AGENDA ITEM: 9

SUMMARY

`

Report for:	**Cabinet**
Date of meeting:	**12 February 2013**
	1
If Part II, reason:	

Title of report:	**BUDGET 2013/14** • Revenue Estimates 2013/14 and indicative General Fund projections for 2014/15 to 2016/17 • Capital Estimates 2013/14 to 2017/18 • Fees and Charges • Treasury Management Strategy 2013/14
Contact:	Cllr Nick Tiley, Portfolio Holder for Finance & Resources Sally Marshall, Corporate Director of Finance & Governance
Purpose of report:	To present to Cabinet, budget proposals for recommendation to Council in relation to: • Revenue and Capital Expenditure together with the potential use of reserves • The Treasury Management Strategy • The level of fees and charges for 2013/14 • Advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003 • The setting of Council Tax. This report deals with the budget proposals for Dacorum Borough Council for the financial year 2013/14. The report proposes revenue budgets for 2013/14 and indicative projections for the General Fund for 2014/15 to 2016/17 together with a 5 year capital programme to 2017/18.

Recommendations	**It is recommended that Cabinet recommend Council to:** **<u>General Fund Revenue Estimate</u>** **a) set a Dacorum Borough Council General Fund council tax requirement of £9.245m which equates to £9.838m for the combined Borough Council and Parish Councils' requirement for 2012/13 (inclusive of parish precepts of £593k);** **b) set a Dacorum Borough Council, 1.9% Council Tax increase for 2013/14;** **c) set a garage rent increase of £0.25 per week based on a chargeable 48 week year;** **d) approve the revised revenue estimate for 2012/13; original base estimate for 2013/14: and indicative budget forecasts for 2014/15 to 2016/17 as shown in Appendix A;** **e) approve and adopt the Treasury Management Strategy and Annual Investment Strategy for 2013/14 provided at Appendix Di including the approval of the:** **• Prudential Indicators in section 2** **• Authorised Limits for external debt in section 3.2** **• The borrowing strategy, indicators and limits contained in section 3.4** **• The annual investment strategy, indicators and limits set out in section 4** **• The use of the Investment Instruments listed in Appendix 5.3 of Appendix D** **• Treasury Management Principles & Practices (Appendix Dii)** **f) approve increases in Fees and Charges for 2013/14 (in accordance with the Council's Fees and Charges Strategy) and as set out in Appendix E; (please see the website for large print)** **g) approve the forecast balances of Revenue Reserves as shown in Appendix Aiii;** **h) note that this budget paper, when approved by Council, will form part of the Medium Term Financial Strategy.**

	<u>Capital Programme</u> **i) approve the revised Capital Programme for 2012/13 and Programme for 2013/14 to 2017/18 detailed in Appendix B;** **j) authorise the funding proposals subject to an annual review of the financing options by the Corporate Director of Finance and Governance, in consultation with the Portfolio Holder for Finance and Resources, during the preparation of the Statement of Accounts to optimise the use of Council resources.** **<u>Housing Revenue Account (HRA)</u>** **k) set dwelling rent increases in accordance with Government guideline rent increase and rent convergence principles, resulting in an average increase of 4.35% (a maximum increase of 5.98%), providing an average rent of £96.25 per week (based on 52 weeks);** **l) approve the HRA revised estimate for 2012/13 and base estimate for 2013/14 as shown in Appendix C.**
Corporate objectives:	Balancing the books
Implications: 'Value For Money Implications'	<u>Financial & Value for Money</u> Contained within the body of the report
Risk Implications	Budget Risk Assessment completed within report (Appendix H)
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	**Monitoring Officer:** 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. **S.151 Officer** Comments contained in body of report. Chief Finance Officer Statement contained in section 14 of the Report
Consultees:	Corporate Management Team Group Managers Community and Public Staff
Background papers:	Local Government Finance Report (England) 2013/14

1. BACKGROUND

1.1 The 2013/14 Budget and indicative budget projections for 2014/15 to 2016/17 have been drawn up to take account of the Council's various strategies and policies, in particular:

- The Corporate Plan
- The Council's Vision and priorities
- The Medium Term Financial Strategy (MTFS) as revised September 2012
- Service strategies and plans.

In addition the Budget has taken account of the impact of:

- The Government's Comprehensive Spending Review 2010 (CSR10)
- The Local Government Finance Settlement for 2013/14 and provisional settlement for 2014/15.
- The HRA Item 8 Credit and Debit Determinations for 2012 onwards.
- Budget Consultation, including:
    - Town and Parish Council liaison during the budget cycle
    - Overview and Scrutiny Committee feedback during the budget cycle
    - Social media
    - Budget Consultation event
    - Dacorum Listening Days

The budget has been prepared on the basis that the Council maintains a sustainable Revenue Budget.

1.2 The Budget has been presented based on Overview and Scrutiny responsibilities. Also the budget has been analysed in accordance with CIPFA standard classification for ease of reading.

2 ACCOUNTING REQUIREMENTS AND EXTERNAL FACTORS AFFECTING THE BUDGET

2.1 <u>Capital Charges</u>

Where Services benefit from the use of assets, the Revenue expenditure includes a charge for the use of the capital in line with standard accounting practices. There is corresponding credit shown in the General Fund summary (Appendix Ai). A rolling programme of valuations is undertaken by the valuer to the Council to keep the asset register up to date. Any change in the use of assets, or revised valuation, or additional Capital Expenditure will affect the capital charge made to the Revenue Budget.

2.2 Prudential Code

The Council complies with the Prudential Code for controlling Local Government Capital Finance. 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 prudency, affordability and sustainability
- The Local Authority is accountable for decisions made
- It supports local strategic planning, local asset management planning and proper option appraisal.

The Council's current Financial Planning Systems demonstrate the affordability of the Capital Programme and the 2013/14 estimates have been prepared in the context of these plans and controls.

2.3 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 Working Group; Cabinet; Corporate Management Team; Corporate Directors with Assistant Directors and Group Managers. In addition, there has been a combined briefing of Overview and Scrutiny Committees. Overview and Scrutiny Committees have undertaken scrutiny of the budget proposals.

2.4 Efficiency Agenda & Savings Projections

The attached budget for 2012/13 incorporates new service efficiencies and projected budget savings, together with an assumed Salary vacancy factor (other than within waste and grounds maintenance services) of 5% of net salary budget to reflect the budget savings achieved when filling staff vacancies. A summary reconciliation of the budget movements is provided as part of Appendix F.

The salary budgets have also been prepared using Zero Based Budget principles with budgets being aligned to the Council's directorate structure charts.

In accordance with the Medium Term Financial Strategy, a Budget Review Group comprising of the Leader, Portfolio Holder Finance and

Resources, Portfolio Holder Improvement, Chief Officers and Group Manager Financial Services has regularly met to review emerging budget and savings proposals throughout the budget preparation period.

2.5 National Local Government Finance Settlement

On 19 December 2012 the Secretary of State for Communities and Local Government made a statement to the House of Commons concerning the provisional local government finance settlement for 2013/14. On 4 February 2013 the Secretary of State confirmed details of the Local Government Finance Settlement for 2013/14. An announcement was also made regarding Revenue Support Grant for 2014/15.

The Secretary of State announced that local authorities will face an average reduction in spending power of 1.7%; and that no local authority would experience a decrease of more that 8.8%. As in the last two years, the government focus is on comparative figures concerning a local authority's "revenue spending power", the definition of which encompasses the Council's:

- Council Tax Requirement (the amount generated from Council Tax)
- Start-up funding assessment
- Specific grants.

The Secretary of State also announced:

- Local Government will be exempt from the 1% reduction in funding for 2013/14 announced in the Autumn Statement 2012.
- Confirmation of the previously announced council tax freeze grant offer (an amount equivalent to a 1% increase in funding for 2013/14 and 2014/15 for a 0% council tax increase in 2013/14 and up to a 2% increase being allowed before a referendum is required.

The 2013/14 provisional finance settlement sees the launch of the Business Rates Retention (BRR) scheme as the principle form of local government funding. For 2013/14 the provisional settlement provides Councils with a combination of provisional grant allocations and their respective starting points within the BRR scheme.

The total expected national business rate income is £26.3bn. The total amount deducted before arriving at the 50% split between the central and local shares is £4.5bn resulting in an estimated business rates aggregate for councils of £21.8bn. The local share is 50% of this or £10.9bn.

The Start-Up funding assessment has been announced the following table illustrates how this compares with 2012/13:

	2013/14 £bn	% change	2014/15 £bn	% change
Local Share of Business Rates	10.899		11.233	3.1%
Revenue Support Grant	15.203		12.624	-17.0%
Start up Funding Allocation	26.101	-4%	23.856	-8.6%

The start-up funding allocation has decreased by 3.9% on a like for like basis. For 2014/15 the decrease is substantially larger at 8.6%. However, this takes into account growth in the local share in line with RPI so that Revenue Support Grant reduces by 17%.

The table below sets out the damping arrangements for formula grant in 2013/14. This relates to formula funding. The gap between the bands has been increased from 1% to 2%.

	Education/ Social Services	Shire Districts	Police	Fire
Single Floor			1.6%	
Band 1 most dependent	-2.7%	-5.4%		-8.7%
Band 2	-4.7%	-7.4%		-9.2%
Band 3	-6.7%	-9.4%		-11.7%
Band 4 least dependent	-8.7%	-11.4%		

Provisional amounts for the New Homes bonus for 2013/14 have already been announced by CLG, a total of £661m compared to £431m in 2012/13. This will be funded through £250m in specific grant with the rest being top sliced from formula funding. The £500m top slice taken from formula funding in 2013/14 is £89m more than will be required; the balance will be returned to local government in proportion to the start up funding allocation.

The provisional settlement for Dacorum is summarised as set out below. The final settlement is due to be debated in Parliament in February.

	Adj Base 2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Total Formula Grant	7.961	6.673	**5.852	5.255
Decrease in Formula Grant based on adjusted base		1.288	0.769	0.597
% decrease in Formula Grant		-16.2%	-11.6% *	-10.2%

* Comparison with Adjusted Base 2011/12 £6,620,470

** Adjusted Formula Grant (excluding Council Tax Freeze Grant)

In a written statement on 4 February 2013, the Secretary of State has stated that he has "decided to broadly confirm the proposals for the settlement for 2013/14 as announced in December, after making some minor technical changes following representations during consultation". There have been no material changes to Dacorum Borough Council's settlement.

A more detailed analysis of the Formula and Specific Grant position is provided in section 10 of this report.

3. REVISED ESTIMATE – 2012/13

3.1 Projected outturn of the General Fund for financial year 2012/13 is summarised in the following table:

Agenda Item 9
Page **9** of **42**

Comparison of original estimate and revised estimate for 2012/13

	2012/13 Original Budget £'000	2012/13 Revised Budget £'000	Variation £'000
Strategic Planning and Environment	10,304	10,006	(298)
Finance and Resources	7,414	6,902	(512)
Housing and Community	4,722	4,895	173
Cost Of Services	22,440	21,803	(637)
Less:			
Interest Receipts	(500)	(680)	(180)
Reversal of Capital Charges	(4008)	(3,912)	96
Other Government Grants	(886)	(1,138)	(252)
Revenue Contributions to Capital	1,637	717	(920)
Council Tax Grant (zero increase)	(252)	0	252
Exceptional items			
Net Movement on Earmarked Reserves	(2,157)	(1,703)	454
Net Exp Prior to use of General Fund Balance	16,274	15,087	(1,187)
Contributions (From)/ To Working Balance	(254)	932	1,186
Budget Requirement General Fund	16,020	16,019	(1)
Parish Precepts	618	618	0
Budget Requirement Including Parishes	16,638	16,637	(1)
Revenue Support Grant	(116)	(116)	0
Baseline Funding	(5,985)	(5,985)	0
Business Rates Share over Baseline Funding	0	0	0
Collection Fund Deficit	76	77	1
Net Expenditure Including Parishes	10,613	10,613	0
Demand on the Collection Fund	(10,613)	(10,613)	0
General Fund Working Balance B/F	(2,854)	(2,680)	174
In year use/(Contribution)	254	(932)	(1,186)
Proposed Contribution to Reserves (subject to Outturn)	0	940	940
Balance C/F	(2600)	(2,672)	(72)

3.2 Budget variances have been reported to Cabinet and Overview & Scrutiny Committees.

3.3 Current revenue projections to the end of the financial year show that net service expenditure is likely to be £ £637 below the original budget. This is as a result of vacancy management, accounting adjustments relating to prior year provisions, reductions in charges for audit and banking services combined with net improvements in earned income (primarily land charges and car parking)..

3.4 In addition, Investment income is expected to be £180k more than the original estimate. The average interest rate assumed in the original estimate was 1.1%. The forecast average return is estimated to remain at 1.05% to the end of the current financial year. The £180k variance is due to changes in balances and amended spend profile on the capital programme during the year.

3.6 In view of the anticipated lower level of net expenditure compared to the original budget, it is proposed that during the closure of accounts process £940k be contributed to earmarked reserves to support the need for future investment in service priorities and the achieve the Councils Corporate Objectives

Contribution To	Reason	£K
Local Development Framework Reserve		90
Management of Change Reserve	To mitigate the impact of needing to invest in service transformation in the short to medium term to deliver longer term savings	300
Redundancy Reserve	To mitigate the impact on annual revenue expenditure of any future redundancy requirements arising from future savings requirements	250
Vehicle Replacement Reserve	To part finance the Council's future vehicle fleet replacement programme to reduce the call on future capital reserves	300
		940

3.7 During the year budget management has been undertaken, specifically monthly budget monitoring by Group Managers, Departmental Management Teams and Cabinet, supported by

Financial Services, with scrutiny by the Overview and Scrutiny Committees. This has resulted in the use of virements in accordance with the Council's Financial Regulations; these have been reflected in the revised estimate base for 2012/13 shown above. During the year the following supplementary estimates were approved:

General Fund

29/05/2012	A supplementary estimate for 2012/13 of £112.5k for the establishment of an Apprenticeships Scheme at the Council drawn from the Management of Change Reserve.
26/06/2012	A supplementary expenditure estimate of £50k for the implementation of service improvement initiatives in preparation for the introduction of Localised Council Tax Support, changes to Local Government Finance, transition to Universal Credit and the creation of a single Fraud Investigation Service to be drawn from the Management of Change Reserve.
18/09/2012	A supplementary estimate for £302.5k for consultancy costs and external data hosting costs arising from recommendations of the ICT service review, to be drawn from the Management of Change Reserve

3.8 When the 2012/13 budget was set it was anticipated that the closing balance would be £2.600m. 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. The closing balance was reviewed as part of the closure of accounts for 2011/12 and the working balance was revised to £2.680m. A further review of the projected working balance for 31 March 2013 has been undertaken during the preparation of the revised estimate. The revised projection is £3.612m subject to outturn. This will reduce to £2.672m after making £0.94m contribution to earmarked reserves shown above. This position will be kept under review during the closure of accounts for 2012/13.

4. ESTIMATES 2013/14

4.1 The budget assumptions used in compiling the 2013/14 estimates are set out below:

Inflation Factors	
Salary Inflation (annual pay settlement) for 2013/14	1.0%
Consumer Price Index (Sep 2012)	2.2%
Retail Price Index (Dec 2011)	2.6%
Business Rates	5.0.%

Fuel	7.5%
Utility Cost increase assumptions – Gas Electricity	7.5% 7.5%
Other Assumptions	
Average rate of return on Investments	0.8%
Salary Vacancy Factor (other than Waste & grounds maintenance)	5.0%
Growth in numbers of Band D equivalent properties	0.33%

4.2 Analysis of changes to base budget and budget pressures

The budget proposes a net cost of service expenditure of £21.666 m broken down by Service themes as follows:

Summary of Net General Fund Service Expenditure

	2012/13 Original Budget £	**2013/14 Original Budget £**	**Variation £**
Strategic Planning & Environment	10,304	10,098	(206)
Finance & Resources	7,414	7,174	(240)
Housing and Community	4,722	4,394	(328)
Cost Of Services	22,440	21,666	(774)
Less:			
Interest Receipts	(500)	(374)	126
Reversal of Capital Charges	(4,008)	(4,133)	(125)
Other Government Grants	(886)	(1,500)	(614)
Revenue Contributions to Capital	1,637	1,615	(22)
Council Tax Grant (zero increase)	(252)	0	252
Net movement on Earmarked Reserves	(2,157)	(902)	1,255
Net Exp Prior to use of General Fund Balance	16,274	16,372	98
Contributions From Working Balance	(254)	(172)	82
Budget Requirement General Fund	16,020	16,200	180
Parish Precepts	618	593	250
Budget Requirement Including Parishes	16,638	16,818	180
Formula Grant/Baseline Funding	(6,101)	(6,990)	(889)
Collection Fund Deficit	76	35	(41)

Net Expenditure Including Parishes/Council Tax Requirement (inc. Parishes)	10,613	9,838	(775)
Demand on the Collection Fund	(10,613)	(9,838)	775
General Fund Working Balance B/F	(2,854)	(2,672)*	182
In year use	254	172	(82)
Balance C/F	(2,600)	(2,500)	100

Assumes contribution to earmarked reserves as part of closure of accounts process as set out in paragraph 3.6 together with provision for additional contributions to reserves based on target working balance of £2.5m.

The effects of the current economic situation have continued to present budget pressures for the Council when preparing a balanced budget. In particular, the continued impact of reduced investment earnings capacity since 2009 has affected the Council's revenue budgets (both General Fund and HRA). Based on current interest rate projections, an investment income of £374k has been assumed for the General Fund in 2013/14. Investment rates are not anticipated to increase during 2013/14. (Further details of the Council's Investment Strategy are contained in Appendix D to this report).

A balanced budget has only been possible as a result of making service savings, income generation and efficiencies together with the use of £2.977m from earmarked reserves for non-recurring items (excluding revenue contributions to capital) and £172k from working balances. Current and future resources continue to be tight, reflecting the fact that the main income streams for the Council: Government Grant, Specific Grant, Fees and Charges, Investment Income and Council Tax are, and are likely to continue, to be constrained, at a time when ambitions and customer expectations are increasing.

In particular there are a number of key issues addressed within the 2013/14 budget:

4.2.1 The proposed budget incorporates the second of a two year funding initiative for one-off items funded from earmarked reserves as approved in the 2012/13 budget. These also include funding for initiatives targeted at providing stimulating growth in the local economy:

- Maylands – promotion of economic development – £150k per annum for the second of a two year project

- Tourism and reputation development - £100k per annum for the second of a two year project

- Public Service Quarter – second year funding of £500k for project development work

4.2.2. Appendix F provides a reconciliation of the key budget changes, which also includes an increase of the vacancy management factor to 5%; review of income from commercial activities; proposed structure reviews; increased income from statutory fees; and service efficiency reviews.

4.2.3 It has also been possible to continue to retain the budget for the Council's contribution for Police Community Support Officers.

4.2.4 **General Salary inflation of 1.0%** has been assumed, taking account of the Chancellor's Autumn Statement in December 2012. This is in line with the projections in the MTFS

4.2.5 **Pension Fund** – In February 2011 the Council adopted a stabilised approach for future contribution rates following the 2010 triennial review of the Pension Fund. This approach will result in an annual contribution rate increase or decrease of 1% per annum from 1 April 2011. The Council's rate will increase by 1% per annum until the outcome of the next triennial review. This has resulted in the following contribution rates:

Certified rates for year ending	Contribution Rate
31 March 2012	16% of payroll (future service rate) plus £1.624 million (past service adjustment)
31 March 2013	16% of payroll (future services rate) plus £1.783 million (past service adjustment)
31 March 2014	16% of payroll (future service rate) plus £1.943 million (past service adjustment)

4.2.8 **Utility cost inflation** – Inflation for utility charges has been included at 7.5% in line with the Medium Term Financial Strategy.

4.2.9 **Salary vacancy factor** - The salary vacancy factor was reduced to 2% for the 2011/12 budget. Trend analysis of the employee related budget has been undertaken during the last financial year. It is proposed that the vacancy factor is reinstated at 5% taking account of the results of the analysis. This proposal has been incorporated into the preparation of the 2013/14 budget.

4.3 In preparing the Budget proposals, the use of and contributions to reserves have been taken into account. There is a net use of reserves of £0.9m. The proposed net movement of specific general fund revenue reserves are as follows:-

General Fund	Net Movement 2013/14
	£'000
Management of Change Reserve	-176
Technology Reserve	-50
CSR Transitional Reserve	-200
Car Parks Commuted Sum Reserve	-258
Local Development Framework Reserve	-71
Dacorum Development Programme Reserve	200
Vehicle Replacement Reserve	-502
Tring Swimming Pool Reserve	8
Election Reserve	30
VAT Reserve	-450
Training & Development Reserve	-40
Housing Conditions Survey Reserve	15
PSQ Reserve	200
Business Rates Equalisation Reserve	392
Total Earmarked Reserves	**-902**

It should be noted that it is proposed that the General Fund working balance (based on target minimum balance of £2.5m) will be maintained at around 11% of net cost of service.

A summary of the movement of Reserves is attached to this report at Appendix Aiii.

The budget assumptions result in a net Council Tax requirement of £9.245 million or £9.838 million including parish precepts.

4.4 Budget Performance Monitoring

Monthly monitoring and management of Service budgets will continue to be undertaken by Group Managers with dedicated and focused support from Financial Services. The monthly summary financial reports to the Corporate Management Team will continue. The quarterly budget performance monitoring reports to Cabinet with scrutiny undertaken quarterly by the Overview and Scrutiny Committees will also continue.

5 GENERAL FUND INCOME

5.1 Investment Income

Historically, the Council has received a significant income stream from investments by utilising the Council's "negative capital financing requirement" and historically achieving relatively high levels of capital receipts from the sale of surplus land/assets and from housing "right to buy" sales.

However, since the autumn of 2008, bank base rates have reduced significantly to 0.5% where they have remained to date. This factor, together with the tighter Treasury Management guidance and the change in banking organisation structure have resulted in continued lower investment returns throughout 2009/10, 2010/11, 2011/12 and 2012/13. The Council has received analysts' forward predictions on the level of base rates for 2013/14 which indicate that the rate is not likely to increase before quarter 1 of 2015; this will be kept under review.

The Council has reduced its dependency on investment income to support the revenue budget over the past six years.

The amount of investment income included in the General Fund revenue budget for 2013/14 is £374k in total based on an average interest rate of 0.8%.

5.2 Fees and Charges

Managers have been requested to propose fees and charges in accordance with the Council's Fees and Charges Strategy.

The budget projections for 2013/14 have been reviewed and rebased to reflect the impact of the current economic climate. The projections will need to continue to be monitored to ensure that budgets remain sustainable.

Statutory Planning fees for development control activity have historically been set by the Government and were last reviewed in April 2008. Government consulted on decentralising the responsibility for setting fees to local planning authorities in November 2010.

In autumn 2012 the Government confirmed that it would not be progressing with proposals for decentralising the setting of planning fees. Instead the Government announced an increase in the statutory fee rate effective from November 2012. A full year impact of this increase in fees is estimated at £80,000 for 2013/14. This has been incorporated into the base budget for 2013/14.

Income from Land Charges will need to continue to be kept under review to take account of the impact of Environmental Information Regulations and demand for the service.

5.3 Government Grants

The Council receives funding from the Government by way of Revenue Support Grant and Baseline Funding. Full details of these funding streams are provided in Section 10.

6 CAPITAL PROGRAMME

6.1 The recommended Capital Programme (Appendix B) provides a revised estimate for 2012/13 together with a further 5 year programme to 2017/18.

6.2 The Programme has been compiled based on the Council's Corporate Plan and Priorities and Asset Management Plan and in accordance with the Council's Capital Strategy. Bids for the Capital Programme have been assessed by members of the Capital Strategy Steering Group, which includes the Portfolio Holder for Finance and Resources. The Programme comprises both General Fund and Housing Revenue Account (HRA) Schemes.

6.3 <u>Revised Programme 2012/13</u>

A revised Capital Programme for 2012/13 is submitted as part of this budget process for approval by Council.

	Original Est 2012/13 £m	Revised Est 2012/13 £m
General Fund	19.030	11.174
Housing Revenue Account	16.696	20.685
Total Capital Programme	**35.726**	**31.859**

* Incorporates approved slippage from 2011/12.

Group Managers have been asked to critically review their capital spend estimates as part of the preparation of the revised capital programme. This has resulted in the identification of a rephasing requirement of £5.9m on the General Fund and £1.3m on the HRA into future financial years. Comparing the actual spend to date with the revised estimate for 2012/13 it is likely that the programme may not be fully delivered, this should be kept under scrutiny by Members and Managers in an effort to ensure the efficient delivery of the programme and mitigate the risk to the Treasury Management Strategy.

<u>Proposed Funding of the Revised Programme</u>

The amended programme also includes a funding proposal as set out below. It is proposed that the final decision be made by the Corporate Director (Finance & Governance) 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 Revised Capital Programme 2012/13	
	£m
Major Repairs Reserve	13.491
Grants and External Funding	2.400
S106 agreement funding	0.201
Capital Receipts and use of Negative CFR	15.037
Revenue Contribution	0.730
Total Indicative Funding of Revised Capital Programme	**31.8459**

6.4 Five Year Capital Programme 2013/14 to 2017/18

The proposed five year capital programme provides for a total programme of £165.497 million capital investment, split between General Fund £50.102 million and HRA £115.395 million.

Key areas to note in relation to the five year programme include:

HRA

6.4.1 The capital programme includes provision for:

6.4.2 £94.543m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens).

6.4.3 £14.988m for the new build programme..

6.4.4 £5.864m repayment of borrowing taken on upon the introduction of self-financing.

General Fund

6.4.5 The capital programme includes provision for:

6.4.6 £7.760m to purchase and replace fleet vehicles, plant, machinery and other equipment. Financing for vehicle replacement is managed through the Vehicle Replacement reserve with additional contributions from capital as necessary.

6.4.7 £21.289m Asset management of community facilities including council-owned buildings, car parks, public conveniences and community and sports premises.

6.4.8 £12.430m Economic Development, affordable Housing, Town Centre Regeneration and growth area schemes.

6.4.9 £1.756m Investment in Information and Communications Technology, including upgrading of software systems has been included. It is anticipated that this section of the 5 year capital programme will need to be reviewed to incorporate additional ICT investment. This investment will enable future revenue efficiencies to be achieved through customer services ‘channel shift’ and service transformation projects.

6.4.10 £2.619m Capital provision for infrastructure (transport, bridges and parking).

6.4.11 £4.248m 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.

Proposed method of financing the Capital Programme

6.5 The Capital Programme also identifies the proposed method of financing the Capital Programme, which will be reviewed by the Corporate Director (Finance and Governance) when preparing the Statement of Accounts for each financial year, to enable the most effective form of financing to be adopted by the Council. Members will note that there will be an estimated requirement to borrow in 2014/15 to finance the 5 year capital programme.

6.6 Forecast of Capital Receipts

In accordance with the Council's Medium Term Financial Strategy, estimates of the likely Capital Receipts to be generated during 2013/14 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 2013/14 is £10.432m (of which £5.5m will relate to General Fund and £4.932m will relate to the HRA).

6.7 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 Plan 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 Council needs and may be considered for formal decision for disposal. A further revision to the Asset Management Plan and asset disposal strategy will be presented to Cabinet during 2013.

7 TREASURY MANAGEMENT AND INVESTMENT STRATEGY

7.1 In accordance with the requirements of the Local Government Act 2003 a Treasury Management Strategy is provided within Appendix Di. This appendix includes:

- the reporting requirements of prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Section 2 of appendix Di)
- the Investment Strategy in accordance with CIPFA Code of Practice on Treasury Management (Section 4 of Appendix Di)
- the Borrowing Strategy (section 3 of Appendix Di)
- Investment Instruments (appendix 5.3 of Appendix Di)

7.2 The Strategy recommends that the Council:

- adopt the Treasury Management Strategy, Borrowing Strategy and Annual Investment Strategy for 2013/14. In so doing, the council will adopt the CIPFA Code of Practice for Treasury Management (2011).
- agrees the use of the Investment Instruments listed in Appendix 5.3 of Appendix Di

- Approve the Treasury Management Principles & Practices (Appendix Dii)

8 RESERVES AND PROVISIONS

8.1 The Local Government Act 2003 requires the Chief Financial Officer (Section 151 officer) to report on the adequacy of financial reserves when consideration is given to the General Fund budget requirement for the year. Under the Local Government Finance Act 1988, all balances held by the Council are at the direct disposal of the General Fund with the exception of the Housing Revenue Account balance, the Collection Fund or any funds held in trust. A statement showing the forecast balances of revenue and capital reserves is provided at Appendix Aiii.

8.2 Justification of balances

The **General Fund balance** comprises two elements: the working balance and an amount held as a contingency against unforeseen events. A working balance is required so that the Council has sufficient funds available to meet its cash flow requirements. Best practice suggests that the General Fund balance should be maintained at between 4% to 5% of gross turnover or 10% to 15% of net expenditure to provide adequate cover for any unanticipated expenditure or loss of income that may occur over the course of the financial year. The forecast of revenue balance reflects the Council's policy of maintaining the General Fund balance at 5% to 15% of net service expenditure.

Subject to outturn for 2012/13 it is anticipated that there is likely to be an additional resource of £940k available for further contributions to earmarked reserves, this would enable the working balance at the start of 2013/14 to be £2.6m.

The budget has been prepared on the basis of the minimum working balance of £2.5m, this allows for sufficient cover for the budget risks/pressures identified within Section 14 of this report; the proposals in paragraph 4.2.1 which may require a supplementary estimate in year to be financed from working balances within the scope of the minimum balance of £2.5m recommended in the revised Medium Term Financial Strategy approved in September 2012.

Based on a target working balance of £2.5m at the end of the financial year, this would be equivalent to 11% of the net cost of service expenditure for 2014/15.

The budget provides for the balance to be reduced to £2.4m in 2014/15 which equates to 10.5% of the forecasted net cost of service for 2015/16. This will ensure that the Council adheres to its General Fund balance policy and provides a sustainable budget base for future years. This will continue to be kept under review to take account of the delivery of efficiencies/savings during the year, the outcome of the comprehensive spending review, and review of risks during the year.

8.3 Appendix Aiii identifies the proposed movements on General Fund Revenue Reserves. All of these reserves have been reviewed during the preparation of the budgets for 2013/14. There will be a further review of the reserves position as part of the closure of accounts process for 2012/13. However, members' attention is drawn to the following:

- **Management of Change Reserve** –This is a key reserve to help facilitate future opportunities for savings and efficiencies, by providing one-off "invest to save" funding. It is anticipated that the closing balance on this reserve will be £1.121m on 31 March 2013. With a further planned £176k use of the reserve in 2013/14 leaving a balance as at 31/3/14 of £945k. The Government are currently undertaking spending review to be implemented in 2015/16. It is anticipated that there will be further reductions in Public Sector Funding. The Council needs to continue to be able to respond to these challenges and have the ability to finance change initiatives. Therefore, it is essential that this reserve be maintained and utilised to finance one-off costs associated with undertaking feasibility and preparation for alternative methods of service provision such as the Shared Service/Outsourcing; and new ways of working. This reserve will be kept under review as savings proposals for future financial years are developed and it is likely that it will be necessary to utilise the reserve to support a supplementary estimate during the year. This position will be reviewed during the closure of accounts for 2012/13.

- **Redundancy Reserve** – the Redundancy Reserve has been held to help protect the General Fund from the one off impact of redundancy costs. This is important when the Council is reviewing options for future service delivery and savings proposals which may be required as a result of the outcome of the Spending Review currently underway. A review of this reserve has been undertaken as part of the revised estimate process. There is currently no planned use of this reserve during 2012/13, but this position will be reviewed as part of the final outturn position. It is likely that it will be necessary to seek a supplementary estimate for costs occurring during 2013/14 which will require financing from this reserve. In the event that this is required, a further review of the adequacy of this reserve will be undertaken during the closure of accounts for 2012/13.

- **Local Development Framework Reserve** – Planned use of this reserve during 2012/13 and 2013/14 will result in the reserve being reduced to £320k. A review during the closure of accounts process will consider the extent of the top up required to provide a sustainable resource to enable the impact of local development framework work to be smoothed over the next five years. As there are no further planned commitments against the Planning Delivery Grant Reserve; the estimate proposals have been prepared on the basis that the balance on the PDG reserve be transferred to the LDF reserve as part of the closure of accounts process to top up the LDF reserve. In addition, consideration should be given to utilising part of any future allocations received from the New Homes Bonus, as the planning process is key to delivery of new homes. In addition, consideration will be given to topping up this reserve as part of the closure of accounts process if resources are available.

- **Local Land Charges Reserve** – The balance on this reserve is projected to be £214k subject to the outturn of the revenue account. This should be kept under review in light of any development arising from the Environmental Information Regulations.

- **Vehicle Replacement Reserve** – A contribution of £350k was budgeted for in 2012/13. There is also a planned use of £547k drawdown from this reserve in the current financial year, which would leave a remaining balance of £514k. The draft budget identifies a proposed contribution of £350k for 2013/14 and a drawdown of £852k in 2012/13, leaving a projected balance of just £12k; therefore, there is an urgent need to top this reserve up to help smooth the impact of capital purchases and opportunities in the short to medium term. It is recommended that this reserve should be the first to be topped up as part of the closure of accounts process, to avoid the need to draw down on capital resources.

- **Planning Reserves** – There are 3 planning reserves: the Planning Delivery Grant Reserve, the Planning Enforcement and Appeals Reserve and the Planning Project Implementation reserve.

  As referred to above there is no planned forward use or commitment of the Planning Delivery Grant Reserve, therefore it is proposed that this reserve be closed and transferred to the Local Development Framework Reserve.

  The Planning Enforcement and Appeals Reserve is available to help smooth the impact on the General Fund of any appeals related costs or enforcement action and should therefore be maintained.

  The Planning and Regeneration Project Reserve provides one-off revenue funding for either planning and regeneration projects which will help provide further efficiencies within these related services, or provide revenue finance for feasibility studies related to regeneration. The estimated remaining balance at 31 March 2013 is £76k. Any application for use of the reserve in the financial year 2013/14 will be subject to a supplementary estimate to be financed by the reserve.

- The **Discretionary Travel Reserve** was created to finance the provision of a transitional discretionary taxi voucher scheme for existing scheme users for a maximum of two years commencing in 2011/12. The final year of the transitional scheme is 2012/13. The reserve will be closed during the closure of accounts process for 2012/13.

- A **Technology Reserve** was created as part of the closure of accounts for 2010/11 to support one-off investment in technology requirements to improve efficiency and resilience, and to support preparation for Shared Services/Outsourcing initiatives as required. An initial review of Information Technology was undertaken and further work has been ongoing in this area. The estimated balance at 31 March 2014 is £665k. However, as projects linked to the Dacorum Anywhere and Public Service Quarter are developed further it is anticipated that there will be a need for a further draw down on this reserve during 2013/14. In the event that is necessary a supplementary estimate approval would be required.

- A **CSR Transitional Reserve** was created during the closure of accounts for 2010/11 to mitigate the impact of the CSR and Local Government Finance Settlement. There is a proposed phased draw down of this reserve in line with the approved MTFS over the four financial years commencing in 2012/13. This will enable the Council to smooth the overall targeted budget savings set out in the Medium Term Financial Strategy. The projected balance remaining at 31 March 2014 is £350k.

- Any annual surpluses from the chargeable element of Building Control activities are set aside in the **Building Control Reserve** and used to finance service improvements and offset any future deficits. There is currently a zero balance on this reserve and it is estimated that this will remain as at 31 March 2014. However, this position will be reviewed during the closure of accounts process.

- There is currently no planned use of the **Civic Centre Major Repairs Reserve** during 2013/14 therefore the remaining balance as at 31 March 2014 will be £348k. This reserve will be kept under review and may provide finance for any works related to the decommissioning of the Civic Centre or the decant in preparation to the move to the Public Service Quarter building.

- It is proposed that the **Uninsured Loss Reserve** is kept under review as part of the closure of accounts process. It is currently estimated that subject to outturn the balance remaining on this reserve on 31st March 2014 will be £700k.

- The **VAT Reserve t**he balance brought forward on 1st April 2012 was £3.484m. There has not been any challenge on the basis of previously settled claims. When the budget was prepared for 2012/13 it was considered that it would be prudent to release up to a £1m from this reserve to General Fund balances to finance elements of one-off expenditure phased over the two financial years 2012/13 and 2013/14 leaving a reserve balance of £2.484m.

It is not clear whether the Council will receive a challenge from Trade Waste Operators. Therefore, it was proposed that the net sum received from the Trade Waste case be transferred to the VAT reserve. A further review of the risk of challenge will be undertaken as part of the closure of accounts process.

- **Business Rate Equalisation Reserve –** The attached budget recommends the creation of a new earmarked reserve to provide the Council with a reserve to smooth the impact for future deficits and surpluses on the Business Rate collection fund, as the Council will be responsible for the future business rate risks and opportunities. The current estimated level of financial risk the Council would need to accommodate before the safety net payment mechanism would kick in is around £200k.

8.4 **HRA Major Repairs Reserve (MRR)** – Under the existing housing finance system, councils must put some of their income each year into the "Major Repairs Reserve" (MRR). This can only be used on major repairs or on repaying housing debt; this is to ensure that Councils make appropriate provision for capital works. Under Self Financing, it will be even more important that Councils set aside this money. The Government therefore retained the principles of the MRR.

The amount to be paid into the MRR is now drawn from a local assessment of capital spending needs. The figure is based on setting aside for depreciation, namely the cost of replacing or renewing all the time-limited components of the stock plus an amount for the fabric of the building. The Government anticipates the need to spend in local plans will be broadly similar to the Major Repairs Allowance included in the Self Financing valuation. It is anticipated this reserve will be fully utilised each year.

8.5 The **Working Balance on the HRA** – The submitted estimates show a £3.247m working balance taking account of a proposed transfer to HRA earmarked reserves of £12m at the end of the current financial year, subject to outturn. The working balance will be in compliance with the Council's policy of maintaining a minimum working balance of 5% of income. Therefore, subject to outturn it is recommended that Council support the creation of three HRA earmarked reserves:

- Strategic Acquisitions Fund – this reserve will be held for the purpose of enabling the Council to purchase land held for HRA purposes to facilitate the Council's proposed new build programme.
- New Build Fund – this reserve will be held to finance the new homes development in accordance with the Business Plan.

8.6 **Capital Reserve** – This reserve is utilised to finance the capital programme and the balance brought forward contains both receipts from the sale of General Fund assets and the sale of HRA properties under the Right to Buy scheme, and makes up the negative capital financing requirement. It is estimated that the balance will be £24.608m as at 31st March 2012 and £15.682m as at 31st March 2013 whilst a further £1.5m of capital receipts anticipated in year.

8.7 To enable the greatest flexibility in using the Council's resources to finance the capital programme, it is recommended that the Council authorise the funding proposals subject to an annual review of the financing options by the Corporate Director (Finance and Governance), in consultation with the Portfolio Holder, during the preparation of the Statement of Accounts.

9. COLLECTION FUND

9.1 All transactions associated with Council Tax are shown in the Collection Fund. The legislation requires a calculation to be made of the estimated surplus or deficit on the Collection Fund as at 31st March 2013 in order to distribute these amounts in 2013/14.

9.2 Any surplus or deficit arising from Council Tax transactions is shared between Dacorum Borough Council, Hertfordshire County Council and Hertfordshire Police (the precepting bodies) in proportion to their demands on the Collection Fund. The estimated deficit on the Collection Fund was reported to Cabinet in January 2013 as £290,718.33 as at 31 March 2013 with amounts due for collection in 2013/14 as follows:

	£
Dacorum Borough Council	(35,667.72)
Hertfordshire County Council	(225,285.54)
Hertfordshire Police	(29,765.07)
Total deficit on Collection Fund	**(290,718.33)**

9.3 The amounts due from Hertfordshire County Council and Hertfordshire Police will be collected, on a pro rata basis, utilising the precept mechanism. The budget for 2013/14 has incorporated Dacorum's deficit of £35.7k (this compares with £76k deficit which was applied to the 2012/13 budgets). The deficit has occurred as a result of the tax base not increasing as quickly as anticipated when preparing the budgets in previous years or variance in the number of allowance for exemptions, discounts or appeals.

9.4 The Local Government Finance Act (LGFA) 2012 included changes to the rules about discounts and exemptions for empty properties and second homes, which take effect from April 2013. Council approved the following Council Tax local discounts and premiums in January 2013:

- An unoccupied and unfurnished property discount of 100% of Council Tax for three months, then a full charge.
- An uninhabitable property discount of 100% of Council Tax for three months, then a full charge.
- A long term empty property discount of 100% for three months, followed by a full charge (100%) of normal Council Tax until they

have been empty for two years; then(commencing from 1 April 2015), a charge a premium of an additional 50% (a total of 150%) of Council Tax on properties empty for more than two years.

- A full council tax charge of 100% for Second Homes.

These changes have been reflected in the Council Tax Base calculation.

10. LOCAL GOVERNMENT FINANCE SETTLEMENT 2013/14

10.1 The Business Rate Retention (BRR) scheme is launched as the principle form of local government funding in 2013/14. The Local Government Finance Settlement incorporates details of the new approach. .

10.2 In previous years, the provisional settlement announcement provided local authorities with their expected general revenue allocations for the following year. For 2013/14, the provisional settlement provides authorities with a combination of provisional grant allocations and their respective starting points within the BRR Scheme.

10.3 The provisional figures were confirmed 4 February 2013 within the final settlement announcement.

10.4 Due to the introduction of BRR there are a number of new terms and principles introduced into local government funding. In summary:

- An authority's Formula Funding can be compared against the 2012/13 Formula Grant figure (after adjustment to take into account specific grant transfers).
- The Formula Funding amount for a local authority, plus any further specific grant transfers (such as council tax freeze grant) will provide a total funding amount; this is known as Start-up Funding assessment.
- The Start-up funding assessment is split between resources received - Revenue Support Grant (RSG) and a Business Rate Retention amount.
- A key determinant of local government funding going forward will be actual business rates collected (it is this figure that will determine if authorities receive funding comparable to the Baseline Need amount or a higher or lower amount).

10.5

	Provisional Settlement		**Final Settlement**	
Local Government Finance Settlement 2013/14	**£**	**£**	**£**	**£**
Adjusted 2012/13 spending power		18,335,960		17,291,178
2013/14 Spending Power		18,081,613		17,195,220
Reduction in Spending Power		**-254,347**		**-95,958**
% Reduction in Spending Power		**-1.4%**		**-0.6%**

Revenue Support Grant				
Formula Funding	3,155,820		3,155,724	
2011/12 Council Tax Freeze Grant	149,763		149,763	
Council Tax Support Funding	626,408		626,354	
Homelessness Prevention Grant	30,025		3,025	
Total Revenue Support Grant		**3,962,017**		**3,961,867**
Baseline Funding Level				
Formula Funding	2,099,482		2,099,417	**-**
2011/12 Council Tax Freeze Grant	99,634		99,634	
Council Tax Support Funding	416,732		416,699	
Homelessness Prevention Grant	19,975		19,975	
Total Baseline Funding		**2,635,822**		**2,635,721**
Total Start-up Funding Assessment		**6,597,839**		**6,597,588**

10.6 Cabinet will note that three separate specific grants have been rolled into Formula Funding, these are: 2011/12 Council Tax Freeze grant (which will cease at the end of the financial year 2014/15); Homelessness Prevention Grant; and a new grant for 2013/14, Council Tax Support Funding.

Specific Grants

10.7 Although a number of specific grants have now been incorporated within Formula Funding two specific grants continue to provide an important source of funding for Local Government at a district council level, and the specific grants notified as payable to Dacorum Borough Council are summarised below:

Specific Grants payable to Dacorum			
Description	**2011/12 £k**	**2012/13 £k**	**2013/14 £k**
Housing Benefit Administration Grant	1,003	910	799
Homelessness	50	50	Now in Formula Funding
Council Tax freeze	246*	252**	Now in Formula Funding
New Homes Bonus	325	882	1,507
Community Right to Bid Grant	**-**	**-**	**8**
Community Right to Challenge Grant	**-**	**-**	**9**
Council Tax Support New Burdens	**-**	**-**	**72**
Total Specific Grants (announced at time of writing report)	**1,624**	**2,094**	**2,395**

10.5 A Council Tax Freeze grant was provided in 2011/12 and 2011/12 for those authorities who did not increase their Council Tax. The Secretary of State has announced a council tax freeze grant offer for 0% council tax increase in 2013/14 . The funding amount would be equivalent to a 1% increase in funding payable for 2013/14 and 2014/15.

Notification of the year three allocation of "New Homes Bonus" has been announced. This funding stream has been funded from the former Housing & Planning Delivery Grant and top slicing of Formula funding. Final allocations for 2013-14 will total £668 million for English local authorities - £199 million for the third year 1 instalments, £233 million for the second year 2 instalments, and £236 million for housing growth in year 3.

The final New Homes Bonus allocation for Dacorum Borough Council will total £1,506,836. This includes instalments from years 1, 2 and 3 of £324,944, £556,989 and £624,904 respectively. The year 3 instalment will be paid for 6 years and includes an affordable homes premium of £40,320..

Funding in the first year of this funding was utilised to:

- Restructure of the Housing Enabling Unit to provide additional capacity to support the delivery of the Council's Affordable Housing Programme

- Top up of the Local Development Framework reserve.

Whilst an element of the year one funding (to support the additional capacity within the Housing Enabling Unit) has been incorporated into base budget, the remainder of the New Homes Bonus allocation due in 2012/13 and 2013/14 has been utilised to support one off expenditure or contributions to earmarked reserves to finance the Council's Regeneration priorities to support local economic growth. This is considered a prudent and sustainable approach to utilisation of this resource pending the outcome of the first year of the Business Rate Retention scheme. At this time a review of the impact of this funding stream on the base budget position will be undertaken in conjunction with an evaluation of the impact of the Local Government Finance Settlement announcement for 2014/15 onwards.

Nationally £250m has been set aside to fund the New Homes Bonus in 2013-14. Beyond this amount, an additional £500million was retained from local authority funding to cover the remainder of the New Homes Bonus allocation – as announced in the Business Rates Retention policy statement of 21 November 2012. The Government has now confirmed that the unused part of that retained £500million will now be distributed to local authorities, pro rata to their Start-Up Funding Assessment. It is anticipated that Dacorum will receive a New Homes Bonus adjustment grant of £22,341 As a result any amendments to the settlement as set out in paragraph 10.4 will be reported to Cabinet.

11. BUDGET CONSULTATION

11.1 During the preparation of the 2013/14 budget the Corporate Director of Finance and Governance has provided briefings to Town and Parish Clerks.

11.2 In addition, because of the Government's delayed announcement of the Local Government Finance Settlement a cross party member briefing was provided for all members of the Council in December. This was followed in early January by a combined briefing on the budget to all Overview and Scrutiny committees followed by individual Scrutiny Committees. A further budget Scrutiny meeting was provided to all Committees on 5 February 2013.

11.3 The Council has recently run a tracker survey with Hertfordshire County Council. One of the questions asked "Do you agree or disagree that Dacorum Borough Council provides Value for Money?" 50% of people agree that the council provides value for money; while 29% either tend to disagree or strongly disagree (21% are not sure or expressed no opinion).

11.4 Also, a deliberative consultation forum with members of the Citizen Panel took place on 26 January 2013. The forum was facilitated by an independent organisation Opinion Research Services (ORS). The full report is available on the Council's website. A summary of the key results is set out below.

Members of the Forum worked in small groups to score their relative priorities for policy options to deliver a balanced budget. The percentages shown are the result of the average number of points allocated to each option

Preferred options to balance the budget	**%**
Increase charges to generate income	22
Share services with other authorities	46
Increase Council Tax	22
Stop or reduce services	10

Members of the Forum were individually asked whether they were in favour of a council tax increase of 2% or whether the freeze grant should be accepted.

	No.	%
2% Increase in Council Tax	19	79
Accept Council Tax Freeze grant	4	17
Don't Know	1	4

12. THE BOROUGH'S BASIC AMOUNT OF COUNCIL TAX 2013/14

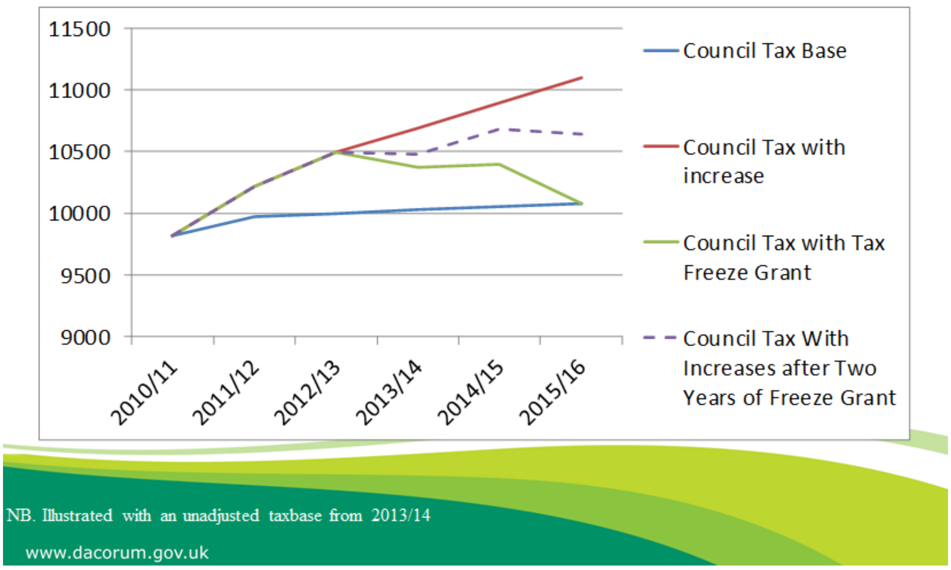
12.1 The Localism Act 2011 included powers to abolish Whitehall Council Tax capping in England and instead allow local residents to veto excessive council tax rises. For the financial year 2012/13 the Government confirmed the introduction of arrangements for council tax referendums if an authority set a council tax which exceeds principles endorsed by Parliament. The Government has revised the principles for financial year 2013/14.

12.2 For 2013/14 the Government has lowered the local authority tax referendum threshold to two per cent. This means if a local authority seeks to raise its relevant basic amount of council tax by more than two per cent, local people would have the right to keep council tax bills down through a binding referendum veto. There are no equivalent principles proposed to apply for town and parish councils for 2013/14, although the Government has indicated that they may in future years.

12.3 The Government has offered a further two year freeze grant equivalent to a 1% increase on the Council Tax to Councils freezing their Council Tax in 2013/14. The indicative amount of freeze grant available to Dacorum Borough Council is £100,664.

12.3 A review of the impact on the previous two freezes on Council Tax has been undertaken. The graph below shows that the Council Tax yield will be around £1m lower than it could have been in 2015/16 when the existing year one freeze grant ceases. It should be noted that the freeze grant for 2012/13 was for one year only, therefore this has reduced the available resource base by £250k for 2013/14. Taking account these factors it is proposed that the council tax requirement be based on an increase of 1.9% an average Band D Council Tax.

Comparison of the impact on DBC Council Tax resource base as result of accepting Council Tax Freeze Grant – shown in £'000



12.5 The Localism Act 2011 required the calculation of the Council Tax Requirement with effect from April 2012. The Council's Council Tax requirement is calculated as £9.838m (inclusive of parish precepts) and £9.245m (exclusive of parish precepts). The approved taxbase for 2013/14 is 53,252.2 based or a collection rate of 99.4%.

12.6 The cost of re-billing is estimated to be in the region of £70,000. The cost of holding a referendum is estimated at £80,000.

13. HOUSING REVENUE ACCOUNT (HRA)

13.1 The Housing Revenue Account 'self financing' (SF) regime was introduced under the Localism Act in April 2012. This replaced the previous HRA subsidy arrangements and required the Council to finance the HRA SF Settlement of £355.276 million.

13.2 The Council has a duty to budget to prevent a debit balance arising on the HRA[1] and also has a duty to review the budget from time to time to consider whether a deficit is likely.

HRA Business Plan

13.3 Purpose and update of the HRA Business Plan

The HRA Business Plan (HRA BP) is a thirty year plan which encompasses both the financial and service related objectives over that period. The longer term perspective is crucial to ensure that the service and its primary assets, - the housing stock, can be 'fit for purpose' for the whole period (and beyond). The previously approved plan (Cabinet 29 May 2012) has been updated to incorporate approved updates to the self-build programme (Cabinet 23 October 2012) and budget requirements for 2013/14.

The HRA BP runs for thirty years, although there will be opportunities and pressures that cannot be predicted at this point; therefore, as it forms the basis of service delivery and asset management strategy it will be regularly updated to account for changed circumstances and tenant and Member priorities. A reviewed business plan will be submitted to Cabinet in the early part of the new financial year.

The HRA BP also establishes a series of revenue expenditure/income assumptions, which are also set out in section 13.4 below.

13.4 Financial assumptions

The HRA BP incorporates the following financial assumptions:

	Assumptions
HRA Working Balance	Minimum 5% of turnover
MRR Balance	Depreciation ring fenced to MRR. The plan does not show increasing MRR balance because in all years planned capital expenditure exceeds depreciation, with HRA contributions to capital topping up the shortfall.
Debt financing cost	The average debt financing interest rate at point of final settlement was 3.35%.
Rent	Convergence assumed in 2019/20 The business plan assumes continuation of the current Government rent policy, i.e. RPI+0.5%+£2 (the

[1] Section 76 Local Government and Housing Act 1989

	model approximates an increase to reflect the £2 element). After convergence the annual increase is RPI + 0.5%. This reflects the Government's assumptions made in the SF settlement.
RPI	2.5%
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	Years 1 to 4 - 71 properties. Years 5 to 10 - 15 properties per annum. Years 11 to 30 - 30 properties per annum.
New Build Net Present Value	7% discount rate (based on common practice for Housing Association decision modelling)
Bad Debt provision	Increased five-fold in 14/15 to take account of new restrictions on Housing Benefit rents (based on a 66% Benefits caseload)
Build cost per unit	£150k (incl. Land)
52 week rent per unit	£153 p/w based on affordable rent charged for New Build - 2 bedroom property. This figure is based on 80% of Local Housing Allowance (LHA) which is deemed to represent the market rent (£828 p/m).
General Management costs	Based on current stock, GM cost is £560 per unit. This is reduced to £400 per unit for new builds based on a reduced management cost linked to the reduced maintenance costs for new builds.
Special Management costs	There is no Special Management (SM) input on the New Build element of the model because it is assumed that the new builds would not be Elderly Persons Developments which are primarily those properties which attract the SM costs.
Negative CFR	No negative CFR is included in this model
Right to Buy	The model does not reflect the Government's proposed policies within Reinvigorating RTB. Any increase in take-up under the draft proposals is not expected to make a material difference to the current model

Analysis of HRA budget proposals

13.5 The predicted outturn for 2012/13 is an in year surplus to the HRA of £11.233m, instead of a budgeted £853k deficit. In view of the anticipated lower level of net expenditure compared to the original budget, it is proposed that during the closure of accounts process, contributions to earmarked reserves of £12m are considered to support the self-build programme.

13.6 The overall impact is that end of year working balance is estimated to be £3.247m compared to the original budget of £3.161m.

13.7 The budgeted position for 2013/14 will be an in year surplus of £184k.

13.8 The projected working balance as at 31 March 2013 is £3.247m. This complies with meeting the Council's minimum target balance of at least 5% of income.

13.9 Rents – The impact of the Government policy of restructuring rents in the social rental sector on a national basis started to be phased in April 2002. It is proposed that the Council takes into account the Government target to achieve rent convergence by 2015/16, although this would not be achievable for a significant number of properties within Dacorum, because of relatively low levels of rents at the outset of this process. Currently full rent convergence for Dacorum properties is not anticipated until 2019/20. This proposal will result in an average indicative increase in rent in 2013/14 of 4.35% with a maximum of 5.98% resulting in an average rent of £96.58 (based on a 52 week basis). It is recommended therefore that the government rent increase assumption be implemented and that rent increases are calculated on this basis within target rent requirements.

13.10 Housing Repairs – the summary HRA for 2013/14 shows a total repairs revenue budget of £10.607m. This figure includes: responsive repairs of £2.255m; void repairs £1.025m; planned maintenance of £5.125m; and other repairs of £2.201m.

13.11 Revenue contributions of £11.956m have been included in the budget to support the capital improvement works.

14. STATEMENT BY CHIEF FINANCE OFFICER

14.1 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Council's case, the Corporate Director of Finance and Governance, must report on:

(a) the robustness of the estimates made for the purposes of the budget calculations and;
(b) the adequacy of the proposed financial reserves.

14.2 In recommending the budget to the Council, the Cabinet must take account of the advice of the Corporate Director of Finance and Governance in respect of the above.

14.3 For 2013/14 I can advise that the budget presented to the Cabinet for referral to Council is robust in its formulation and the level of reserves and balances are adequate for the organisation.

14.4 Risks to the budget

In formulating my opinion the following risks and factors have been taken into account.

a. Local Government Settlement and Council Tax Referendum

The Localism Act included powers to abolish Whitehall capping in England and instead allow local residents to veto excessive council tax rises. The Government has introduced arrangements for council tax referendums, in the event that an authority sets a council tax which exceeds principles endorsed by Parliament. The principles proposed for 2013/14 are that local authorities will be required to seek the approval of their local electorate in a referendum if, compared with 2012-13, they set council tax increases that exceed 2% for most principal authorities.

The budget has been prepared with a proposed Council Tax increase of 1.9%, therefore, if the budget is approved on this basis and the Council Tax Referendum principles are not amended by the Government, there should not be a risk of a requirement for a Council Tax referendum.

b. Salaries

Every post in the Council's staffing structure has been budgeted for less a 5% vacancy reduction has been made from the total staff related expenditure estimate. A 5% vacancy factor has been increased from 2% to 5%, this has resulted in a reduction in the Salary budget of £580k. A trend analysis of spend against the last two years' budget has shown that a 5% vacancy factor should be achieved in year subject to staff turnover, remaining at similar levels.

The budget has been prepared on the basis of an assumed salaries inflation factor of 1% in line with the assumptions on public sector pay included in the Chancellor of the Exchequer's autumn statement, this is considered adequate. The budget also contains provision for contractual pay increases such as increments and career development grades.

The potential impact of shared services/outsourcing will be monitored during the financial year. Any potential one-off associated costs may require a supplementary estimate in year to be financed from either the management of change reserve or the redundancy reserve. These reserves should be adequate for these purposes but will be kept under review during closure of accounts processes and as part of ongoing budget management.

c. Key income streams

Car Parking Income – The impact of a nil increase in car parking tariffs and has been taken into account in preparing the budget together with a revision to the base budget to reflect income levels achieved during 2012/13. Therefore the budget should be robust. However, any impact from change in usage should be kept under review, particularly arising from the current economic situation; fuel costs; any future severe weather conditions; and the continued impact of the concessionary fares scheme.

Planning Fee Income – The increase in statutory planning fees announced by the Government in the autumn has been taken into account in the preparation of the budget. The income projections should continue to be kept under review to take account of any impact from the national and local economy.

Building Control Income – the continued impact of the current economic situation on fee income should be kept under review.

Land Charges Income – The impact of the ongoing review of the Environmental Information Regulations 2004 consequences should be kept under review, as the final position has not been resolved and there is still a risk that there will be the need for repayment of fees collected, prior to the review. In addition the ongoing impact of the economic situation and competition from private search companies should be kept under review.

Investment Income – The investment income projection has been reduced in light of current achievable investment returns. This will need to be kept under review in the event of any changes to investment rates during the year, although none are anticipated by the Council's Treasury Management advisors. No change in the Bank of England base rate has been assumed for budget purposes.

Recycling income – The budget reflects reduced tonnage, income rates and share from the Herts Waste Management agreement this should be kept under review.

Benefit Subsidy – There are a number of potential changes to the housing benefits system which should be kept under review, particularly in light of the level of benefit transfer payments projected for 2013/14, (£46.76m). A variance of just 0.50% in projection can make a budget impact of around £234k.

d. Inflation and Service Pressures

Gas and Electricity – A The Council has entered into a four year framework agreement and the prices of supplies has been fixed until end September 2013. In addition, some pre-purchasing of supply for September 2013-14 has also been undertaken. However, taking account of the volatility of current energy prices there is a risk that future rates may vary.

Therefore, any changes to these rates or changes in consumption should be kept under review.

Increased take up of services – there has been a trend in recent years for increased take up of key services arising from the impact of the economic situation. This should be kept under review, particularly, relating to benefit administration, homelessness and need for housing advice. Also the impact on current caseloads arising from publicity surrounding the proposed Universal Credit and Housing Benefit changes, and Localisation of Council Tax Support with effect from 1 April 2013 should be kept under review.

Localisation of Council Tax Support – The abolition of Council Tax Benefit and introduction of Localisation of Council Tax Support will result in a number of existing working age benefit recipients having a reduction in the level of support towards their Council Tax. As a result there is a risk that the current collection rate of the Council Tax could become more difficult to maintain. This risk has been mitigated by a review of the collection rate when calculating the Council's Council Tax Base; this will need to be kept under review during 2013/14.

There is also a risk that the caseload may increase as a result of a change from a benefit to a discount and the level of expected local and national publicity at the time of implementing the system. Therefore, the cost of the scheme should be kept under review during the year and budgets reviewed in the event that it is not self financing. The LG Resource Review and Localisation of Council Tax Transition earmarked reserve is available to finance a supplementary estimate in year if required to mitigate this risk.

Retention of Business Rate - the Council will be responsible for the future business rate income risks and opportunities. The current estimated level of financial risk the Council would need to accommodate before the safety net payment mechanism would kick in is around £200k. There is a risk than annual budgets could be subject to volatile swings in available resources. This risk has been mitigated by a recommendation to create of a new earmarked reserve to provide the Council with a reserve to smooth the impact for future deficits and surpluses on the Business Rate collection fund.

e. VAT

The partial exemption calculation for VAT should be kept under review to take account of any impact from the increased value of the Capital Programme for HRA.

The settlement of the claims relating to historic VAT payments under the Flemming case is nearing completion. A further review of the likelihood of any challenge against the results of the "no win, no fee" claim will be continue to be reviewed as part of the closure of accounts.

f. **Bad debt provision**

The bad debt provisions for Housing rents, Benefit overpayments, general debtors and Council Tax have been reviewed. Adjustments have been made to Housing Rents for the 2013/14 budget to take account of the proposed Benefit changes due to be implemented in 2013/14. In addition the Council Tax collection rate has been reduced to reflect the risks to collection rates anticipated as a result of the introduction of the Localisation of Council Tax Support. These provisions will continue to be kept under review in light of the current economic situation, but they are currently considered adequate.

g. **Capital programme**

The level of provision for the capital programme continues to be maintained, however, the rate of delivery of the programme needs to continue to be kept under review, as commitment of resources in year which are not utilised can result in the rate of return on investment income being lower than possible, this will be an issue if investment returns start to increase later in the financial year and in future financial years.

The impact of the self financing proposals resulted in a substantial increase in the **HRA improvement programme**, the delivery of this programme and any procurement issues arising from the significant value of the programme should continue to be kept under review.

High Barns – Chalk Mines – The Council as co-ordinating body submitted a successful application to the Homes and Communities Agency for land stabilisation funding. Work on the next stage of this project has commenced and there is a risk that a supplementary revenue estimate and/or amendment to the capital programme may be required. If this is necessary, an application should be made to the HCA for additional funding; in the event that no funding is available a re-prioritising of both revenue and capital estimates may be required together with use of General Fund balance and capital reserves. This position will need to be kept under review.

h. Reserves

The reserves statement (appendix Aiii) shows a projected net use of General Fund earmarked revenue reserves and general fund balance in 2013/14 of £0.902m. The use of earmarked reserves has been applied for non-recurring and planned expenditure, therefore, usage is considered robust.

Also, the opportunity to top up reserves as part of the revised estimates has been taken to protect the council from the future impact of the current national financial position. However, it is essential that the use of reserves continues to be kept under review to ensure they can continue to be applied in a sustainable manner. Particular caution should be exercised where any potential use of the reserve is to grow the base service budgets year on year. Although, I can confirm this has not been the case in preparing the current proposals for the General Fund, as presented to Cabinet.

i. Future Years Budgets

The indicative General Fund budget forecast for future years has been based on assumptions applied in the MTFS and updated to reflect the proposed Local Government Finance Settlement and Chancellor's autumn statement. The budget forecasts and the MTFS will need to be kept under review to take account of the economic situation, changes in legislation and the any further announcements in the Budget for 2013/14 which affect Local Government.

Where investment is made on an ongoing basis to priorities; any subsequent review of the level of priority should take account of the need to manage realignment of resources as required to ensure that the prioritisation process remains sustainable.

j. HRA

The Housing Revenue Account (HRA) budget has been based on the proposed 30 year HRA business plan prepared under the new self financing arrangements. Effectively day to day financial risk has been transferred from Central Government to Local Government but partially mitigated by a move from a financial regime that is dependent upon an annual settlement under the subsidy determination to one which has been calculated over the life of the business plan.

The key risks that should be kept under review during both the transition to the new arrangement and on an ongoing basis are:

- Treasury Management
    - corporate credit risk and cost of carry should be kept under review when managing the debt portfolio
    - the impact of the volatility of European and Global financial markets on the gilt rate used in the calculation of Public Works Loan Board loan rates
    - the impact on early years' investment requirements arising from the Council's Debt Cap being limited to the level of the HRA SF settlement figure
    - the lack of an effective Asset Management funding safety net provided via the HRA Subsidy Management & Maintenance allowances or Major Repairs Allowance (which have been previously annually determined) as these were incorporated into the calculation of the debt settlement on discounted cash flow basis at current levels.
- The Council's Exposure to risk arising from:
    - Movement in levels of Debt
    - Future interest rates
    - Inflation
    - Housing Stock Changes, particularly as a result of Right to Buys
    - Investment
    - Performance
    - Income recovery rates and bad debts
    - Void property levels and turnaround time.

k. Emerging Issues

The financial impact of new legislation should be kept under review. In particular, the Welfare Reform Bill, the implementation of Business Rate Retention and Localisation of Council Tax Support, as these are likely to present a greater level of risk and reward for the Council in generation of local resources.

The implications of the implementation of the Localism Act 2011 should continue to be kept under review, for example the Community Right to Buy and the Community Right to Challenge.

The potential impact of all the items included in Section 14 will be kept under review. However, providing the Council maintains the General Fund and HRA balances within the Council's existing policy; uses earmarked reserves in line with designated use for non recurring expenditure; delivers services in line with budget proposals contained with this report and the Medium Term Financial Strategy, the Council will be safeguarded from the potential impact of these emerging items and risks within the financial year.

15. SUMMARY AND CONCLUSION

15.1 Overall, it has been possible to produce a balanced budget. However, current and future resources are tight and this has only been possible by providing savings has shown in schedule F identified from review of major budget items such as the vacancy management factor applied to employee related costs. This particularly reflects the fact that the main income streams for the Council:

- Government and Specific Grants;
- Fees and Charges; and
- Council Tax

are, and will continue to be, constrained at a time when ambitions and customer expectations are increasing. The Council also faces continuing budgetary pressures from the impact of the current economic situation, pensions and the current Government Spending Review which will inform the Local Government Finance Settlement 2015/16. The proposed use of the General Fund revenue reserves is in line with their earmarked use and relates to specific one off items of expenditure.

15.2 The Local Government Settlement resulted in a reduction in Formula Grant of 10.2% when compared to the adjusted base.