model but the unprecedented situation means the actual impact could be higher than forecast. Existing savings targets equate to 10% of Net Cost of Services and the Council would struggle to increase these further whilst still continuing to protect frontline services. Earmarked reserves are the ultimate back-stop but based on current assumptions the proposed model already utilises around £5.9m of reserves, around one third of the total. Further erosion of reserves would keep the Council afloat but would significantly impact the capacity to deliver planned future ambitions.

- Government funding is less than the baseline assumed in this model

As a result of efficiency gains made in advance of need over the last few years, the Council is currently ahead of the Government funding curve. In order for this risk to crystallise in 21/22, Government would need to implement real-term funding reductions in its first post-Covid Settlement, due in December. This is considered unlikely, but if it were to happen an alternative plan would be reported to Members as part of the budget-setting process. Forecast funding in future years continues to anticipate significant funding reductions as a result of the FFR. The assumption of £850k in the final year of the plan is prudent, and represents a reduction of around 60% from the current baseline. There is a possibility of increased funding of around £1m next year if Government continues to suspend negative RSG, as it has in the previous two years.

5. Review of the Council's primary funding streams

5.1 The Council receives the majority of its funding from Central Government through two avenues: Settlement Funding Assessment and New Homes Bonus. Updates are provided in the paragraphs below.

Settlement Funding Assessment (SFA)

5.2 In 2016 the Council agreed a four-year funding deal with Central Government that concluded in March 2020. Government's intention was that this would then lead into another multi-year funding deal for the local government sector driven by a newly updated model for assessing each council's level of 'need' – the *Fair Funding Review* (FFR).

5.3 The FFR was subsequently delayed and rather than the anticipated multi-year deal starting in 2020, councils instead had the previous year's funding rolled forward for a second year. This was intended by Government to be an interim one-year arrangement. However, in April 2020, Government announced that as a result of the Covid response there would be a further delay to the FFR implementation. As yet, there has been no formal confirmation of funding arrangements for 2021/22, but the assumption within the sector is that last year's funding will again be rolled forward as a one-year settlement.

5.4 This version of the MTFS assumes that funding in 21/22 will be at the same baseline level as the previous year, followed by reductions of c£700k per year over the next two years to a funding level of c£850k by year four of the MTFS. This reflects the expected outcome of the FFR, which, based on previous Government announcements, is likely to see financial support for district councils reduce as more funding is diverted to councils responsible for social care provision.

5.5 Confirmation of the funding allocation for 2021/22 is expected in December 2020. Any additional information given at that time regarding future years' funding will be reported to Members as part of the budget-setting process.

New Homes Bonus

5.6 New Homes Bonus (NHB) is paid to local authorities as an incentive to stimulate local housing growth, and takes the form of a grant payable to the Council linked to year-on-year growth in the taxbase. The first 0.4% of growth attracts no NHB, but for growth above this point, each Band D equivalent attracts an annual payment of £1,671 per annum for a 3-year period. Affordable Housing units attract an additional £350 per unit bonus payment.

5.7 The NHB forecasts in future years of this MTFS are based on housing numbers already delivered in previous years. In line with the information provided in the 20/21 Settlement, these payments stop in 2022/23. Payments beyond that date are subject to a review of the NHB Scheme which was originally scheduled for spring 2020, but which has now been delayed.

5.8 The MTFS recommends a continuation of the Council's previous strategy regarding NHB, i.e. that it is contributed to reserves for future one-off expenditure rather than being built into the baseline budgets and the Council becoming reliant on it for the ongoing delivery of its services. This means that if the NHB scheme is withdrawn or dramatically restricted at short notice, the Council will not immediately face additional revenue savings pressures.

Council Tax

5.9 Within the new FFR allocation model, Dacorum is likely to be considered to have an above average ability to raise revenues locally because its taxbase (number of Band D properties multiplied by Band D Council Tax level) is around the 15th largest of the 200 district councils. Depending on how this is factored into the new model, it is likely that, relative to other district councils, this will reduce the amount of funding granted to Dacorum in future years.

5.10 Furthermore, Government has made clear that the new allocation mechanism will assume that each authority maximises the revenue it can raise locally each year, and that any grant funding awarded will reflect this assumption. In other words, any authority that does not increase Council Tax by the maximum permissible amount is likely to be operating below the overall level of funding that Government deems necessary to remain sustainable.

5.11 Under current legislation, district councils are permitted to increase Council Tax by the higher of £5 or 1.99% per Band D without triggering a referendum, with an associated cost estimated at £80k. For the reasons given in paragraphs 5.9 and 5.10, this MTFS assumes an annual Council Tax increase of the maximum currently permissible, i.e. £5 per Band D.

5.12 In recent years, the Local Government Finance Settlement (usually announced in December of each year), has granted additional freedoms to increase Council Tax to higher levels, e.g. 2.99% or £5 without triggering a referendum. If additional options were to be offered again, it is recommended that the Council revisits the current assumptions and takes steps to keep pace with Government's underlying assumptions on sustainability.

6. Review of other MTFS assumptions

Update of General Fund budget assumptions based on 2019/20 outturn

6.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2020/21, over the next four years. The extrapolation process incorporates assumptions on government grant, inflation, changes in demand for services, changing legislation, and probable risks and opportunities.

6.2 The 2019/20 outturn was presented to the Audit Committee at its meeting of 17 September. A fundamental part of the outturn analysis is to focus on those areas where there were over- or under-spends in order to identify whether the budget assumptions could be updated in order to improve the accuracy of the MTFS. Budgetary assumptions for 2021/22 have been updated where appropriate.

Update of MTFS assumptions based on other information

6.3 A range of information sources have been used to inform the updated assumptions shown within the following table. The rationale behind estimates is shown in the notes below. Further sensitivity analysis will be undertaken as new information becomes available.

	Note	2021/22	2022/23	2023/24	2024/25
Income					
Council Tax	1	3.45%	3.39%	3.33%	3.28%
Revenue Support Grant	2	(£940k)	(£1.73m)	(£2.33m)	(£2.33m)
Baseline Funding	3	2%	2%	2%	2%
Fees & Charges	4	0.76%	0.76%	0.76%	0.76%
Expenditure					
Pay settlement	5	2.9%	2.9%	2.9%	2.9%
Pay: contract increments	6	0.5%	0.5%	0.5%	0.5%
Utilities	7	5%	5%	5%	5%
Fuel	8	5%	5%	5%	5%
Supplies & Services	9	2%	2%	2%	2%

Notes:

1. Increase by £5 per Band D and 1% increase in tax base
2. Based on the assumption that RSG will continue to reduce by amounts along broadly historical trends
3. An inflationary increase of 2% per annum
4. Inflation assumptions from OBR on *controllable* income from fees and charges
5. Based on inflationary assumptions from the OBR
6. Based on actual increments due and historical staff turnover rates
7. Based on historical trend analysis and recent proposed unit cost changes
8. Based on historical trend analysis and recent proposed unit cost changes
9. Inflation assumptions from Office of Budget Responsibility (OBR)

Growth

6.4 Growth is defined as an increase in the expenditure, or the net expenditure, budgets of the Council. In the event that essential or unavoidable growth is required within a Service area, a business case outlining the requirements should be produced by the relevant Group Manager and Assistant Director, and be signed off by the Director and S151 Officer, before being submitted for consideration by the Budget Review Group.

6.5 Growth in the income generating capacity of a particular service does not mean that the additional income automatically accrues to that service. All Council income, unless stated otherwise by statute, is considered corporate income and is used to finance the provision of all General Fund services. All requests from budget holders to retain additional income budget in order to finance increased expenditure are subject to the growth process outlined above.

6.6 If, during the budget-setting process, a budget holder reduces the cost of providing one of their services, the resultant saving does not automatically become available to them to finance the expansion of an alternative service area. All savings made across services constitute a contribution to the Council's corporate budgetary position. Any expansion of a Service area constitutes growth, which necessitates a separate growth bid.

Fees and Charges Strategy

6.7 The fees and charges set by the Council are subject to annual review as part of the budget-setting process. Changes made between years are included within the annual Budget Report, and are subject to Council approval. The key principles behind charging are that:

- discretionary charges should recover costs unless the strategy is to provide a particular service at a subsidy;

- discretionary income should be optimised through appropriate commercial charges; and,

- robust systems of discounts or concessions should be in place for those who would otherwise find that they could not access services, where deemed appropriate.

6.8 Provision of many Council services is a statutory requirement and charges for access to these are determined as part of that requirement. The Council therefore has no discretion in setting these fees.

6.9 A thorough review of the true cost and effectiveness of providing statutory services must be undertaken on a regular basis to ensure that the fees charged meet the cost of service provision wherever possible. Where any review indicates an under-recovery of cost, alternative methods of service provision and comparison with other comparable authorities must be undertaken to identify opportunities for minimising the liability to the Council.

6.10 The Local Government Act 2003 includes a general power for Councils to charge for discretionary services i.e. services that an authority has the power, but no obligation, to provide. Some discretionary charges are governed by alternative legislation, in which case this general power does not then apply.

6.11 Increases for the annual review of fees and charges have been included in the MTFS projections based on the percentages set out in paragraph 6.3**.**

General Fund Working Balances and Earmarked Reserves

6.12 The Council's Reserves Strategy is integral to the MTFS because it demonstrates how the Council augments its annual ongoing running costs with plans to finance specific items of one-off expenditure over the medium-term. The Strategy is reviewed annually, and was most recently approved by Council within the 2020/21 Budget Report, in February 2020.

6.13 The Council holds two types of reserve. These are:

a. **Working balances**, which are required as a contingency against unforeseen events and to ensure that the Council has sufficient funds available to meet its cash flow requirements. The Local Government Act 2003 requires the S151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year. This requirement was met within Appendix N of the Budget Report to Cabinet in February 2020.

b. **Earmarked reserves,** which are funds approved by Members to finance specific items of future expenditure. The Council's Financial Regulations dictate that Earmarked Reserves can be created only by Member approval, and that all subsequent transfers to and from those reserves also require Member approval.

6.14 In accordance with best practice, the General Fund Working Balance is maintained at a level between 5% and 15% of Net Service Expenditure.

7. General Fund medium-term savings requirements

7.1 Based on the assumptions detailed throughout this Strategy, and the need to maintain the desired level of General Fund Working Balances, the Total Savings Requirement over the life of this MTFS is £2.7m**.**

7.2 The Council has a three-year savings plan in recognition of the fact that the more easily deliverable savings opportunities have already been taken and that future initiatives are likely to be more complicated and have a longer lead-in period. As a result of this, the Total Savings Requirement comprises two elements which reflect the fact that the Council has a number of initiatives already underway to deliver savings in future years. The table below provides a breakdown of the savings requirement, and is followed by a brief explanation of each element.

		2021/22	**2022/23**	**2023/24**	**2024/25**
a.	Savings identified, but still to be delivered	£450k	£475k	0	0
b.	Savings still to be identified	£590k	£400	£400k	£400k
	Total Savings Requirement	**£1,040k**	**£875k**	**£400k**	**£400k**

a. **'Savings identified but still to be delivered'** – refers to those savings initiatives already identified by budget holders as deliverable in future years. These savings were largely contractual, including increases to the leisure management fee and as a result of Covid are not now forecast to materialise as planned. They have however been left in this table to show that the underlying benefit remains within the Council's baseline and they are expected in the future. The temporary off-setting pressure is within the income figure of Appendix A.

To mitigate the risk of delayed delivery of savings within this category, and a consequent last minute increase in savings targets, the Finance Team scrutinises budget holders' progress against these initiatives on a monthly basis. Updates are reported to CMT each month, as well as formally to Members of OSCs and Cabinet as part of the quarterly Budget Monitoring reports.

b. **'Savings still to be identified'** – refers to additional initiatives that must be put in place prior to April 2020 in order to meet the Total Savings Requirement. These initiatives will be identified through the annual budget-setting process detailed within the Financial Planning Framework in paragraph 3.1.

8. Key Budget Risks (General Fund)

8.1 The following paragraphs outline some of the key financial risks facing DBC over the medium-term that have not been addressed earlier in the report. These risks will be monitored and Members kept updated on the implications for the MTFS.

Brexit

8.2 The continued move towards financial self-sufficiency means that local authorities are increasingly exposed to fluctuations and changes within the local economy. In particular the extent to which councils' financial sustainability will in future be linked to their ability to grow and retain rate-paying businesses has yet to be confirmed through the FFR.

8.3 As the implications of Brexit continue to unfold, heightened uncertainty will remain over how multinational companies will view the UK's attractiveness as a base for investment in the medium-term. There is a risk that demand for commercial property in the UK will fall as a result of the UK leaving the EU, resulting in reduced Business Rates and consequent funding pressures for local authorities in the medium-term.

Borrowing

8.4 The assumed revenue implications of borrowing to finance the Council's Capital Programme are based on current Public Works Loan Board (PWLB) rates. The uncertainty over public finances following Government's various Covid support packages may affect public borrowing over the medium-term, and/or the rates at which the PWLB makes funds available to local authorities. Borrowing rates are kept under review and any potential impacts on the Council's MTFS or Capital programme will be reported back to Members.

Staffing pressures

8.5 In common with other local authorities within Hertfordshire, the Council has in recent years faced challenges in the recruitment of staff with professional qualifications e.g. within Finance, Legal, Building Control, Planning, and Environmental Health. In the short-term this can cause a revenue pressure as the Council is forced to increase its use of (more costly) agency staff in order to maintain service provision. Council officers continue to work with neighbouring authorities to identify a strategic solution to future recruitment needs.

8.6 Any increase in pay levels greater than the inflationary assumptions assumed in this MTFS would result in additional financial pressure on the council. An additional increase of 1% in pay would result in an annual budgetary pressure of c£200k.

Universal Credit

8.7 The continued implementation of Universal Credit is expected to have a longer-term financial impact on the Revenues and Benefits service. At present the extent of the impact is uncertain as the value of future Benefits Administration Grants is unknown, and the level of service the Council will be required to provide to residents on an ongoing basis is also uncertain. These developments will be monitored closely as part of the UC implementation and any future government announcements will be communicated to Members accordingly.

9. Housing Revenue Account (HRA)

9.1 The HRA Business Plan plans delivery of the Council's housing objectives over a thirty-year period. The long-term perspective is necessary to ensure sound investment decisions both in terms of the Council's new build programme and in maintaining existing stock.

9.2 The Business Plan is kept constantly under review, and is presented for Members' approval at least annually.

10. Capital Resources

10.1 Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services for in excess of one year, such as houses, vehicles, public buildings, play areas, ICT, etc.

10.2 Capital grants and borrowing can only be spent on capital items and cannot be used to support revenue budgets. However, it should be noted that revenue funds can be used to support capital expenditure. Under the Local Government Act 2003, each council can determine how much it can borrow within prudential limits. All borrowings must be financed from the total available resources of the Council.

Flexible use of capital receipts

10.3 Within the 2016 Settlement, Government provided new flexibility for local authorities to use capital receipts from the sale of property, plant and equipment to support upfront revenue expenditure on transformational projects that will deliver ongoing efficiency savings. Councils can only use capital receipts from sales made since the date of this announcement, and cannot use existing capital balances for revenue spending. The Council retains the ability to make use of this facility in future.

Capital Spending Plans 2020/21 to 2024/25

10.4 The Council's approved General Fund Capital Programme for the current and future years was approved by Council in February 2020, and is summarised below:

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Planned Capital Expenditure	**11.3**	**27.3**	**31.2**	**9.2**	**1.8**

General Fund

10.5 The Council's Capital Programme is currently fully funded until 2022, following borrowing of £19.4m taken in May 2015. The loan is structured over a portfolio of 24 remaining loans, with one maturing each year. The loan was taken from the Public Works Loan Board (PWLB), at favourable rates, around 60 basis points above gilts, and resulted in an average initial interest rate of 2.98%.

10.6 The Council is required to pay off an element of borrowing each year through a revenue charge, the Minimum Revenue Provision (MRP). The Council's Treasury Management Strategy, approved by Cabinet in February 2020, sets out the Council's policy to, at a minimum, pay off the debt over the life of the asset associated with the borrowing. This policy has been applied to the MTFS forecasts.

10.7 The full impact of borrowing costs of the current Capital Programme on the Council's revenue budgets is reflected in the forecasts included in this strategy. However, the Council continues to examine the potential for further investment in a number of capital projects. The costs associated with these projects have yet to be finalised, and thus, at this stage, there is no provision for their funding within the MTFS. The implications of further borrowing will be considered as part of any decision to progress with these initiatives.

10.8 The financing of the Capital Programme will continue to be supported through the following prioritisation of funds: firstly, appropriate application of grant funding; secondly, use of revenue contributions and capital receipts generated from the sale of Council assets; and, thirdly, through undertaking prudential borrowing.

10.9 The approved General Fund Capital Programme is financed as follows:

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Capital Receipts and Reserves	7.0	25.1	15.5	5.0	0.0
Capital 141 Receipts	2.8	0.8	0.3	0	0
Borrowing	0	0.1	14.3	3.1	1.1
Grants and Contributions	1.1	1.0	0.7	0.7	0.7
Revenue Contributions	0.4	0.4	0.4	0.4	0.4
Total	**11.3**	**27.3**	**31.2**	**9.2**	**1.8**