MEDIUM TERM FINANCIAL STRATEGY

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DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2019/20–23/24

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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 its financial resources and delivery of its priorities.

1.2 The MTFS informs the annual budget-setting process, ensuring that each year's budget is balanced and considered within the context of the Council's ongoing sustainability over the entirety of the planning period. The annual budget-setting process is detailed in the Financial Planning Framework in Section 3.

1.3 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 £780k be approved for the 2020/21 budget-setting process;

2.1.3 A four-year General Fund savings target of £2.9 million be approved for the duration of this Medium Term Financial Strategy;

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 2020/21; 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. It also demonstrates the consultation the Council undertakes with major stakeholders as part of the budgeting process.

July	The final 2018/19 audited accounts are approved by the Audit Committee. Proposed departmental savings targets and MTFS is approved and communicated.
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.
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.
October	Final Savings proposals approved by COG and the Budget Review Group.
November	Draft budget proposals presented to Joint Overview & Scrutiny Committee, for Members' scrutiny.
November – December	Provisional Local Government Finance Settlement announced by Government, which sets the level of grant the Council will receive over the next year(s). Consultation events held with Town and Parish Clerks and Members, and with members of the public.
January	Feedback from November Joint OSC is considered by Budget Review Group, and incorporated into final budget proposal presented to a second Joint Overview & Scrutiny Committee meeting.
February	Final budget report presented to Cabinet for recommendation to Council. Council considers the recommendations of Cabinet for approval.
April	The new financial year begins, and the approved budget is then assessed under the in-year budget performance monitoring process.

4. Review of the Council's primary funding streams (General Fund)

4.1 The current financial year, 2019/20, is the final year of a four-year funding deal agreed with Government in 2016. At the time of writing there have been no indications from Government as to the level of funding that Dacorum or any other Local Authority can expect in 2021 and beyond.

4.2 Given the scale of the contribution Government funding makes to the provision of DBC services, the need to work purely on assumption inevitably introduces significant risk to the MTFS. This risk is compounded by the fact that in 2021

Government intends to introduce a new method of assessing the 'need' of each local authority, which will largely determine the level of funding it receives in the future.

4.3 DBC currently receives funding from Government under two broad headings:

- **Settlement Funding Assessment (SFA)**
  Although this includes both Revenue Support Grant (RSG) and Baseline Funding (Business Rates), it is most easily understood as a single figure, based on Government's assessment on the level of 'need' across Dacorum (see paragraphs 4.4 – 4.12).

- **New Homes Bonus (NHB)**
  A payment based on the increased number of Band D equivalent properties across the borough. Each additional unit attracts an annual payment for a period of four years (see paragraphs 4.13 – 4.17).

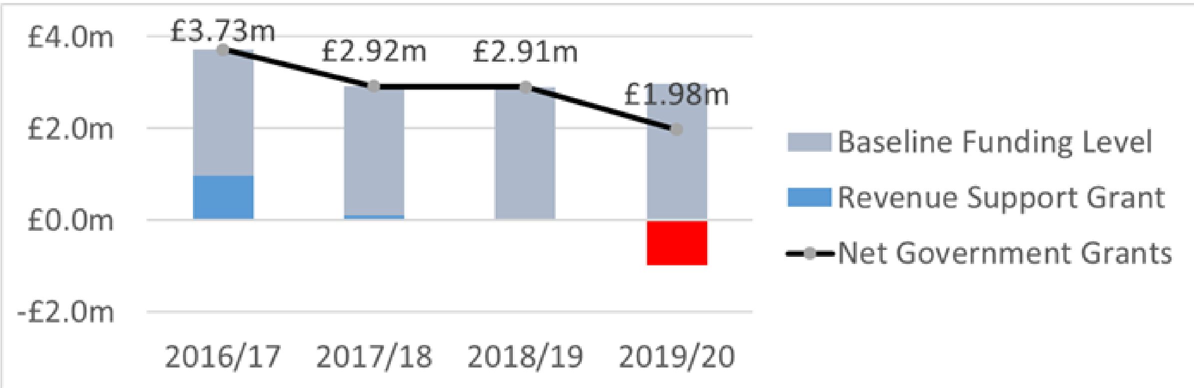
The rationale for assumptions on future levels of Government funding within this MTFS are detailed in the subsequent paragraphs, together with an update on the Government position.

Settlement Funding Assessment (SFA)

4.4 The two constituent parts of SFA funding reflect legacy funding streams that are likely to be merged into a single funding stream following Government's Fair Funding Review, scheduled to complete in 2019 (see paragraphs 4.18 – 4.23). The key message is that the combined figure of the two elements represents what Government believes the level of 'need' to be within Dacorum.

4.5 When DBC agreed the current 4-year funding deal in 2016, the level of SFA comprising the two constituent parts was scheduled as follows:

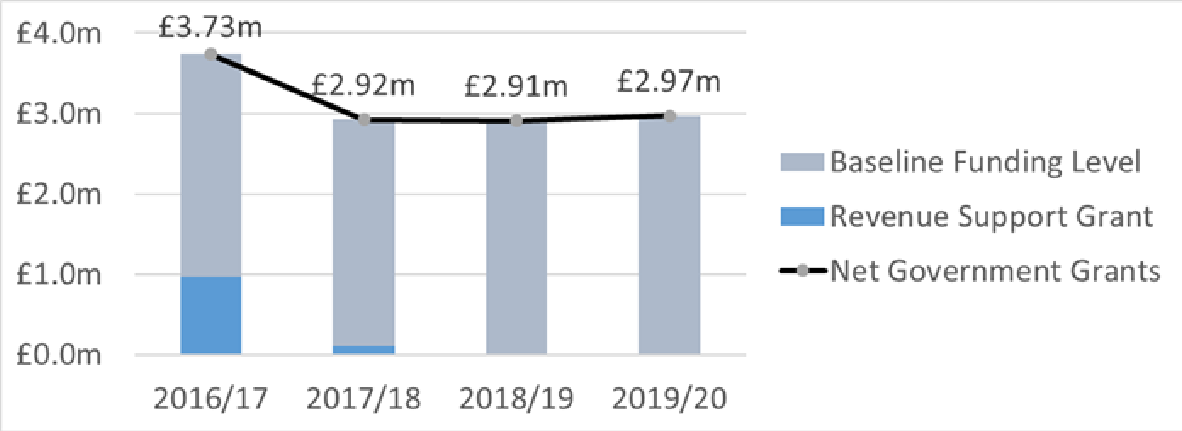
Table 1: 4-year funding deal agreed



4.6 The Council set its MTFS accordingly and delivered the savings required to balance its budgets in the face of these reductions.

4.7 In November 2018, MHCLG announced that there would be no 'negative RSG' in 2019/20 (the red portion on the graph above). This had the impact of raising the level of DBC's Net Government Grant by c£1m in 2019/20, as follows:

Table 2: actual funding over previous 4 years



4.8 The prudent interpretation of this suspension of negative RSG is that it was a one-off benefit to Local Government rather than an indication that Government has radically rethought its position on the level of need for affected councils. Based on this logic, DBC delivered the saving and contributed the additional funding in 2019/20 to reserves for future, one-off expenditure.

4.9 The treatment of this benefit in 2019/20 is significant because it is possible that a similar decision will be required in 2020/21. The sector press has speculated that there may be a delay to the release of the Fair Funding Review and consequently to the implementation of the new allocation model. If that is the case, there will be an interim funding arrangement in place for 2020/21. If this proves more beneficial than anticipated for DBC within this MTFS, it is recommended that the benefit be treated as one-off and transferred to reserves.

4.10 Because, as yet, there is no indication of likely Government funding in 20/21, this MTFS assumes that the total amount of SFA funding will be £1.4m next year – broadly this is the £2m in Table 1, plus an assumed further reduction of £600k. This reflects an overarching assumption that Government funding will continue to fall each year in roughly equal amounts until there is no SFA funding, resulting in self-sufficiency for the Council from 2022/23.

4.11 The Council expects to receive more clarity on future years' funding once the outcome of the Fair Funding Review is announced, scheduled for late 2019. Until then the current assumption of c£800k pa reductions is a prudent balance between not assuming too high a level of reduction (with the risk having to affect services more than necessary), and not assuming too low a level of reduction (with the risk of unpreparedness).

4.12 If the funding reductions are less than assumed, then the Council's savings target will reduce. If the reductions are greater than assumed then, on the basis of work already done to find savings for next year, the Council will be well-placed to respond. If necessary, the Council has a balance of c£900k in its Savings Efficiencies Reserve forecast for the end of 2020, which is held to provide a short-term smoothing measure in the event that funding reductions are more severe than anticipated – giving the Council additional time to identify more sustainable savings initiatives. This reserve has been funded over a number of years through the delivery of savings in advance of need, and has been earmarked to draw on in this particular scenario.

New Homes Bonus

4.13 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 4-year period. Affordable Housing units attract an additional £350 per unit bonus payment.

4.14 The proposed MTFS assumes NHB payments in future years based on a rolling average of the previous three years. This is updated annually, but currently equates to c£430k per year for future years.

4.15 NHB is considered by the LG sector to be a vulnerable funding stream for a number of reasons: it does not reflect Government's assessment of need within a given authority area (and so is inconsistent with their overarching principles of core funding); Government's overall NHB funding pot has been reduced by around half over the last three years; areas with low demand for housing or with tight planning restrictions are not supportive of the scheme; and, the National Audit Office has previously raised concerns that Government is unable to demonstrate that NHB has directly contributed to the number of homes delivered.

4.16 As a result of this vulnerability, the MTFS recommends a continuation of the Council's previous strategy towards 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.

4.17 The NHB forecast for future years is based on a rolling average of the previous 4 years. This is reviewed annually, and the longer-term assumptions revisited when more clarity is received from Government on the future of the scheme. This is expected as part of the Fair Funding Review.

Fair Funding Review

4.18 Government has previously committed to 75% of Business Rates being available to fund the Local Government sector from 2020 onwards, with a further increase to 100% when primary legislation can be passed. It is important to note that this is a high-level, sector-wide funding envelope and that there is no direct link between the amount of Business Rates an individual authority may collect and the level of funding it is likely to receive.

4.19 Although the new funding scheme is likely to contain growth incentives where authorities are able to share in any growth in Business Rates collected within their boundary, the overwhelming majority of funds collected through Business Rates will be redistributed between authorities, nationally, depending on Government's assessment of their 'need'. Redistribution will always be necessary in order to prevent the large variations that would otherwise occur between different local authorities' ability to fund their services.

4.20 The fundamental question underpinning Government's Fair Funding Review, therefore, is: how does Government design a model that will measure each authority's level of 'need', and ultimately determine the level of funding it will receive?

4.21 The current allocation of SFA funding to individual Local Authorities is driven by a Government model that incorporates numerous 'need' drivers to calculate the split of funding between different authorities.

4.22 As part of the project known as the Fair Funding Review (FFR), Government is currently working with local authorities to update the 'need' drivers within the allocation model. Crucially, in a departure from the current model, Government has confirmed that the new model will adjust each authority's 'needs' funding to reflect its ability to raise revenues locally. This will clearly involve the ability to raise Council Tax receipts, but may also include assumed levels of Business Rates growth, and possibly even fees and charges.

4.23 The outcome of the FFR is currently scheduled for consultation at the end of 2019. Once more detail becomes available, the Council will need to revisit its assumptions to ensure that they remain relevant under the new funding mechanism.

Council Tax

4.24 Within the new 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 15^{th} 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.

4.25 Furthermore, Government has made clear that the new allocation mechanism will assume that each authority maximises the revenue it can raise locally every 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.

4.26 Under current legislation, district councils are permitted to increase Council Tax by the higher of £5 or 1.99% per Band D (equating to £4 for Dacorum), without triggering a referendum at an estimated cost of £80k. For the reasons given in paragraphs 4.25 and 4.26, this MTFS assumes an annual Council Tax increase of the maximum permissible, i.e. £5 per Band D.

4.27 In recent years, the Local Government Finance Settlement (usually announced in December of each year), has granted additional freedoms to increase Council Tax to the higher of 2.99% or £5 without triggering a referendum. If this option were to be offered again, it is recommended that the Council implements an increase of 2.99% (equating to c£6 per Band D). This would generate further revenue of c£60k, enabling the Council to maintain pace with Government's assumption on increases, and to optimise the overall funding available.

5. Review of MTFS assumptions

Update of General Fund budget assumptions based on 2018/19 outturn

5.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2019/20, 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.

5.2 The 2018/19 outturn is to be presented to the Audit Committee at its meeting of 18 July. 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 2020/21 have been updated where appropriate.

Update of MTFS assumptions based on other information

5.3 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.

Table 3: Budget Assumptions

	Note	2020/21	2021/22	2022/23	2023/24
Income					
Council Tax	1	3.58%	3.52%	3.46%	3.46%
Revenue Support Grant	2	(£1,640k)	(£2.44m)	(£3.23m)	(£3.23m)
Business Rates Retained	3	2%	2%	2%	2%
Fees & Charges	4	0.76%	0.76%	0.76%	0.76%
Expenditure					
Pay settlement	5	2.9%	2.8%	3.1%	3.1%
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 (see paras 4.24 – 4.27).
2. Based on the assumption that RSG will continue the historical trend of £800k annual reductions (see paragraphs 4.10 – 4.11).
3. An inflationary increase of 2% per annum
4. Inflation assumptions from OBR on *controllable* income from fees and charges
5. Based on the assumptions from the OBR March 2019
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

5.4 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.

5.5 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 Council 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.

5.6 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

5.7 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.

5.8 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.

5.9 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.

5.10 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.

5.11 Increases for the annual review of fees and charges have been included in the MTFS projections based on the percentages set out in table 5.3.

General Fund Working Balances and Earmarked Reserves

5.12 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 2019/20 Budget Report, in February 2019.

5.13 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 2019.

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.

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

6. General Fund medium-term savings requirements

6.1 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 £2.9m.

6.2 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.

Table 4: Medium Term Financial Savings Requirement.

		2020/21	**2021/22**	**2022/23**	**2023/24**
a.	Savings identified, but still to be delivered	£643k	£60k	£102k	£0
b.	Savings still to be identified	£134k	£786k	£757k	£407k
	Total Savings Requirement	**£777k**	**£846k**	**£859k**	**£407k**

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, particularly the £643k identified for 2020/21, must be considered high risk. If delivery of these schemes is delayed, the savings target for 2020/21 will increase.

To mitigate the risk of delayed delivery, the Finance Team scrutinises budget holders' progress against these initiatives on a monthly basis. Updates are reported to CMT each month and to Budget Review Group throughout the year, 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 2019 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.

7. Key Budget Risks (General Fund)

7.1 The following paragraphs outline some of the key financial risks facing DBC over the medium-term. These risks will be monitored and Members kept updated on the implications for the MTFS.

Local Government Funding Changes – Spending Review/Fair Funding/Business Rates Retention.

7.2 There are currently two reviews underway within Central Government which will fundamentally influence the level of funding Dacorum receives in the future. These are:

- The 2019 Spending review; and,
- The Fair Funding Review.

7.3 A **Spending Review** is a Central Government exercise which sets Departmental Expenditure Limits (DEL) for a multi-year period for all government departments. In his 2018 Budget, the Chancellor announced an SR for 2019. SR19 is significant for the local government sector because it will determine the amount of funding available to MHCLG to fund local authorities over the next three or four years. In the face of competing priorities such as health and education, the overall funding envelope for local government may be negatively impacted.

7.4 The **Fair Funding Review** (FFR) is running concurrently with SR19 and has been set up to create a model that will assess the relative financial needs of local authorities, and allocate a level of funding accordingly. The FFR runs hand in hand with the Spending Review because it provides the model that will distribute the amount of funding made available through the SR.

7.5 Examples of criteria currently under consideration by the FFR to assess need are deprivation, demography and geographical location. Although the relative weighting of each criterion is yet to be determined, current thinking is that the final funding 'drivers' will favour those authorities providing social care, which will result in a diminished pot of funding available for distribution among district councils.

7.6 The current Business Rates Retention scheme will be incorporated within the FFR model, which it is anticipated will include drivers to continue incentivising local authorities to deliver the national policy agenda of economic growth and increased housing numbers.

7.7 The Spending Review and the Fair Funding Review are currently expected to be developed, consulted on and finalised by January 2020 for implementation from 2020/21 onwards. Members will be updated as more information becomes available.

Brexit

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

7.9 Added to this uncertainty are the ongoing negotiations around Brexit, and the uncertainty around how multinational companies will view the UK's attractiveness as a base for investment as details of Brexit begin to emerge. 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

7.10 There is a risk that the UK's credit rating could be downgraded as a result of slow economic growth and prolonged Brexit negotiations, thereby prolonging economic uncertainty in the eyes of investors.

7.11 If this risk were to crystallise, and the cost of government borrowing was to increase, the lending rates available to the Council through the Public Works Loan Board would also increase. Based on the currently approved Capital Programme such an increase would not pose an immediate problem for the Council because there is a minimal additional borrowing requirement over the medium-term. However, this could change if the Council wished to extend the Capital Programme, thereby increasing its borrowing requirement at a time when interest rates were rising.

Pensions

7.12 The Council's pension fund is the most volatile material liability on the balance sheet and prolonged economic uncertainty could drive up the deficit in the short-term. The size of the pension fund deficit has a direct relationship with the amount of contributions the Council is required to make to the fund, and therefore to the annual revenue cost of providing the scheme.

7.13 Changes to the Council's contributions are triggered by the recommendations of the fund's triennial review, the next is due in December 2019. The previous 2016 review required the Council to increase its employer's contribution rate from 16% to 18.5%, c£370k per annum, from 2017 in order to meet the likely future costs for current employees. There is also the risk that increased deficit relating to past service costs will increase depending on the assumptions within the actuarial valuation.

7.14 The Council currently has a Pensions Reserve of £2.2m which could be used for one-off payments to reduce the historic deficit, pending future actuarial reviews. However, given the scale of potential payment fluctuations, this MTFS recommends a continued further annual contribution to the reserve of £200k per annum. This recommendation can be reviewed at the time of the next triennial review, December 2019, to ensure that it remains appropriate.

Staffing pressures

7.15 In common with other local authorities within Hertfordshire, the Council is currently facing 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.

7.16 The current MTFS assumes future years' pay inflation in accordance with the Office of Budget Responsibility's RPI forecasts. Any future increase in pay levels greater than this would result in additional financial pressure to the council. An additional increase of 1% in pay would result in an annual budgetary pressure of c£200k.

Universal Credit

7.17 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.

8. Housing Revenue Account (HRA)

8.1 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.

8.2 The Business Plan is kept constantly under review, and is presented for Members' approval at least annually. The most recently approved HRA Business Plan was approved by Cabinet in March 2018, with an updated version scheduled for cabinet in September 2019.

9. Capital Resources

9.1 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.

9.2 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

9.3 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 2019/20 to 2023/24

9.4 The Council's approved General Fund Capital Programme for the current and future years was approved by Council in February 2019, and is summarised below:

Table 5: Capital Expenditure Budgets.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Planned Capital Expenditure	**16.7**	**7.9**	**5.7**	**7.8**	**3.4**

General Fund

9.5 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%.

9.6 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 2019, sets out the Councils 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.

9.7 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.

9.8 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.

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

Table 6: General Fund Capital Funding.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Capital Receipts and Reserves	6.5	3.2	4.9	3.6	2.2
Capital 141 Receipts	2.1	0.6	0	0	0
Borrowing	6.7	3.2	0	2.5	0
Grants and Contributions	1.4	0.9	0.8	1.7	1.2
Total	**16.7**	**7.9**	**5.7**	**7.8**	**3.4**