Melton Borough Council Budget Book

1. Introduction and background

1.1 This document contains the Council's proposals for its revenue and capital spending in 2022/23, as well as providing details of the forward forecast for 2023/24 to 2025/26. It also contains a comprehensive range of other relevant information to enable the reader to have a clear picture and understanding of the Council's finances.

1.2 The Council's approved Corporate Strategy 2020-2024 sets out a number of key projects the Council will be focussing upon in support of its Mission of *Helping People, Shaping Places.* The budget and Medium-Term Financial Strategy (MTFS) supports the effective delivery of these ambitions. Through this plan we intend to ensure appropriate levels of capital expenditure and investment to meet these priorities and objectives whilst ensuring that our plans are affordable, prudent and sustainable.

1.3 Delivering the council's vision and the priorities supporting it requires the allocation of resources whether they are financial, human or other assets. This budget and MTFS sets out how the Council will structure and manage its finances for the period 1 April 2022 to 31 March 2026 to ensure that the financial resources are available over this period to deliver this vision. The budget and financial strategy is reviewed on an annual basis.

1.4 The MTFS is the instrument for ensuring that the Council's strategies and policies are implemented in as financially an effective way as possible, as set out in the policy framework and financial procedure rules contained within the Constitution. The key objectives of the strategy are as follows:-

- To be the financial expression of the Council's aims, objectives, policies and procedures in respect of good financial management and governance;
- To ensure income and expenditure match over the medium-term and set targets so that savings required can be achieved over the next four years;
- To ensure that budget decisions are linked to community and council priorities for improvement;
- To ensure that a strategic approach to financial planning and delivery is maintained and short term decisions are not made at the expense of long-term sustainability;
- To enable the financial effects of potential changes in demand for services, legislative changes and community needs to be considered;
- To enable policy alternatives to be financially evaluated;
- To enable service demands to be matched to likely resources.

1.5 The MTFS is set within the context of a large range of national, regional and local drivers and influences. The document draws together the financial consequences of these drivers to enable Members to issue guidance regarding the magnitude of the 2022/23 Budget and later years (and the associated Council Tax levels) to be used for financial planning purposes.

1.6 As funding from central government reduces and becomes less secure the Council has needed to review services to make them as efficient as possible, and where these have been achieved or are anticipated they are reflected in the financial projections. The Council continues to develop a financial sustainability plan to provide further efficiencies moving forward but will need to be continually monitored and reviewed to ensure its delivery to meet future financial pressures.

1.7 Core government funding is now less secure in nature. The fixed Revenue Support Grant (RSG) has now been phased out and a review of funding, including business rates retention, has been planned for some time. However, this has been regularly delayed and its timing is now uncertain. Further information will be forthcoming as part of the Fairer Funding Review which will enable us to model the impact, but it is unclear whether this will result in any additional funding overall or indeed the extent of any reduction and transitional relief that may be provided should that be the case.

2. Links with strategic and service objectives and council priorities

2.1 Members are aware of the importance, particularly in times of financial stringency, of having ‘a sustained focus on what matters’, i.e. identifying corporate priorities and aligning resource allocation with such priorities.

2.2 The Council’s vision is structured around six priority themes as set out below. The goals and promises underpinning these are set out in the Council’s Corporate Plan:

Helping People:
- Service Excellence in all we do
- Providing high quality council homes and landlord services

Shaping Places:
- Protect our climate and Enhance our rural, natural environment
- Delivering sustainable and inclusive growth in Melton

Great Council:
- Ensuring the right conditions to support delivery
- Connected with and led by the Community

Each priority is supported by key actions underpinned by the council’s values, with the various strategic interventions and day to day activities clearly stated with the overall mission of Helping people, Shaping places.

2.3 Supporting the Corporate Plan is the council’s performance management framework which monitors progress towards the objectives.

2.4 The Corporate Strategy was approved by the Council in September 2020. Following a refresh to ensure it reflected the challenges and priorities associated with the Covid pandemic. This document supports the development of the budget setting process in order to ensure only relevant growth proposals are put forward into the budget setting process and that any saving proposals are consistent with corporate priorities.

2.5 Whilst strategies should be long term, they must always be kept under regular review. As part of our Performance and Risk Framework, the State of Melton 2021 Report established the starting point for an annual process of reflection, review, and refinement. The State of Melton Report includes key information to support Councillors and Officers as they consider which areas of our strategy need a particular focus at any given time. By using this document at the outset of the budget setting process, it will allow the Council to consider how most effectively to use and reallocate resources to areas of greatest need. It will also help us to check that nothing is missing from our strategy and that it stays relevant and maximises impact.

2.6 A state of Melton Debate was held with Members in October 2021. Members received a presentation from officers and were given an opportunity to reflect on the State of Melton report and share their views on what areas either within Melton or within the Council should be areas of focus or prioritisation as part of the budget setting process, including identification of savings proposals. Members were asked to consider:

- Community / Council issues the Council should focus on (including as part of the budget process)
- Areas to influence (not directly in our control)
- Areas where savings / income generation could be explored

2.7 The Council looks to work in partnership where possible to improve outcomes, enhance service provision to the local area and add value to the resources that we spend. The Council looks to structure itself and direct its resources to partnership objectives, based on the strategic view that the needs of People and Place should be at the heart of service provision. Where there are shortfalls the Council will aim where possible to re-engineer existing budgets to support partnership initiatives. In addition, the Council’s Corporate Priority Reserve can be utilised to support a number of initiatives of a non-recurring nature as part of its annual budget setting process, but this reserve is limited.

2.8 The Council approves a Treasury Management Strategy in advance of each financial year. The Investment Strategy and Debt Strategy contained within the Treasury Management Strategy have informed the revenue budget projections as applicable. During 2021/22 the Council has also developed a refreshed Capital Strategy as part of the CIPFA prudential code requirements. The revised CIPFA Prudential Code for Capital Finance in Local Authorities introduced the requirement to produce a capital strategy and for the Chief Finance Officer to report explicitly on the affordability and risk associated with it.

3. Comprehensive spending review and central government funding

3.1 A large proportion of the funding for the revenue budget comes from central government through the Formula Funding distribution system. Through the distribution of Formula Funding, central government is able to direct spending to particular service areas whilst still being able to maintain overall control by specifying total spending in its public expenditure plans. Control of individual authorities can be exerted by central government by requiring the Council to hold a referendum with its council tax payers if it is deemed to be proposing an excessive council tax increase as determined by central government.

3.2 The finance settlement sets out the centrally allocated resources for all councils which are allocated within the context of the spending review. A Settlement Funding Assessment is awarded which consists of a Revenue Support Grant (which Melton received a negligible amount in 2022/23 following a number of years of not receiving any funding) and a Baseline Funding Level which is used to calculate the level of business rates that can be retained from that estimated to be collected locally. The settlement also provides the information on the level of other specific grants a local authority will receive for the coming and potentially future years as well as setting out the level of council tax that can be set without triggering a referendum.

3.3 In 2016 the government set out its intention to move to multi year settlements to provide certainty to councils over future levels of funding and a four year settlement was announced covering the period 2016/17 to 2019/20. Consultation papers were then issued with the 2019/20 finance settlement relating to the long standing review of local government finance. This covered proposals for a full business rates baseline reset meaning any growth retained since the business rates retention system was introduced in 2013/14 would be lost. Consideration of how the split of business rates was to be made between lower and upper tier authorities; with the concern being that the funding pressures of upper tier authorities would result in a greater share allocated to this class of authority. Alongside the business rates reform, other funding streams were also announced for review, including consideration regarding the costs of rurality and the future of New Homes Bonus. Whilst any changes to these funding streams have the potential to impact on the council and therefore create a degree of uncertainty, it is also unclear how any damping mechanism would work and over what time period in order to mitigate the impact on any individual council in the early years. This review was expected to be completed in time for the 2020/21 finance settlement.

3.4 In August 2019 the Chancellor announced that the more fundamental review had been delayed and instead there would be a one year spending review for 2020/21. This was followed by a spending review announcement, a subsequent technical consultation paper and the general election. As a result of Covid the long awaited review of local government finance was again delayed and a further one year settlement for 2021/22 was announced with further uncertainty of when the review would be complete and when and if multi year settlements would commence. A spending review was announced in October 2021 which provided for additional funding for local government with the detail of how this was to be distributed to be set out in the finance settlement.

3.5 The key elements set out in the 2022 finance settlement are as follows:

Business Rates - The Settlement Funding Assessment used to calculate retained business rates was as expected. Following an assessment the Leicestershire business rates pool is continuing for 2022/23 based on an estimated £10m benefit to the area in 2021/22.

Council Tax - The settlement has confirmed, in line with previous years, that there will be no change to the referendum criteria, in that district Councils will only be allowed to increase council tax by up to 2% or an overall increase of up to £5 for a Band D property.

Rural Services Delivery Grant - The Efficiency for SPARSE services grant has been confirmed as continuing in line with that received in 2021/22 for Melton this is £191k.

New Homes Bonus (NHB) - 2017/18 saw significant changes to the calculation of NHB with the government reducing legacy payments from 6 to 5 years in 2017/18 and to 4 years in 2018/19 onwards. In addition local authorities whose housing growth is less than 0.4% receive no NHB payment; otherwise authorities will only receive the payment on amounts over the 0.4%. The Government outlined proposals in previous consultations to remove NHB funding from 2021/22 onwards. As part of the 2021/22 settlement the Government extended the NHB scheme for a further one off year in 2021/22 with these payments not forming part of any legacy payments. For 2022/23 the government has again extended the scheme for a further year on the same basis. As such Melton will receive a one off payment for new homes built over the previous year in 2022/23, but these will not form part of any future legacy payments. In addition Melton will also receive the anticipated residual legacy funding from previous years. With our increased housing growth over the past year for Melton this results in a final NHB payment for 2022/23 of £521k. The Government has stated previously the intention to consult on the future of a new housing incentive with the aim of moving to a new more targeted approach that rewards local authorities that are ambitious in delivering homes.

Lower Tier Services Grant - The government provided a new one year only un-ringfenced Lower Tier Services Grant in 2021-22, which allocated £111 million to councils with responsibility for services such as homelessness, planning, recycling and refuse collection and leisure services. This was intended to ensure that no council – either upper or lower tier – would have less funding available in 2021/22 than the previous year. The allocation for Melton in 2021/22 was £57k. This grant has again been provided for a further year and the amount for Melton in the settlement is £60k.

2022/23 Services Grant - An additional grant has been awarded in 2022/23. This grant is for 2022/23 and is to fund general responsibilities. This grant includes funding for local government costs for the increase in employer National Insurance Contributions. For Melton the grant is £92k.

Covid Funding – No further Covid support funding is being made available from Government.

3.6 The Government has stated that the priority in the settlement is “stability in the immediate term” with a more fundamental review of local government funding starting in 2022. The Government will consult the sector in 2022 about “updating the system”. This is what used to be known as the Fair Funding Review. DLUHC officials have clarified that this is likely to encompass a response to the review of New Homes Bonus. They were less clear that business rates reset would be in scope however it is expected that this will still be addressed. In general, we can expect there to be a comprehensive review of the distribution of local government funding. There will be transitional protections to accompany any funding reforms. Any reset of business rates represents a key risk for the Medium Term Financial Strategy (MTFS). Whilst longer term financial risks remain the additional funding provided to the council through the finance settlement has enabled the council to set a balanced budget with minimum savings options as well as enabling reserves to be increased and funding to be set aside for investment in core priorities.

4. Working balances/level of reserves

4.1 When calculating budget requirements, relevant authorities are required (by The Local Government Finance Act 1992) to have regard to the level of reserves needed for meeting estimated future expenditure. Reserves can be held for working balance, for contingency purposes (e.g. for emergencies), or as specific (i.e. “earmarked”) funds. A clear protocol (covering purposes, utilisation, management, and review) exists for each reserve held, in line with guidance. This is reviewed annually as part of the budget setting approval with estimated balances set out on pages 21 to 22. The level of working balance an authority agrees is an individual matter for them based on their own unique circumstances, risk profile and risk appetite. It is not appropriate to compare/benchmark against other authorities in order to assess an appropriate level.

4.2 The target working balance for general expenses has been increased to £1m from its previous level of £640k. The projection for 2022/23 is to increase this to £870k as the Council moves towards its new target based on the latest risk profile and taking into account the recommendation from the LGA financial resilience review.

4.3 A level of £50,000 has been in place for a number of years in respect of special expenses (Melton Mowbray) and this is considered to be appropriate.

4.4 The Housing Revenue Account (HRA) working balance was increased to its current level of £750,000 in the 2013/14 financial year to reflect the increase in risk of a self-financed HRA, particularly with regard to treasury management activity, as a result of the reform of the HRA and the buying out of the subsidy system. In addition the risks associated with running the HRA as a going concern and ensuring that sustainable, continuous maintenance and improvement of the housing stock is on-going are significant. 4.2 Rent income is one of the main components of the HRA and it is the Government's policy to increase rents by up to CPI + 1% for at least 5 years from 1 April 2020. For 2022-23 this results in a rental increase of 4.1%. the HRA business plan is in the process of being finalised and the target working balance will be reviewed as part of this process.

4.5 In relation to the non-earmarked general reserves, they are available to support a range of projects which may be required for the Council to deliver, as well as being available to support capital expenditure should that be necessary due to a low level of capital receipts being held. The reserves have in recent years been utilised to support non recurring expenditure in support of structural changes; though the Corporate Priorities Reserve level has stabilised and increased. If the council's financial position should worsen and further savings in net expenditure are required which have a lead time to achieve it will be necessary to draw on these again until alternative savings or income are identified and delivered. In 2022/23 the budget follows the principle set of balancing the budget without utilising these reserves to protect the Council's future financial sustainability.

4.6 Following the end of the 10.5 year Leisure contract there is a balance of £190k remaining on the Waterfield Leisure Income Smoothing Fund. This fund was established to smooth out fluctuations in the annual management fee that arose when there were estimated repair needs at the centre. A residual balance has arisen due to the disruption caused to the payments due as a result of the Covid pandemic. A new arrangement is in place for the contract extension and therefore this fund is no longer required for its original purpose. Due to the pressure on asset maintenance needs, of which the leisure centres are a key element, it is recommended that this residual balance be transferred to a new general property reserve with delegation provided to the Director for Growth and Regeneration in consultation with the Director for Corporate Services to access the reserve to meet unexpected repairs and maintenance needs that arise during the year that cannot be met from existing revenue budgets.

4.7 CIPFA (the Chartered Institute of Public Sector Finance and Accountancy) have issued a Financial Resilience index for all councils which is available publicly. This is in response to concerns regarding the viability of councils. It is suggested that Chief Finance Officers should comment on the results as part of their statement on the adequacy of the reserves as part of their budget reports. COVID-19 has had an impact on the 2022 resilience index, and CIPFA state it should therefore be viewed in the context of this having been a transitional year. The index continues to illustrate the financial resilience of authorities during the pandemic but figures on reserves have been affected by a series of coronavirus-related payments at the very end of the financial year. The key messages for Melton are as follows:

- Compared to other district councils, and particularly similar district councils classed as being our “nearest neighbours” in terms of comparability, Melton has improved its financial sustainability measure and is shown as being of a lower risk than previously years due to an improvement in the level of reserves held and the ratio of these in comparison to the Council’s net budget. Some of this improvement was due to the Council’s approach to address the previous reduction in reserves by reducing reliance on them, but also the increase in reserves due to the temporary increase as a result of covid payments made at the end of 2020/21 this was highlighted by CIPFA and affected most authorities. It is likely that this has a disproportionate impact on this Council due to the relatively low level of reserves compared to other council’s in the comparator group;
- Melton was previously shown as being at a lower risk compared to similar authorities and other districts as a result of generating a high proportion of income from fees and charges and low level of interest payable compared to net expenditure. high levels of interest received compared to interest payable. Melton’s position compared to other councils in this group has worsened and is now at a higher risk. This is due to income from fees and charges reducing significantly in 2020/21, due to covid, by a greater proportion to net revenue expenditure than other comparable councils. In addition, the additional grants received due to covid and the way these were prescribed to be accounted for has reduced net expenditure thereby increasing the proportion of interest paid in comparison. So previously the lower risk presented by less reliance on government grants due to income from independent sources being a high proportion of net revenue expenditure shows the risk this presents when these income streams are reduced. The change in risk resulting from interest payable in proportion to net expenditure is primarily due to the impact of covid and reduces the value of the comparison of this indicator;
- Melton is at a lower risk compared to similar authorities and other districts as a result of having lower business rates growth. The implications being that with this source of funding being at risk of the baseline being reset, above which a portion of growth is retained, Melton has comparatively less to lose than other councils.

4.8 In terms of what this means for Melton with regard to its financial strategy it confirms the progress made in reducing the requirement to draw on the reserves is the right one and has reduced the council’s risk in comparison to other similar councils. The impact of Covid on year end balances across all councils has reduced the reliance that can be placed on the resilience indicators in this regard. However, the council has certainly made progress and the proposed budget for 2022/23 makes considerable progress in this area. The proposal to increase the working balance from the forecast surplus at the end of 2021/22 as well as no proposals to draw on unearmarked reserves in 2022/23 will put the council’s reserves in a much healthier position. This demonstrates the Council is addressing the concerns raised in previous years. The proposals set out in the budget also respond to the need as recommended by the LGA financial resilience review to increase the general expenses working balance to circa £1m to provide a higher financial contingency due to the risk posed by the relatively low level of reserves. It does though also need to be recognised that should these reserves deplete further, the ability to support the financial implications of change and transformation from reserves – e.g. costs arising from changes to staffing structure - will be more difficult and such costs will have to be met from within the annual revenue budget. This would therefore require sufficient savings to be made in year or income generated to meet these costs. Should reduced funding from central government result in savings and efficiencies having to be made then there is a high risk that reserves would need to be drawn on to support the associated one off costs of achieving these.

4.9 As is already recognised the council has limited reserves both allocated and unallocated and therefore investment in capital and revenue projects that reduce net revenue spend though reducing costs or generating income should be the greater priority. Whilst not covered by the resilience index, as set out in the capital strategy, the Council is vulnerable due to it's low level of capital receipts and the ongoing need to invest in existing assets that have needs identified through stock condition surveys. If assets are not identified for sale that will generate additional receipts that can be invested elsewhere - opportunities for which are limited - then the council will need to identify revenue it can use to fund such capital expenditure directly or to fund the costs of borrowing. The council has an asset development programme which is progressing and this should lead to the realisation of capital receipts which would be available for asset improvements or investment elsewhere for a revenue return

5. Inflation forecast

5.1 The Government's target for inflation is 2% CPI (Consumer Prices Index) however this has been running at 5% with the recent pressures around world oil prices and energy. It is anticipated that inflation will peak at 6% in April with further interest rates rises expected to help reduce inflation back towards the targeted level in the future. In light of the inflation forecasts looking to reduce over the course of the 2022/23 financial no inflation has been provided for in the 2022/23 budget at service budget level, other than fees and charges which has been provided for at the rate of 2.5% unless adjusted for known cost contract increases by budget holders i.e. Waste Contract. In recognition of the council's ability to manage without a contingency in the past, no contingency budget has been included for 2022/23.

5.2 With regard to pay inflation a provision has been made for a 1.75% increase in recognition of the ongoing pay negations nationally. Pay progression across the scales has been provided for.

5.3 The Council's Charging Policy was reviewed and updated in 2019 and can be found on pages 72 to 84. This provides guidance on the annual setting of various fees and charges and the linkages to the annual budget setting process.

6. Revenue budget

6.1 The budget for 2022/23 has been prepared on the basis of maintaining services at their agreed levels except where the Council has already agreed to a change in which case any change in cost has been incorporated into the base budget. The proposed budget aligns with the Corporate Strategy approved in September 2020.

6.2 A number growth and saving options, were included as part of the 2022/23 budget process. Given the ongoing uncertainty regarding local government finance, the Council has prudently continued to develop its financial sustainability programme, and throughout the year work has been ongoing to develop savings and efficiency options so any deficits which emerge can be addressed appropriately. Given the positive financial settlement the need for immediate, short-term savings has diminished and therefore only vacancy savings are proposed. Officers are however working in a number of areas currently to reduce costs, whilst protecting priority services.

6.3 These efforts will continue and the more favourable finance settlement has created a window where the Council can explore financial sustainability in a more strategic way, rather than having to react to events. Key components of the Council's future financial sustainability will relate to service transformation and the Council's asset development programme. Proposals to inject resources in these areas will be considered and brought forward shortly so the Council can ensure the required pace to deliver.

6.4 The Council has set a balanced budget for 2022/23. The detail surrounding the budget is set out on pages 17 to 19. Council tax amounts for each band for the borough council, preceptors and parish councils are set out on page 16. Any use of reserves is generally to fund non-recurring costs or capital purposes.

6.5 In addition to the 2022/23 budget a Medium Term Financial Plan is produced for the period 2023/24 to 2025/26. The purpose of the financial plan is to use financial modelling to forecast, at an overview level, what the Council's net budgets could potentially be for the next four financial years. Commencing with the current (2022/23) revenue budget, it will seek to determine changes thereto – some committed, some not; some increasing expenditure/reducing income, some reducing expenditure/increasing income; some triggered by legislative changes, some for other reasons. As far as practicable, it also incorporates the financial implications of schemes aimed at meeting the Council's priorities.

6.6 Without the outcome of the funding review, coupled with the uncertainty regarding the recovery of core income streams due to Covid, it is extremely challenging to project the Council's financial position into these later years. As such sensitivity analysis has been undertaken and for information best and worse case scenarios of the potential surplus/deficit for future years set out below. This shows that should current external funding levels be retained and there be no business rates baseline reset the council will remain broadly in a balanced budget position, however should there be a baseline reset, NHB removed and no transitional relief then the council would have significant deficits to cover. The reality will of course be somewhere between these two extremes

	2023/24	2024/25	2025/26
Potential Surplus (-)/Deficit	£000	£000	£000
Best Case Scenario	-6	88	55
Worse Case Scenario	1,154	1,457	1,585

6.7 The end product of this exercise is a four year forecast, consistent with the Council priorities including indicative transfers to and from reserves. This can then be used by members to devise a strategy for approaching future service and financial planning decisions. A summary is included in the table below with further detail found on pages 17 to 19.

6.8 In drawing up this projection a number of assumptions have been made regarding service expenditure and income following discussions with budget holders, and scrutiny by the Senior Leadership Team. Some of the key assumptions that have been made in preparing these forward projections as follows:

General

- That an overall increase in council tax of £5 will be set in 2022/23 followed by further overall increases of £5 to 2025/26;
- The expected position is based on the current level of service provision with assumptions incorporated regarding general inflation changes to prices and pay, pension costs and income streams and estimated changes in demand. No allowance is made as part of the projections for the delivery of savings or income generation which would require a change to service levels/policy. This is to enable the true surplus/deficit to be identified that will require management intervention in order to address the position;
- Growth projections for council tax growth have been based on the housing growth figures provided by the local plans team;
- It has also been assumed Rural Services Delivery Grant will continue at it's current level with no adjustment made to what may arise from the fair funding review and any potential acknowledgement of rurality as a spending pressure;
- No allowance has been made for future NHB payments or any replacement housing incentive growth in the absence of any information.
- The scenarios provide for different assumptions regarding other forms of government funding from business rates retention and the lower tier services grant which range from being retained at their current level to their complete removal with the expected level being an average of the two extremes;
- No adjustment has been made post 2022/23 for Covid related expenditure with income from leisure provision estimated to be restored by the end of 2023/24 and car parking income remaining in a reduced position based on 2022/23 estimates of a 23% reduction.

2023/24 and 2024/25

- Specific allowances have been made for the transfer of the land charges service to the Land Registry in 2024/25, the potential introduction of mandatory food waste collection from 2023/24 and the recovery of the management fee for leisure which has been affected by Covid. No allowance has been made for any new burdens payment in respect of the introduction of food waste collection due to the level and method of distribution not being know..

6.9 With regard to the Housing Revenue Account (HRA), the Council in November 2019 authorised expenditure in relation to the Housing Improvement Programme (HIP). Due to the lack of up to date stock condition information the Council is at present working with an interim HRA Business Plan. The Business Plan ties together forecasts in terms of income (mainly rents) and likely expenditure, not only day-to-day but the capital investment needed to maintain and improve the stock (replacement of boilers, kitchens etc). The residual items from the Housing Improvement Plan (HIP) have been included in the expenditure estimates for 2022-23 as far as the costs are known. Any additional costs arising from these compliance works will be considered and supplementary estimates completed in line with the approved delegation as appropriate.

6.10 The HRA Business Plan is currently in development and is expected to be brought to the Cabinet in April 2022. As this is after a budget is set for 2022-23, only a one-year budget has been set at this time, with any changes and further years being updated once the new business plan has been approved. The business plan will take information from the Stock Condition Surveys that have been completed to inform both Capital and Revenue expenditure over the 30 years of the business plan. Further work will also be undertaken to inform the future budgets on the Housing Asset Management Strategy and the Development Strategy for new affordable housing. Additionally, there is currently a review of the Intensive Housing Management Service being undertaken, the results from this will also inform future budgets and service delivery arrangements. As part of the development of a robust HRA business plan, engagement is taking place with tenants to shape the business plan priorities and focus

6.11 Following self-financing of the HRA, there is no longer a requirement to pay into the subsidy system however it is necessary to service the new debt so treasury management is now a fundamental aspect of managing the HRA. A regeneration and development reserve was also set up following the move to self-financing to enable focused saving and funding for one-off housing projects.

7. Capital budget

7.1 The Council has a five-year capital programme. The Senior Leadership Team are taking a proactive approach in ensuring a realistic and affordable programme is developed, that meets the Council's priorities and objectives as set out in the various strategies set out in the Corporate Policy Framework.

7.2 The approved capital programme and capital strategy will support the Council in delivering its commitment to manage its assets effectively and to ensure the benefits from them are maximised for the benefits of the Council and community as a whole. These Capital plans will support the effective delivery of these ambitions and will ensure appropriate levels of capital expenditure and investment are in place to meet Corporate priorities and objectives whilst ensuring that plans are affordable, prudent and sustainable. It is a requirement of the CIPFA Prudential Code for Capital Finance in Local Authorities to produce a capital strategy.

7.3 It is good financial practice to incorporate the financial effects of capital spending plans into revenue budgets prior to the consideration and approval of the revenue budgets. The impact of these proposals have been incorporated into the revenue budget and the prudential indicators that were approved by Council in February as part of the Treasury Management Strategy.

7.4 The key source of internal funding for the General Fund capital programme are capital receipts. It should be noted based on the anticipated financing of the 2022/23 General Fund capital programme the estimated balance on Capital Receipts will be only £8k and that the previously set aside Leisure Vision capital receipts will be required to help fund the programme in the next financial year. Whilst this doesn't take into account any further capital receipts that may be generated it does show that the Councils resources are limited to fund future capital schemes. Once capital receipts are exhausted this leaves the Corporate Priorities Reserve which is a revenue fund available to support capital or borrowing which would have revenue implications. Therefore, the prioritisation of capital schemes and the need to focus on the Asset Development Programme will be key, including generation of further capital receipts. If insufficient capital funds are available the Council would then need to consider borrowing to fund such investments and would need to ensure any schemes are affordable in revenue terms through reductions in net expenditure

7.5 The opportunity to utilise unsupported borrowing does exist but as this would impact on the revenue budget. In the future where such borrowing is considered it should be primarily reserved for invest to save schemes. Whilst there continues to be no requirement to set aside a provision for the repayment of debt within the HRA it is a requirement that a voluntary Minimum Revenue Provision (MRP) is provided for within the General Fund for any unsupported borrowing at a rate in line with the life of the asset.

7.6 With regard to the HRA there is funding by way of borrowing, cash backed depreciation and revenue contributions up to the level that would have previously been covered by the Major Repairs Allowance (MRA). Capital receipts from the sale of Council houses have been limited during the pandemic. Proceeds from surplus HRA land may be limited in the future if the land is transferred at less than market value to support housing initiatives. The government has a policy of providing 1 for 1 affordable housing on the sale of

"Right to Buy" properties which the Council has signed up to. Therefore a proportion of "Right to Buy" proceeds will be set-aside for the provision of new affordable rented housing. These proceeds must make up no more than 40% of the total spend on new housing and must be spent within 5 years of receipt. In addition a cap will be phased in from 2022/23 to 2024/25 over the percentage of receipts that can be used on acquisitions as opposed to new build.

7.7 The revised CIPFA Prudential Code for Capital Finance in Local Authorities published in 2017 introduced the requirement to produce a capital strategy in 2019/20 and for the Chief Finance Officer to report explicitly on the affordability and risk associated with it. The Council has refreshed and updated its capital strategy for 2022/23.

7.8 The purpose of the capital strategy is to tell a story that gives a clear and concise view of how a local authority determines it's priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It need not duplicate other documents but should include cross references where relevant. It should provide enough detail to ensure that all members understand how the authority is delivering stewardship of the authority's resources, prudence and sustainability and meeting the authority's reporting requirements. The strategy links to the priorities as set out in the Corporate Strategy.

7.9 The strategy sets out the links to external influences and partners as well as the linkages to the Council's own priorities and planned activities. In terms of the financial implications and links to affordability as set out in the strategy work has been undertaken on refreshed stock condition surveys which have been reviewed and built in the Council's investment strategy. These will then feed into Asset Management Plans for both the General Fund and the Housing Revenue Account (HRA). Due to the unaffordable level of investment required on the general fund assets, it is proposed to focus on essential repairs which will be reviewed annually through the corporate property team to then feed into the annual budget process.

7.10 An updated HRA business plan is due to be presented to members shortly which will include update capital investment numbers. Once approved these will be feed into the capital strategy which should be seen as a living document to be updated as required during the year. Therefore, where highlighted in the Capital Strategy appended to this report where numbers haven't been available this will be updated accordingly

7.11 With the limited capital resources at the Council's disposal it is highly likely that future funding needs may need to be met from borrowing which will impact on the council's revenue budget unless investment is met by savings in expenditure or additional income being generated. One area which the council is looking to strengthen its reserves relates to asset repairs provision by looking to establish a general repairs and maintenance reserve to help provide further resilience should unforeseen investment that might be required over and above that provided for in any specific repairs and renewal funds.

8. Financial management and monitoring

8.1 The delivery of the budget and MTFS requires robust management and monitoring arrangements. These are set out in the Council's budget setting, monitoring and control protocol.

8.2 There is a programme of training for budget holders. All new budget holders receive basic training from their service accountant on the policies, procedures, and forms etc., set out in the budget manual. They also receive training on the use of the financial system on request. Training has been provided periodically for all budget holders on local government finance and topical issues through the use of external facilitators. The council has introduced a new financial system in April 2021 which has led to improved financial management with ongoing development of the core functionality and focus on improved reporting facilities in conjunction with Budget Holder needs in order to improve financial reporting at all levels within the Council.

8.3 For the purpose of budget monitoring, services are designated as one of three categories which determines the level and frequency of budget monitoring

- High risk and complex budgets.
- High risk budgets.
- Lower risk budgets.

8.4 The categorisation of the various services has been reviewed for 2022/23 Following consultation with the Senior Leadership Team changes have been made to the risk profile with building control income being amended to reflect the new service arrangements, Leisure added with the change to the lease with the provider which introduces a profit sharing arrangement in place of the previous fixed management fee as the service recovers from the Covid pandemic. Parkside and Phoenix House income has been removed as there is stability in the building regarding the tenants in occupation

8.5 The policy of seeking external funding for capital projects and working in partnership with other local authorities to attract funding to supplement the Council's own resources will continue and will be vital in ensuring that sufficient resources are available to deliver the programme of capital works.

9. Consultation arrangements

9.1 Public consultation has been undertaken in relation to the proposals set out within the Corporate Strategy and the outcome reported as part of the approval of the strategy in 2020. Stakeholder consultation has been undertaken with specific groups impacted by the proposals. Proposals have also been consulted on with business ratepayers.

9.2 The State of Melton debate held on 4th October provided all members the opportunity to engage in service delivery options early in the process and the views and ideas raised in this meeting are being taken forward by Directors as part of service planning and delivery. A briefing on the State of Melton was also made to parish councils.

9.3 The Scrutiny Committee has considered the budget proposals with the option provided to all members to attend the Scrutiny committee for the budget review. Prior to this formal meeting a Budget Scrutiny Workshop was held consisting of a number of members drawn from the Scrutiny Committee.

9.4 Parishes are consulted through the Parish Council Liaison meetings which are regularly held.

9.5 Preceptors are consulted on schemes that have an impact on their services and financial arrangements as appropriate.

9.6 Business rate payers where also consulted on the budget proposals through a online consultation prior to the council budget setting meeting. No responses were received.

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