

AGENDA ITEM: 15

SUMMARY



Report for:	Cabinet
Date of meeting:	10 February 2015
Part:	1
If Part II, reason:	

Title of report:	Budget 2015/16
Contact:	Cllr Nicholas Tiley, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations)
Purpose of report:	To present to Cabinet budget proposals for recommendation to Council in relation to: <ul style="list-style-type: none">• Revenue and Capital Expenditure together with the potential use of reserves• The setting of the Council Tax for 2015/16• The Treasury Management Strategy 2015/16• The level of fees and charges for 2015/16• Advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003

Recommendations	It is recommended that Cabinet recommend Council to: General Fund Revenue Estimate <ul style="list-style-type: none">a) set a Dacorum Borough Council General Fund Council Tax requirement of £9.826m, and of £10.467m for the combined Borough Council and Parish Councils' requirement for 2015/16;b) agree an increase of 1.8% in Council Tax for Dacorum Borough Council;c) approve the base estimates for 2015/16, as shown in Appendix A, and the indicative budget forecasts for
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2016/17 – 2018/19, as shown in Appendix J;

- d) approve the forecast balances of Revenue Reserves as shown in Appendix H, and approve paragraphs 14 – 31 as the updated Reserves Strategy;
- e) approve increases in Fees and Charges for 2015/16 as set out in Appendix I;
- f) approve and adopt the Treasury Management Strategy for 2015/16, attached at Appendix K;
- g) approve and adopt the Treasury Management Principles and Practices for 2015/16, attached at Appendix L;
- h) note that this budget paper, when approved by Council, will form part of the Medium Term Financial Strategy.

Capital Programme

- i) approve the revised Capital Programme for 2014/15, and for 2015/16 to 2019/20, as detailed in Appendix G;
- j) authorise the financing proposals in Appendix G subject to an annual review of the financing options by the Corporate Director (Finance & Operations), in consultation with the Portfolio Holder for Finance and Resources, during the preparation of the Statement of Accounts.

Housing Revenue Account (HRA)

- k) set dwelling rent increases in accordance with the proposed policy to retain existing rent policy for those tenants below Target Rent, but to implement CPI-linked rental increases for those tenants who are at Target Rent. This results in an average increase of 3.71% which makes the average rent £106.02 per week (based on 52 weeks);
- l) approve the HRA estimate for 2015/16 as shown in Appendix F.

Terms & Conditions

- m) approve the continued application of a living wage supplement for all affected employees, in accordance with the Living Wage, for 2015/16; to be reviewed annually thereafter.

Statement by Chief Finance Officer

- n) approve the statement by the Chief Finance Officer regarding the robustness of the budget estimates and level of reserves as set out in Appendix M.

Corporate objectives:	All of the Council's corporate objectives are reflected in the Budget proposals.
Implications:	<u>Financial & Value for Money</u>
'Value For Money Implications'	Contained within the body of the report
Risk Implications	Budget Risk Assessment completed within report (Appendix M)
Equalities Implications	Group Managers are responsible for carrying out Equality Impact Assessments for individual budget proposals contained within the overall budget. Group Managers will need to confirm these have been carried out prior to Budget and Council Tax setting.
Health And Safety Implications	None directly arising out of the report.
Monitoring Officer/S.151 Officer Comments	<p>Monitoring Officer:</p> <p>Under the Council's Constitution it is the responsibility of Cabinet to draw up firm proposals for the Budget, having regard to the responses to the consultation, and to present those proposals to full Council for approval. Once full Council has approved the Budget it is the responsibility of Cabinet to implement it.</p> <p>S.151 Officer</p> <p>Comments contained in body of report. Chief Finance Officer Statement contained in Appendix M of the Report.</p>
Consultees:	<p>Overview and Scrutiny Committees</p> <p>Budget Review Group</p> <p>Town and Parish Councils</p> <p>Public Engagement Forum</p> <p>Corporate Management Team</p> <p>Group Managers</p>
Background papers:	Joint Overview and Scrutiny Reports; 10 December 2014, and 4 February 2015.
Abbreviations	<p>MTFS - Medium Term Financial Strategy</p> <p>OSC - Overview and Scrutiny Committee</p> <p>HRA – Housing Revenue Account</p> <p>GRF – General Fund Revenue Account</p>

Appendices to this report are as follows:

Appendix A	Draft General Fund Budget Summary 2015/16
Appendix B	Summary of Major Movements in General Fund Budget 2014/15 – 2015/16
Appendix C	Finance & Resources Committee General Fund Budgets 2015/16
Appendix D	Housing & Community Committee General Fund Budgets 2015/16
Appendix E	Strategic Planning & Environment Committee General Fund Budgets 2015/16
Appendix F	Draft Housing Revenue Account Budget Summary 2015/16
Appendix G	Draft Capital Programme 2014/2015 – 2019/2020 by OSC
Appendix H	Statement of Earmarked Reserves
Appendix I	Proposed Fees and Charges 2015/16
Appendix J	Draft General Fund MTFS Update 2015/16
Appendix K	Treasury Management Strategy Statement 2015/16
Appendix L	Treasury Management Principles & Practices
Appendix M	Statement by the Chief Finance Officer

Context for the Budget-setting process

1. The 2015/16 Budget proposal and the updated Medium Term Financial Model have been produced to ensure that the Council maintains a sustainable financial position over the planning period. The following Council strategies and policies have informed the budget-setting process:
 - The Council's Vision and Priorities, as stated in the Corporate Plan
 - The Medium Term Financial Strategy (MTFS)
 - Service Strategies and Plans
2. The 2015/16 Budget setting process has also incorporated consultation events with a range of stakeholders, including:
 - Town and Parish Council Conference; November 2014
 - Overview & Scrutiny Committee; December 2014 and February 2015
 - Citizens' Engagement Forum; January 2015

The national Local Government finance context

3. The Chancellor of the Exchequer's Autumn Statement, delivered on 3 December 2014, provided a formal update on the state of the economy and announced the Government's plans to promote economic growth. Some of the key messages affecting Dacorum are summarised, below.

3.1 Public Spending

Whilst exempting local government from further cuts in 2015/16, i.e. above those already announced in the two-year provisional settlement issued in December 2013, the Chancellor confirmed that the government remains committed to reducing the national deficit through public spending control.

The Government's planning assumption is that Total Managed Expenditure (i.e. the total amount of government departmental spending), will reduce between 2016 and 2018 at the same rate as it did between 2010 and 2015. Exactly how much of a funding reduction this is likely to mean for local government will remain unclear until Government Departmental budgets are allocated as part of the Spending Review, likely to be early in the next Parliament. However, given previous governmental commitments to protect spending in areas such as health and education, it is probable that Dacorum will face significant funding reductions over the next few years.

The Chancellor announced an intention to work towards multi-year funding settlements for councils in future, which would provide welcome assistance for councils' medium-term financial planning. However, continued uncertainty over the wider economy, both nationally and internationally, is likely to mean that even multi-year settlements would be susceptible to annual revisions if Government was required to adapt its own spending plans.

3.2 Business Rates

The increase in Business Rates for 2015/16 has been capped at 2%. It would otherwise have been raised by 2.3% in line with the increase in the September 2014 Retail Prices Index (RPI). The rates increase cap will be funded by Government, and will not affect the proportion of Business Rates retained by councils.

The Chancellor also announced that the rules governing the appeal of Business Rates will be changed so that payments made by councils to successful appellants can only be backdated to, at the earliest, 1 April 2015. This reduces the financial risk faced by Dacorum, as currently, successful appeals routinely involve the council refunding payments back to April 2010.

3.3 Housing

The Chancellor did not lift the borrowing cap on the Housing Revenue Account and take council house borrowing out of the Public Sector Borrowing Requirement, as some commentators had anticipated that he might. Whilst the borrowing cap remains in place, Dacorum is unable to develop new council housing in the quantities that the business plan suggests would be affordable. The Local Government Association continues to lobby Government for the removal of the cap.

Local Government accounting requirements

4. The budget-setting process within Dacorum is governed by a number of statutory requirements. Some of the key requirements are explained, below.

4.1 Capital charges

Where Services benefit from the use of assets, the Revenue expenditure budget includes a nominal charge for the use of that asset, in line with standard accounting practices. This charge is known as a capital charge, and it ensures that the 'true' cost of running the Service is captured in the budget. However, in order to ensure that this nominal charge is not passed onto the Council Tax payer, there is corresponding credit, which can be seen in the General Fund Summary (Appendix A).

A rolling programme of valuations is undertaken by the Council's valuer which ensures that the asset register is kept up-to-date and that the capital charges to Services are accurate. Any change in the use of assets, or revised valuation, or additional Capital Expenditure will affect the capital charge made to the Revenue Budget.

4.2 Prudential Code

The Council complies with the Prudential Code for controlling Local Government Capital Finance, and the Budget for 2015/16 has been prepared in the context of these plans and controls. The key objectives of the code are to ensure that:

- Capital Investment Plans are affordable, prudent, and sustainable
- All external borrowings and other long term liabilities are within prudent and sustainable levels

- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudence, affordability and sustainability
- The Council is accountable for its decisions
- The Code supports local strategic planning, local asset management planning and proper option appraisal

4.3 Integrated Service and Financial Planning

Service planning focuses on linking the proposals for service delivery to the Council's Vision and Priorities.

There have been a series of budget briefings and planning meetings throughout the budget cycle. These have involved the Budget Review Group; Cabinet; the Corporate Management Team; Corporate Directors with Assistant Directors and Group Managers. In addition, there has been a combined briefing of Overview and Scrutiny Committees, during which Members have undertaken scrutiny of the budget proposals.

4.4 Efficiency Agenda & Savings Projections

The Budget proposal for 2015/16 incorporates new service efficiencies and projected budget savings, together with an assumed salary vacancy factor of 5% of net salary budget (excluding front-line staff in Waste Services) which reflects the budget savings achieved when filling staff vacancies. A summary of the budget movements between 2014/15 and 2015/16 is provided in Appendix B.

In accordance with the Medium Term Financial Strategy, a Budget Review Group comprising of the Leader, Portfolio Holder Finance and Resources, Chief Officers and Assistant Director (Finance & Resources) has regularly met to review emerging budget proposals throughout the budget preparation period.

Forecast Outturn 2014/15

5. Appendix A shows the General Fund forecast outturn for financial year 2014/15 summarised alongside the Budget proposal for 2015/16.
6. Budget variances have been reported to Cabinet and Overview & Scrutiny Committees on a quarterly basis throughout the year. As at December 2014, the forecast shows that the Net Cost of Services is likely to be £349k below the original budget.
7. In addition, investment income is expected to be £99k more than the original budget. The average interest rate assumed in the original estimate was 0.66%. The forecast average return is estimated to be 0.73% to the end of the current financial year.
8. It is proposed that, as part of the year-end process, revenue underspends be contributed to earmarked reserves in order to fund specified expenditure in future years. Following consultation with the Budget Review Group, the current forecast outturn position assumes a £560k contribution to the Dacorum Development Reserve be made, subject to outturn, in order to fund future growth

initiatives across the Borough. Formal approval for movements in reserves will be sought from Members as part of the year-end process.

9. Throughout the year the Council has followed a budget management model involving monthly budget monitoring by Group Managers, Assistant Directors and Departmental Management Teams, supported by Financial Services. In addition there has been quarterly scrutiny by Cabinet and the Overview and Scrutiny Committees. This process has resulted in the use of virements in accordance with the Council's Financial Regulations, which have been reflected in the forecast outturn for 2014/15.
10. Following completion of the 2013/14 Statement of Accounts, the closing General Fund working balance for 2014/15 was anticipated to be £2.697m. The budget report and justification of working balance took account of an overall risk analysis to ensure that the working balance would remain sufficient in the event of a number of risks being realised. A further review of the forecast working balance for 31 March 2015 has been undertaken during the preparation of the revised estimate. The revised projection is £2.652m, subject to outturn.

Estimates 2015/16

11. The inflationary assumptions used to compile the 2015/16 estimates are set out below.

Inflation Factors	
Salary Inflation (annual pay settlement) for 2015/16	1.2%
Business Rates	2.0%
Fuel	5.0%
Utility Cost increase assumptions: Gas	0%
Electricity	0%
The Council is in a fixed price contract until 2016/17.	
Other Assumptions	
Average rate of return on Investments	0.5%
Salary Vacancy Factor	5.0%
Growth in numbers of Band D equivalent properties	1.5%

12. The salary vacancy factor for the 2014/15 budget was 5%, excluding front line staff within Waste Services. Analysis of the employee related budget undertaken during the last financial year shows that this level is appropriate. It is therefore proposed to maintain the vacancy factor at 5% for 2015/16.

Revenue Income

13. The Council receives income from a number of sources.

13.1 Government Grants

The Council receives grant income from Government, details of which are provided in paragraphs 39 - 45.

13.2 Housing Rents

Rental income received through the Council's housing stock is ring-fenced within the Housing Revenue Account (HRA) for the maintenance of existing stock and

the delivery of new buildings. Detail on the HRA budget is covered in paragraphs 58 – 65.

13.3 Investment Income

Low interest rates in recent years have led the Council to reduce its dependency on investment income as a means of financing revenue expenditure. Investment income has been further eroded as the Council has delivered a number of high value capital projects, which has reduced the capital balances, and, therefore, the balance of investable funds available. Budgeted General Fund investment income for 2015/16 is £199k, and £114k within the HRA. This assumes an average interest rate of 0.5%.

13.4 Fees and Charges

Service managers have proposed changes to fees and charges for 2015/16 as detailed in **Appendix I**.

Working Balances and Earmarked Reserves

14. The Council's Reserves Strategy is reviewed annually, and was most recently approved by Members within Section 9 of the Medium Term Financial Strategy (September 2014).
15. The Council holds two types of reserve, both of which are subject to audit by the Council's external auditors, Ernst & Young, as part of the year-end process. The two types of reserve are:
 - **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 Section 151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year. This requirement is met within Appendix M.
 - **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.
16. In line with the Council's approach in previous years, it is recommended that the **General Fund Working Balance** is maintained at a level between 5% and 15% of Net Service Expenditure. The proposed budget reduces the General Fund Working Balance to £2.5m by the end of 2015/16, which equates to 13% of the Net Cost of Services of £19.136m (as shown in Appendix A).
17. The **HRA Working Balance** is maintained by the Council at a level of not below 5% of turnover, as approved by Members as part of the MTFS Reserves Strategy. The proposed budget reduces the HRA Working Balance to £2.9m by the end of 2015/16, which equates to 5% of the £57.765m turnover (as shown in Appendix F).

18. It is recommended that Council approves the continued use of these existing parameters for the maintenance of both General Fund and HRA Working Balances.

General Fund Earmarked Reserves

19. The General Fund budget proposes a Net Cost of Service of £19.136m, as set out in Appendix A. A balanced budget has only been possible as a result of making service savings, income generation, and efficiencies, together with a net use of £898k from earmarked reserves for non-recurring items (excluding Revenue Contributions to Capital). The proposed movements of General Fund earmarked reserves in 2015/16 are as follows:

Earmarked Reserve	Net Movement £000
Civic Centre Major Repairs Reserve	200
Invest to Save Reserve	414
Management of Change Reserve	-310
Technology Reserve	-195
On Street Car Parking Reserve	-53
Local Development Framework Reserve	-350
Dacorum Development Reserve	-1,542
Planning & Regeneration Projects Reserve	-28
Vehicle Replacement Reserve	350
Tring Swimming Pool Repairs Reserve	8
Election Reserve	-159
Training & Development Reserve	-22
Housing Conditions Survey Reserve	15
Commuted Sums Reserve	-609
Funding Equalisation Reserve	1,383
Total Net Movement	-898

20. Appendix H identifies the proposed movements on General Fund Earmarked Reserves. All reserves have been reviewed during the preparation of the Budget for 2015/16, and there will be a further review of the reserves position as part of the closure of accounts process for 2014/15.

21. The justification for balances currently held by the Council within Earmarked Reserves is shown below.

- **Civic Centre Major Repairs Reserve**

This reserve was created to cover the costs arising from major repairs to civic buildings. In 2013/14, the funds held in this reserve were released as the regeneration plan for the civic centre site, at that time, involved the Council decanting into 39/41 The Marlowes during 2014. The plan is now for the Council to remain in the civic centre until moving into The Forum in January 2017. It is therefore recommended that, subject to outturn, £200k be contributed to this reserve in 2014/15 in order to finance any costs involved with maintaining the building until 2017.

- **Earmarked Grants Reserve**

This reserve has been set up for unutilised grants from current and prior years. Local authorities are free to use all of this non-ringfenced funding as

they see fit to support the delivery of local, regional and national priorities in their areas. This reserve is scheduled for further review in early 2015/16.

- **Invest to Save Reserve**

To support the one off costs associated with spend to save initiatives and investing in new ways of working. (See paragraphs 25-26, below.)

- **Management of Change Reserve**

To finance any one off costs of projects required to make improvements or significant changes to services for which no budgetary provision exists, including redundancy and pension strain payments.

With continually increasing pressure on the Council's funding streams, service transformation remains high on the Council's agenda, and this has resulted in a recommended draw down from this reserve of £310k in 2015/16 to fund various initiatives including: the corporate GIS project and additional temporary resourcing for Corporate Graduates, Health & Safety, Communication and Waste Services.

- **Technology Reserve**

This reserve was set up in 2010/11, to be utilised with the Management of Change reserve to help invest in technology improvements which will help improve efficiency and resilience.

The £195k draw down proposed for 2015/16 includes funding the one off costs for the Digital Dacorum Programme, website/sharepoint development and temporary IT resource to oversee these initiatives.

- **On Street Car Parking Reserve**

There are statutory requirements the Council must observe in relation to income derived from certain parking activities, particularly on street car parking and penalty charge notices. Any operating surplus generated from these activities is transferred to this reserve for future re-investment in parking activities.

The £53k proposed draw down in 2015/16 is to fund the planned one off expenditure for setting up additional Controlled Parking Zones.

- **Local Development Framework Reserve**

To smooth the costs associated with work on the LDF over a number of financial years rather than incur substantial expenditure in one financial year.

- **Dacorum Development Reserve**

This reserve was created in 2011/12 to support regeneration and economic development initiatives within the Borough. The planned draw down of £1.542m in 2015/16 is to contribute to the Council's capital regeneration projects (thereby avoiding borrowing costs), and £100k for the funding of the Tring Development budget.

- **Planning Enforcement & Appeals Reserve**

To meet the costs of urgent action on planning enforcement, and stabilise the financing of fluctuating annual costs of planning appeals

- **Planning and Regeneration Projects Reserve**
 This reserve is designed to meet any one-off costs associated with planning or regeneration projects. The £28k draw down proposed for 2015/16 funds one-off revenue expenditure associated with the Town Centre and Water Gardens projects.
- **Litigation Reserve**
 This reserve was set up following various claims against the Council stemming from EU rulings. This is designed to support with one off costs associated with the defence against, or settlement of such claims.
- **Vehicle Replacement Reserve**
 This reserve is designed to enable the Council to make contributions to its Capital Financing Requirement (capital shortfall), so that the on-going replacement of key items of fleet can be financed mainly from revenue, thereby reducing the costs associated with borrowing. A large proportion of the Waste Services fleet was replaced in 2014/15 as part of the reconfiguration of the service, so the full balance of £1.583 was drawn down. From 2015/16 onwards, the reserve is being replenished at a recommended £350k per year.
- **Longdean School Repairs Reserve**
 Surpluses built up in previous years to be utilised in future years to assist with repairs expenditure.
- **Tring Swimming Pool Repairs Reserve**
 To set aside income from a dual use agreement to finance repairs at Tring Sports Centre.
- **Youth Club Reserve**
 To assist with repairs expenditure and the provision of Youth Club facilities.
- **Election Reserve**
 This reserve was created to smooth the cost of Borough Elections over a four year period. A contribution of £30k per annum is made from revenue to be drawn down to fund elections on a four-year basis. The escalating costs of administering elections mean that this reserve should be considered for a further contribution at year-end, subject to outturn.
- **Uninsured Loss Reserve**
 To cover potential liabilities which are above the budgeted amount for uninsured losses, or those covered by the Council's insurance policy.
- **Training and Development Reserve**
 This reserve was created to finance specific development programmes for Council staff, and there is a planned draw down of £22k for 2015/16. This reserve complements the Management of Change reserve and ensures that Officers are able to access the training required to deliver services more efficiently.
- **Housing Conditions Survey Reserve**
 This reserve was created to smooth the costs associated with periodic Council inspections of private dwellings. The full balance of £83k was drawn down to fund a survey in 2014/15, and it is recommended that the Council

continues to contribute to this reserve at a rate of £15k per annum in order to build sufficient funds to finance the next survey.

- **Dacorum Partnership Reserve**

This reserve was funded from the Performance Reward Grant received in 2009/10, and is used towards Dacorum Partnership projects.

- **Dacorum Rent Aid and Rent Guarantee Reserves**

These reserves are to provide assistance to clients to obtain / retain accommodation.

- **The Forum Reserve (formerly known as the PSQ Reserve)**

This reserve was created to support the relocation and fit-out costs associated with the Council's move to The Forum in January 2017. The full amount is scheduled for draw down in 2016/17.

- **Funding Equalisation Reserve**

Funded through annual surpluses on the Collection Fund, this reserve was created in 2013/14 to mitigate the risk of future deficits on the Council's Collection Fund. There is a planned contribution to this reserve of £1.533m in 2015/16, arising from surpluses generated in 2015/16. (See paragraphs 49-57 for more detail.)

This contribution is offset by a proposed draw down of £150k, which represents the final year of the CSR transition, for which the Council earmarked funding in 2011/12 to smooth the impact of government funding.

- **Pensions Reserve**

This reserve was created in 2012/13 in order to fund potential costs to the Council arising from the statutory triennial reviews of the pension scheme.

- **Maylands Plus Reserve**

This reserve was created in 2013/14 to set aside surpluses generated at Maylands Business Centre for re-investment into Economic Development across the Borough. There was a £32k draw down in 2014/15 to fund the implementation of a mezzanine floor at the Business Centre, which will enable the Centre to offer office space to a larger number of start-up businesses.

Recommended closure of existing Earmarked Reserves

22. It is recommended that Council approve the closure of the S106 Commuted Sums Reserve, and that the £609k balance be released.
23. This reserve contains funds paid to the Council by developers in order to finance the ongoing costs of maintaining infrastructure that has been delivered through S106 agreements, e.g. the maintenance of a public area which has been provided and landscaped by a developer as part of a new housing development.
24. In practice, the annual cost of maintaining such areas is minimal, and as such has been paid for from service budgets rather than drawn down from this reserve. The small annual amounts and the ongoing duration of the maintenance commitment mean that it would be more cost effective for the Council to continue

paying these costs from in-year budgets than it would to continue administering this reserve.

Recommended creation of new Earmarked Reserves

25. It is recommended that Council approve the creation of a new, Invest to Save Reserve, with an opening balance of £609k. This reserve would be used to fund the up-front costs of projects that can demonstrate payback within a 5 year-period. Successful bids would require sign-off by the S151 Officer, before requesting Member approval, and the modelled savings would be removed, or income targets inserted, for the Service's future years' budgets at the point the bid was approved.
26. Creation of this reserve would enable the Council to avoid borrowing on lower value capital projects, and would continue to focus officer attention on payback considerations.
27. It is proposed that £195k is drawn down from this reserve in 2015/16 to fund a number of income-generating projects within the Cemeteries Service.

Earmarked Reserves future priority areas

28. Priority areas that Members may wish to consider for future contributions to Earmarked Reserves, subject to outturn, include:
 - Management of Change Reserve; which has been used to fund a range of transformational projects over the last few years, as the Council seeks to deliver its services more efficiently. There are a number of further projects in the pipeline, including the evolving digital agenda, including the focus on channel shift for public access to the Council's services.
 - Dacorum Development Reserve; which funds initiatives designed to stimulate growth and tourism across the Borough. This includes the funding of capital regeneration projects.

Housing Revenue Account Earmarked Reserves

29. The Council holds one Earmarked Reserve within the HRA, the Strategic Acquisitions Reserve, with a current balance of £4.030m. The justification for the reserve is to ensure that the Council has funds identified to enable it to react to opportunities for the purchase of land that may assist the Council's future new build programme. There are no movements currently proposed for this reserve in 2015/16.

Capital Reserves

30. This reserve is utilised to finance the Capital Programme. General Fund capital balances have now been fully utilised on a range of capital projects, and the balance brought forward to 2015/16 contains only receipts from the sale of HRA properties under the Right-to-Buy scheme. It is estimated that the HRA balance will be £11.7m as at 1 April 2015, and £7.5m as at 31 March 2016.
31. To enable optimal flexibility in using the Council's resources to finance the Capital Programme, it is recommended that Council authorise the funding proposals in Appendix G subject to review of the available options by the

Corporate Director (Finance & Operations), in consultation with the Portfolio Holder for Finance and Resources, during the preparation of the Statement of Accounts.

Capital Programme

32. The Capital Programme has been structured to enable delivery of the Council's Corporate Plan over the medium to long-term. Bids for funding are first assessed by members of the Capital Strategy Steering Group, which includes the Portfolio Holder for Finance and Resources, before progressing to Cabinet and Council for final approval. The Programme includes all capital schemes within both the General Fund and the Housing Revenue Account (HRA).
33. The recommended Capital Programme detailed in Appendix G includes a revised programme for 2014/15, together with a proposed 5-year programme totalling £238.259m of capital investment across the Borough.
34. Areas of major investment within the 5-year programme include:

General Fund

- £8.594m to purchase and replace fleet vehicles, plant, machinery and other equipment;
- £23.854m Asset management of community facilities including Council-owned buildings, car parks, public conveniences, cemeteries and community and sports premises. This includes £16.75m for The Forum;
- £19.586m Economic Development, Affordable Housing, Town Centre Regeneration and Growth Area schemes;
- £3.107m Investment in Information and Communications Technology, including upgrading of software systems. This investment will enable future revenue efficiencies to be achieved through customer services 'channel shift' and service transformation projects;
- £4.533m Capital grants and loans to voluntary organisations and Private Sector Housing grants (including disabled facility grants and improvement grants). It should be noted that Disabled Facility Grants are mandatory.

HRA

- £132.789m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens);
- £38.038m for the new build programme.

Financing the Capital Programme

35. The revised Capital Programme for 2014/15 includes a funding proposal as set out below. It is proposed that the final decision be made by the Corporate Director (Finance & Operations) in consultation with the Portfolio Holder for Finance and Resources during the closure of accounts process, to enable the optimal use of the Council's Capital resources.

Proposed Financing for Forecast Capital Programme 2014/15	
	£m
Major Repairs Reserve	9.561
Grants and External Funding	1.936
Capital Receipts	10.618
Revenue Contribution	17.512
Borrowing	1.866
Total Indicative Funding of Revised Capital Programme	41.493

36. Key assumptions around the Capital Programme's primary financing streams are detailed below, with a breakdown of the full financing proposals shown in Appendix G.

36.1 Major Repairs Reserve

This relates exclusively to capital expenditure within the HRA, and is funded through annual depreciation charges on the Council's housing stock.

36.2 Forecast of Capital Receipts

In accordance with the Council's Medium Term Financial Strategy, estimates of the likely Capital Receipts to be generated during 2015/16 and subsequent years have been made based on the Council's Asset Management Plan and the current economic climate. The likely level of receipts anticipated during 2015/16 is £7.4m (of which £4m will relate to General Fund and £3.4m will relate to the HRA).

36.3 Revenue Contribution to Capital

This refers to charges on revenue budgets in order to finance capital projects. £15.3m relates to revenue contributions within the HRA, with £2.2m relating to the General Fund.

36.4 Borrowing

The General Fund Capital Financing Requirement for the period of the proposed Capital Programme is forecast to be £20.4m. In the short-term, whilst detailed calculations are undertaken on borrowing and repayment options, borrowing may be undertaken internally from cash reserves.

The current planning assumption used within the budget-setting process is that borrowing costs will be 4.1% over 40 years, based on Capita forecasts for Public Works Loan Board rates. (Capita is the Council's treasury advisors, formerly known as Sector.) The capital repayment assumption is an additional 2.5% of borrowing per annum. Therefore, the total cost of borrowing, including repayment, that has been factored into this budget is 6.6%. It is probable that the true cost of borrowing will vary depending on how the Council structures its debt portfolio, and when the borrowing is taken.

Development of the optimal borrowing structure is currently being worked on by Officers in conjunction with Capita. The Treasury Management Strategy (attached in Appendix K) recommends that approval is delegated to the Corporate Director (Finance & Operations), in consultation with the Portfolio

Holder for Finance & Resources, to take out the appropriate borrowing structure, and to report back to Cabinet at the earliest opportunity.

The Borrowing Strategy and policies are set out in Section 3 of the Treasury Management Strategy, see Appendix K.

37. To ensure that the Council optimises its Capital Receipts and returns on existing assets, it is essential that all assets are kept under review in line with the Capital Strategy, Asset Management Strategy and Medium Term Financial Strategy. Therefore, Cabinet will be regularly briefed on the performance of assets and in particular non-operational assets. The briefing will identify any potential surplus assets that do not meet the Council's needs and may be considered for formal decision for disposal.

Treasury Management Strategy

38. In accordance with the requirements of the Local Government Act 2003 the Council produces an annual Treasury Management Strategy, see Appendix K. This appendix includes:
 - the reporting of prudential indicators, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Section 2);
 - the Borrowing Strategy (Section 3);
 - the Investment Strategy in accordance with CIPFA Code of Practice on Treasury Management (Section 4).

Local Government Finance Settlement 2015/16

39. There are two elements within the Local Government Finance Settlement:
 - Revenue Support Grant (RSG)
 - Business Rates Retention (BRR)
40. The provisional **Revenue Support Grant** for 2015/16 is £2.070m, a reduction of £950k from £3.017m in 2014/15. This continues the trend of reduced grant funding for the Council from Government, which was £1.9m higher in 2013/14, at £3.962m.
41. **Business Rates Retention** relates to the net amount of Business Rates that the Council estimates will be collected throughout the year. This is apportioned between Dacorum Borough Council, Hertfordshire County Council and Central Government, with the forecast Dacorum share for 2015/16 at £2.533m compared to £2.488 in 2014/15.
42. The Government's Business Rates Retention Scheme is designed to incentivise local authorities to grow their local economy by enabling them to share in the increased Business Rates income. However, the Scheme also transfers risks to local authorities through their absorbing a portion of the lost income arising from a diminishing tax base. Government has capped at 7.5% of BRR grant the income that can be lost to councils as a result of a diminishing tax base. This cap is known as the 'Safety Net'.

43. There is currently a significant backlog of Business Rates valuation appeals that have been submitted by businesses across the country, including within Dacorum. The Valuation Office (VOA), responsible for adjudicating on these appeals, is committed to clearing the backlog by July 2015. Based on historical data, there is a risk that a high number of these backlogged appeals will be upheld, and that Business Rates reductions will be granted to a sufficiently high number of businesses to reduce the Dacorum taxbase below the 7.5% Safety Net. On this basis, the 2015/16 Budget assumes that the level of Business Rates grant will be at the Safety Net level, in accordance with the estimates within the Medium Term Financial Strategy approved in September 2014.

New Homes Bonus 2015/16

44. Notification has been received of the 2015/16 allocation of New Homes Bonus. The grant is £2.611m for 2015/16, up £475k from £2.135m in 2014/15.
45. Under the terms of the New Homes Bonus, funding is awarded to local authorities based on annual housing growth. The grant relating to each year's growth is then paid to the Council annually for the subsequent six-year period. 2015/16 will be the fifth year of the New Homes Bonus Scheme, consequently the £2.611m allocation for Dacorum includes instalments relating to years 1, 2, 3, 4 and 5, of £325k, £557k, £625k, £628k, and £475k respectively.

Budget Consultation

46. During the preparation of the 2015/16 Budget, the Assistant Director (Finance & Resources) provided briefings to Town and Parish Clerks, at the Parish Council in November 2014. This was followed, in December 2014, by a briefing on the Budget to all Members at a meeting of the Joint Overview & Scrutiny Committee, which was followed by meetings of the individual Scrutiny Committees. A further Joint Scrutiny meeting was held in February 2015.
47. The Council commissioned Opinion Research Services (ORS) to arrange and facilitate a consultation forum with a representative sample of Dacorum residents. The event took place on 17 January 2015, and involved participants working in discussion groups to prioritise some broad strategic options open to the Council to address its savings targets. The full report is available on the Council's website, but a summary of the key points is shown below:

Strategic Option	Priority weighting
Council Tax Increase 1.8%	67%
Service Reductions	0
Increase Charges	12%
Something Else	21%

48. The most popular 'something else' was efficiency, with the forum emphasising that they wished the Council to pursue efficiency at all levels and in all of its activities.

Collection Fund and Council Tax 2015/16

49. The Council's Council Tax requirement is calculated as £10.467m (inclusive of parish precepts) and £9.826m (exclusive of parish precepts). The approved taxbase for 2015/16 is 54,616.34 based on a collection rate of 99.4%.
50. The income due from Council Tax goes into the Collection Fund. Throughout the year the actual number of properties (as well as allowances for exemptions, discounts or appeals) inevitably varies from the figure estimated at the start of the year. This leads to a change in the amount of Council Tax due, and therefore a surplus or deficit on the Collection Fund.
51. In 2014/15 a surplus position has arisen on the Collection Fund primarily due to an increase in the number of new properties built, coupled with a decrease in the requirement for Council Tax Support. This surplus is shared between the Major Preceptors, i.e. the County, the Police Authority and the Borough, in proportion to their precepts for the year.
52. The proportion that each of the Major Preceptors will receive from the Collection Fund when calculating the Council Tax for 2015/16 is as follows:

Dacorum Borough Council	£80,409.28
Hertfordshire County Council	£449,538.21
Hertfordshire Police	£59,557.17
Total Surplus	£589,504.66

53. Cabinet approved this Collection Fund surplus in December 2014. It is proposed that this surplus is transferred to the Funding Equalisation Reserve in order to offset possible deficits in future years.
54. The Localism Act 2011 abolished Council Tax capping in England and instead allows local residents to reverse 'excessive' Council Tax increases by means of referendum. Currently, the Government has set the local authority tax referendum threshold at 2%. This referendum threshold does not currently apply to Town and Parish Councils. The cost of holding a referendum within Dacorum is estimated to be around £80,000.

Collection Fund and Business Rates 2015/16

55. The income due from Business Rates goes into the Collection Fund. Throughout the year, changes to the actual number of businesses, as well as to the rateable value of those businesses, inevitably means that the amount of Business Rates income at the end of the year differs from the amount forecast at the start of the year. This leads to a change in the amount of Business Rates due, and therefore a surplus or deficit on the Collection Fund.
56. The variance between the amount of Business Rates income forecast and that received is particularly volatile at present due to the number of outstanding valuation appeals (see paragraphs 43 and 3.2). At the time of writing, the number of successful appeals in 2015/16 has had less of an impact on Business rates due than was anticipated at the time the budget was set, and this has resulted in a surplus of £1.4m. It is recommended that this surplus is transferred to the Funding Equalisation Reserve in order to offset future Business Rates related deficits within the Collection Fund.

57. It should be noted that there remains a high number of Business Rates valuation appeals outstanding with the Valuation Office (VoA), and appeals continue to be received in high numbers. This could result in a Business Rates deficit in future years, particularly in the short-term, as the VoA continues to work on clearing its backlog.

Housing Revenue Account 2015/16

58. The HRA 'Self-Financing' regime was introduced under the Localism Act in April 2012. It replaced the previous HRA subsidy arrangements and required the Council to make a settlement to the Government of £354.015 million.
59. The Council has a duty to budget under Section 76 of the Local Government and Housing Act 1989 'to prevent a debit balance on the HRA'. The Council sets its own target balance at 5% of total income, which for 2015/16 equates to £2.9m. The Council keeps the medium and long term funding of housing services under regular review through updates to the HRA Business Plan.

HRA Business Plan update

60. The HRA Business Plan is a thirty year plan which encompasses both the financial and service related objectives. The long-term perspective is crucial to ensure that the service and its primary asset, the housing stock, is projected to be 'fit for purpose' throughout the whole period.
61. As the business plan projects forward thirty years, there will inevitably be opportunities and pressures that are difficult to predict. However, as it forms the basis of service delivery and asset management strategy, it will be regularly updated to take account of changed circumstances, tenant and Member priorities.

HRA Financial assumptions for 2015/16

62. The HRA business plan incorporates the following financial assumptions, based on the draft 2015/16 HRA budget:

Budget	Assumptions
HRA Working Balance	Minimum 5% of turnover.
Major Repairs Reserve (MRR) Balance	Depreciation is ring-fenced to MRR. The plan does not show an increasing MRR balance because in all years planned capital expenditure exceeds depreciation, with revenue contributions to capital topping up any shortfall.
Debt financing cost	The average debt financing interest rate at point of final settlement in April 2012 was 3.30%.
Rent	For properties at Target Rent, the Business Plan assumes an annual uplift on rents of 'CPI + 1%', as per government guidance. For properties not at Target Rent, the Business Plan assumes a continuation of existing DBC policy, of an increase of 'RPI + 0.5%' plus up to £2 convergence.
RPI	3%

Interest on HRA balances	1% for years 1-5 (consistent with current returns), rising to 2.5% in years 6-10, and 3% thereafter.
New Build Programme	Year 1: 71 Properties. Year 2-5: 133 Properties. Years 6-10: 191. Years 11-30: 30 per annum.
Build cost per unit	£150,000 (incl. Land).
52 week rent per unit	£112 p/w; equal to Dacorum Borough Council average social 'Target Rent'.
General Management costs	£750 per unit, based on current stock.
Right to Buy	The model reflects an assumption of 80 RTB sales in 2015/16, with 40 sales in 2016/17, and 20 per annum thereafter.

63. Government has issued guidance on rent setting from 2015-16. The guidance advises two fundamental changes:
- Changing the annual uplift on rents from 'RPI + 0.5%', to 'CPI + 1%';
 - Ending rent convergence, i.e. the ability to increase rent by an additional factor for those tenants who are below Target Rent.
64. Whilst both changes would substantially reduce rental income to the Business Plan, removal of convergence would leave Dacorum worse affected than most LA landlords, because it is further away from achieving convergence with Target Rent.
65. Following discussions at Budget Review Group and at Housing & Community Overview & Scrutiny Committee, it is proposed that Dacorum retains its existing rent policy for those tenants below Target Rent, but implements CPI-linked rental increases for those tenants who are at Target Rent. The rent increases proposed within the recommendations to this report are based on this new rent policy.

Terms and Conditions

66. As part of Budget 2014/15, the Council introduced a Living Wage supplement for all affected employees, in accordance with the Living Wage. Council agreed to review the Living Wage annually thereafter, but did not seek accreditation thereby avoiding the loss of autonomy that might entail.
67. The Living Wage is announced each year by the Living Wage Foundation based on a calculation by the Centre for Research in Social Policy at Loughborough University. It reflects the costs of those items identified by the University's consultation groups as necessary for a minimum acceptable standard of living.
68. The current 'out of London' living wage, which would apply to the Council, was announced in November 2014 as £7.85 per hour, a 20 pence increase over the previous year. The total cost to raise all Council employees above Living Wage for 2015/16 is approximately £31k. This increase has been included within the Budget proposals.

Summary and Conclusion

69. This report sets out how the Council will provide the financial resources required to achieve its priorities during the next financial year. It assumes that planned

savings will be achieved and that the Capital Programme will be delivered on time and to budget.

70. The statement from the Chief finance Officer at Appendix M provides assurance regarding the robustness of the 2015/16 budget and the level of the Council's reserves.