MEDIUM TERM FINANCIAL STRATEGY

2013/14 – 2017/18

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Working in partnership, to create a Borough which enables the communities of Dacorum to thrive and prosper

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MEDIUM TERM FINANCIAL STRATEGY

1. INTRODUCTION

1.1 The purpose of the Medium Term Financial Strategy is to update the Cabinet, Council and other Stakeholders on the forecast position of the Council's finances within the national public finance context.

1.2 The Strategy covers the period 2013/14 to 2017/18, being the current year plus four.

1.3 The Strategy reviews savings targets set for the 2013/14 budget cycle and identifies targets for the financial year 2014/15 and beyond. It also identifies an approach and timetable for delivering a balanced budget.

1.4 The Strategy has taken account of the outcome of the Government's Comprehensive Spending Review (CSR) 2010, the Local Government Finance settlements issued in January 2012 and January 2013 and the Spending Round 2013.

1.5 The Strategy has also been updated to take account of the Local Government Resource Review and the implementation of the Housing Revenue Account (HRA) Self Financing.

2. MEDIUM TERM FINANCIAL STRATEGY RECOMMENDATIONS

The 5 year Medium Term Financial Strategy sets out the following recommendations for approval by Council. It is recommended that:

2.1 The 5 year Medium Term Financial Strategy be approved;

2.2 The Council's current and projected financial positions be noted;

2.3 A General Fund Savings Target of £1.275 million be approved for the 2014/15 Budget Process, subject to review following the Local Government Finance Settlement for 2014/15 expected in early December 2013;

2.4 A combined four year General Fund Savings Target of £5.1 million be approved for the duration of this Medium Term Financial Strategy which accommodates the duration of the Government Comprehensive Spending Review and the Spending Round 2013;

2.5 A review of the Housing Revenue Account base budget and savings target be undertaken as part of the review of the HRA business plan and budget preparation cycle;

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

2.7 The joint Member/Officer Budget Review Group to continue their work to develop a package of strategic/cross cutting savings options;

2.8 Council reaffirm a minimum level of:

a. General fund balance of £2.5m in 2014/15 reducing to £2.4m from 2015/16 onwards to cover cashflow and identified risks (this will be within the parameters of the Council's approved policy on General Fund Balance).

b. Housing Revenue Account minimum working balance be set at 5% of turnover which equates to £2.5m based on current turnover to cover cashflow and budget risks

2.9 The Cabinet requests that the Corporate Director (Finance and Governance) keeps these levels under review during the construction of the 2014/15 budget;

2.10 The Corporate Director (Finance and Governance) be requested to revise the Medium Term Financial Strategy and re-present to the Cabinet and Council for approval, if material changes to forecasts are required following further government announcements, particularly the outcome of the consultation on Local Government Finance Settlement in early December 2013;

2.11 The adopted Fees and Charges Strategy continues to require a thorough regular review, of the true cost and effectiveness of providing statutory services, to ensure that the fees charged meet the cost of service provision wherever possible. Where any review indicates an under recovery of cost, alternative methods of service provision and comparison with other comparable authorities must be undertaken, and if necessary a zero based budget review be undertaken to identify opportunities for minimising the liability to the Council;

2.12 Member, staff and stakeholder briefings be undertaken to fully explain the financial position of the Council's General Fund in light of the MTFS, and what actions the Cabinet have approved to balance its budget over this period;

2.13 A budget consultation process be undertaken to include:

- Budget briefings to include Town and Parish Clerks; the Parish Councillors; the Destination Dacorum Board;
- Use of the Council's web site;
- Continued use of Social Network Media for budget consultation;
- Budget Consultation via Citizen Forum events;

2.14 Trade Unions and staff will be consulted on the key messages contained within the Medium Term Financial Strategy and more specifically when drawing up any proposals where there is a risk of redundancy.

3. BACKGROUND AND CONTEXT

3.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. It sets out the implications of the Corporate Plan and ensures that resources are allocated to meet identified need and priorities approved by the Council.

3.2 It is part of a wider corporate system that comprises key policy documents, such as the Corporate Plan.

3.3 The purpose of the Council's Medium Term Financial Strategy is to support the Council's corporate business planning process and to indicate which resource issues and principles will be used to shape the Council's annual budget development and medium term financial plans.

3.4 Due to the continuing uncertainty surrounding the levels of public expenditure, and, more specifically, future local government funding the Corporate Director (Finance and Governance) has updated the various assumptions and forecasts within the MTFS with all known information from the government; CIPFA; interest rate projections from our Treasury Management advisers Sector; and the Society of District Council Treasurers. It is likely these assumptions and forecasts will need to be revised and updated and re-presented to Cabinet over the coming months.

National Context

3.5 During 2010 there was a widespread consensus, shared across political parties and commentators, that a plan to reduce the UK's budget deficit must be the first priority of the new Government. This continued into 2011. The implementation of a national deficit reduction plan resulted in significant real terms spending reductions in many public organisations.

3.6 The global financial crisis and subsequent recession left HM Treasury with a major funding gap and rising levels of net debt. Public spending rose to levels – measured as a proportion of national income - not seen since the 1970s. At the same time receipts from tax proceeds remained at very depressed levels with no certainty about the timing or extent of improvement likely as a result of economic recovery. As a consequence, public sector net debt was predicted to rise to nearly 78% (£1,379 billion) of national income in 2013-14. This is roughly twice the levels experienced and viewed as acceptable by successive governments in recent years.

3.7 A rebalancing of the public finances was therefore required. The Government undertook a Comprehensive Spending Review (CSR10), involving a fundamental review of Government departmental spending in October 2010. This review set out spending plans at a national level for Government departments for the period 2011/12 to 2014/15. The spending reductions for the Department of Communities and Local Government (DCLG) were some of the largest for any government department and reductions of 27% over the four-year period were front loaded to 2011/12 and 2012/13. Various announcements were also made, including a reform of welfare benefits; and a review of public sector pensions.

3.8 CSR10 also outlined changes to grant funding including the ending of some targeted grants and a number of Area Based Grants transferring into the Formula Grant. In, addition to grant fund transfers, a number of new grants and funding streams were announced. These included Transition Grant to support Councils where overall grant funding was reduced by more than 8.8% and a new council tax freeze grant to provide funding equivalent to raising a council's council tax by 2.5% providing Councils did not increase their Council Tax for 2011/12.

3.9 The Local Government Finance Settlement for 2011/12 together with an indicative settlement for 2012/13 was announced on 31 January 2011. The Council's formula grant for 2011/12 was reduced by £1.288m when compared to the 2010/11 adjusted grant[1]. This was equivalent to a 16.2% reduction in adjusted grant which was well above the national average of 9.9%. The provisional settlement for 2012/13 was revised on 7 February 2011. The settlement for 2012/13 was reduced by £821k which is a further 12.3% reduction compared to the 2012/13 adjusted figure. An announcement of the final two year settlement arising from CSR 10 was made in February 2013.

3.10 As the Country emerges from the global financial crisis and the prolonged recession, the economy is still in a fragile state. Public sector finances continue to be under extreme pressure. The DCLG issued the Local Government Resource Review (Resource Review) consultation paper in summer 2011. Subsequently, the Government introduced the Localisation of Council Tax Support and Business Rate Retention reforms with effect from 1st April 2013. The impact of these reforms has been incorporated into this strategy.

3.11 On 26 June, 2013 the Chancellor of the Exchequer announced the Spending Round 2013. This set out the Government's public expenditure plans for 2015/16. In particular, a further 10% cut to council funding in 2015/16 was announced.

3.12 The MTFS has been reviewed to reflect the Government's announcements on public finances to date.

3.13 It should be noted there may be a need for further updating of the projections and forecasts contained in this document once the Local Government Finance Settlement for 2014/15 has been announced. These will be incorporated within the various reports linked to the forthcoming budget cycle.

District Council Context

3.14 In 2008/09 there were 238 District Councils in England managing £10 billion of public expenditure. In 2009/10 the number of District Councils reduced to 201 as some merged to become unitary councils.

3.15 Districts have faced service pressures which will continue to add to the financial pressures being experienced:

a) Key income streams such as planning; building control; and car parking fees have reduced. In 2010 the Government proposed the local setting of planning fees on a cost recovery basis. Although the Government has since confirmed that localised fee setting will not be introduced for the foreseeable future but an increase in scale fees calculated on the basis of RPI was announced in autumn 2012;
b) Investment income has been significantly reduced as a result of exceptionally low interest rates since the start of 2009/10 and rates are likely to continue to be low;
c) Increasing landfill taxes has put pressure on Councils to spend more on recycling as part of refuse collection, Lower recycling income rates have been experienced during the last year;
d) The Department for Works and Pensions funding does not cover the full cost of processing workloads in respect of Housing Benefit claims as a result of the growing number of unemployed;
e) The impact of the introduction of Welfare Reforms such as Local Housing Allowance limits and Benefit Caps together with the impact of the current economic situation are resulting in an increase in the number of Homelessness applications

[1] Adjusted Grant – Formula Grant adjusted for change in functions eg transfer of Concessionary Fares Administration to upper tier authorities

the Council is receiving and has required the provision of an increased budget together with a subsequent supplementary budget;

f) The ageing population is likely to continue to lead to increasing need for Disabled Facilities Grants and therefore the pressure on Council budgets for these grants (which receive limited additional specific funding from government);

g) Lost commercial rental income is a risk as a result of private sector business failures;

h) Environmental Information Regulations 2004 (EIR) cover most of the information held by Councils in order to process Local Land Charge Searches. Councils have been required to review their charges for property searches to ensure that they fall within the charging provisions of the EIR, which is likely to result in revenue from providing property search data being reduced.

Dacorum Context

3.16 As the above section has shown the majority of local authorities, and in particular District Councils, have experienced difficulty in matching their spending plans to resources available. This is a national issue and not unique to Dacorum Borough Council.

3.17 The medium term financial planning process has been in place for a number of years and is an essential part of the Council's budget preparation process. The MTFS provides a financial forecast of the cost of providing the Council's services and the resources that are likely to be available over the medium term period – thereby giving early warning of predicted "budget gaps".

3.18 The financial position of the Council has been under pressure in recent years, with each budget round requiring the Council to identify savings and efficiencies or opportunities to increase income streams. The Council has had various projects to provide a focus for delivering savings and efficiencies over the last five years which have enabled the Council to continue to set a balanced budget.

3.19 However, with increasing pressures and expectations on the Council to deliver more with less, and the continuing impact of the recession, it will be a challenge for the Council to continue to achieve a balanced budget.

3.20 The steps taken during the last five years, as part of the Improving Dacorum Programme (IDP) and the delivery of the Corporate Realignment process during the financial years 2010/11 - 2011/12 helped the Council to prepare for the significant reductions in public expenditure announced as part of the CSR 2010.

3.21 Whilst the Council has been able to make on going savings and efficiencies to mitigate the impact of the recession and reductions in Government funding there has been a significant increase in demand for a number of key services. In particular, the increase in the number of households has required additional investment in the Council's Refuse and Recycling Service. Also the impact of the recession has resulted in an increase in Housing and Council Tax Benefits caseload, requiring additional resource for the administration of benefits. During the last half of 2011/12 and 2012/13 there was also an increase in homeless persons presenting themselves to the Council, requiring additional resources to be made available to the service. The increase in caseload is partly a result of the current economic situation and also the impact of the current Welfare Reforms such as restrictions on Local Housing Allowance.

3.22 Nonetheless, taking account of the current levels of inflation and service demand, together with the impact of the further reduction in Local Government Finance Settlement for 2014/15 and 2015/16, the position beyond 2014/15 will become increasing difficult. Also there is considerable uncertainty around future baseline position for Government funding until the outturn position for 2013/14 Business Rate Retention is finalised and clear baseline and growth projections are established.

Balances and Reserves

3.23 As part of the closure of accounts for 2012/13 the Council has been able make additional contributions to earmarked reserves. The contributions made will continue to provide a resource to enable the Council to meet further upfront investment needs (such as investment in the transformation programme, technology, and redundancy related costs) where these will support changes in service delivery to provide further savings and efficiencies. This will provide the Council with the opportunity to finance changes and thus enable the Council's budget to be repositioned to meet the requirements of CSR and service needs.

3.24 In addition, it was possible to maintain the General Fund working balance to help mitigate budget risks associated with the impact of the weak economy; public spending review; and also to help dampen the impact of repositioning the budget base. Resources have also been identified to part fund the Councils Regeneration priorities.

3.25 The Council's General Fund balance as at 1 April 2013 was £2.991 million, and is forecasted to be £2.819 million by 31 March 2014 based on the revised closing balance for 2012/13.

3.26 The Council's General Fund Earmarked Reserves as at 31 March 2013 were £14.410m. Appendix B provides details of the reserves held at 31st March 2013, following the closure of accounts for 2012/13 (pre-audit).

3.27 The Earmarked Reserves will help maintain stability within the budget and provide resource for specific items of expenditure/investment.

Latest Government Announcements

Coalition Agreement

3.28 The key issues relating to local government finance within the coalition agreement were:

- a review of local government finance;
- freeze Council Tax in England for at least one year and seek to freeze it for a further year in partnership with local authorities;
- give residents the power to veto excessive council tax increases;
- phase out the ring-fencing of grants to local government, and;
- review the Housing Revenue Account.

2010 Spending Review Reductions

3.29 Following the establishment of the coalition government, on Monday, 24 May 2010, the Chancellor of the Exchequer and Chief Secretary to the Treasury announced the first step in tackling the budget deficit, setting out how the Government intended to save over £6 billion from spending in 2010-11.

3.30 Included in that savings package was an expectation that savings of over £1 billion would be delivered by local government. The Government recognised that it would be challenging for local authorities (along with other parts of the public sector) to make these reductions in-year.

3.31 The Government considered it prudent to publish amended grant allocations and funding streams following the election in 2010. They allowed local authorities to comment on the accuracy of the figures before implementation. These amended allocations were published on 10 June 2010.

3.32 In considering grant and funding streams, the Government:

- gave priority to protecting the funding for schools, Surestart and 16-19 year olds;
- did not reduce funding in the specific grants and/or funding streams for adult social care, housing benefit administration, main programme funding for Supporting People and for the fire service.

3.33 The Government was clear that local government needs increased flexibility to take decisions locally. This meant retaining the most flexible funding (formula grant) at the level approved by Parliament (£29 billion). It also meant lifting restrictions on how local government spends its money by removing ring fences. It believed this gave councils extra flexibility to make decisions about where savings were to be found.

3.34 **2010/11 Emergency Budget** – The Chancellor of the Exchequer announced the first budget of the new government on 22 June 2010. The Government announced a further £30 billion of spending cuts by 2014/15. This equated, on average, to a 25% real terms cut by 2015 for areas other than the NHS and Overseas Aid.

3.35 The CSR set out real terms reductions of 27% in local authority budgets over the next four years. This compared with overall reductions of 8.3% across all Government departmental budgets. The key implications included in the CSR for local government were as follows:

(a) average reduction in grant of 7.25% per annum in real terms and significantly front loaded;
(b) Unringfencing of £7bn of government grants from 2011/12;
(c) Local Authority capital funding (across the sector) cut by 45% compared with 29% over the whole of the public sector;
(d) Flexibilities of prudential borrowing were retained but interest rates for Public Works Loan Board (PWLB) borrowing were increased by around 1%;
(e) Sixteen areas were nominated to operate community budgets nationally from April 2011, with the intention that all areas take this approach from 2013;
(f) £700m set aside to allow Councils to set a zero council tax increase for 2011/12. Councils who took up this offer have had funding built into grants for the remaining four years of the CSR, funding was equivalent to the return on a 2.5% increase in Council Tax for 2011/12;
(g) Major changes were proposed to Council Tax benefit from 2013. Together with an anticipated saving of 10% on Council Tax Benefit;
(h) “Local Growth” White paper set out proposals for New Homes bonus, with payments starting from 2011/12;
(i) The Local Growth White Paper also set out proposals to launch the Local Government Resource review. A consultation paper was published in summer 2011.

3.36 The forecast for 2015/16 contained in Appendix A reflects the removal of Council Tax Freeze grant of £246k per annum which was awarded to the Council in 2011/12 for the four years of the CSR10 as a result of the Council deciding to freeze Council Tax in 2011/12.

3.37 The New Homes Bonus scheme has been funded from the resources previously allocated to Housing Planning Delivery Grant and from within existing Formula Grant to local authorities. This scheme provides an incentive to local authorities to increase their council tax base. The incentive works by providing match-funds for the additional council tax (based on national averages) for each new home for the six years after the home is built. Therefore, councils who enable the building of new housing will receive more funding whilst those who do not, will receive less grant. The strategy includes a forward projection for the amount of New Homes Bonus awarded to the Council on the basis of anticipated housing growth. The first annual 'bonus' received by the Council was £325k in 2011/12, and an additional £560k for 2012/13. The Government has announced an annual £400m top slicing of New Homes Bonus commencing from 2015/16, this is dealt with in more detail below.

3.38 The former Government had issued a consultation paper on a Prospectus entitled "Council Housing – A Real Future" which proposed, in essence, that the present Housing Revenue Account (HRA) subsidy system should be dismantled, and replaced with a new self-financing system. The Coalition Government agreed to receive responses to the consultation paper and plan to issue an announcement on their future plans for Self Financing around the time of the CSR. A further consultation paper "Self Financing: Planning the Transition" was issued in July 2011. This paper confirmed the introduction of the HRA Self Financing system with effect from 1 April 2012 with a debt settlement date of 28 March 2012. The HRA Self Financing System was introduced with affect from 1st April 2012 and the MTFS has been updated to reflect this financing change.

3.39 On 28 October 2010 the Government published the White Paper "Local Growth: realising every place's potential". The paper set out the Government's approach to supporting economic growth in the regions. The Government plan to shift power to local communities and businesses. The Localism Act includes a general power of competence for local authorities, giving them freedom to act in the interest of their local communities. The impact on the MTFS of any potential use of this power will need to be kept under review.

3.40 The first consultation paper on Local Government Resource Review was issued on 18 July 2011. The paper set out proposals for the retention of some of the business rates locally and the implementation of Tax Increment Financing (TIF), which would enable Councils to fund investments in advance of anticipated revenue streams. The focus of the proposals was on distribution of business rate (BR) tax revenues rather than changes to the system of business rate taxation. The proposals were introduced from April 2013. The MTFS does not contain any assumptions about the potential use of TIF.

3.41 In addition, there are a number of Welfare Reforms which have and will continue to impact on the MTFS. These:-

- The abolition of Council Tax Benefit and introduction of the localisation of Council Tax Support with effect from April 2013
- The introduction of Benefit Caps from April 2013
- The national launch of Universal Credit on a phased programme beginning in October 2013 and ending 2017.

3.42 **Localisation of Council Tax Support** - The Local Government Finance Act required Councils to publish a local scheme for Council Tax Support by 31st January 2013 for implementation from 1st April 2013. Councils were required to consult major precepting authorities all interested persons on the proposed scheme before it was adopted.

3.43 As part of its commitment to reducing public expenditure, the Government specified that the cost of the schemes would be 10% less than the current cost of providing Council Tax Benefit in England. In devising local schemes Councils could either choose to pass on some or all of its funding reduction to recipients, or to absorb it into overall budgets.

3.44 The Scheme has been only 90% funded by Central Government when compared to the subsidy system in place at the time of the introduction of the new scheme. The funding has been switched from Government "Annually Managed Expenditure" recovered against the full cost of benefits awarded to a "Departmental Expenditure Limit" grant resulting in a fixed grant that was reduced by 10% (compared to forecasted spend for 2013/14) with an estimated financial impact for the Council of real terms funding reduction of £130k, (the impact on the other two major preceptors is £860k for Hertfordshire County Council's share and £110k for Herts Police Authority).

3.45 The new Scheme operates through the Council Tax Discount Legislation and is managed through the Council's Collection Fund, the change from 'benefits' to 'discounts' impacted on the Council's Council Tax Base which is expressed as a number of Band D properties. The number of Band D equivalents automatically reduced whilst major preceptors have been compensated through the direct grant payment to offset the impact of this change on taxpayers and a grant was provided for distribution by the billing authorities to pay the 10,000 Parish and Town Councils in the same manner.

3.46 **Universal Credit** is due to be introduced on a phased basis from October 2013 to 2017. This will impact in a number of ways on the Council's MTFS. When fully implemented the Council will no longer be responsible for the administration of Housing Benefits. Therefore there will be staffing implications for the Council as the Department of Works and Pensions has currently indicated that Housing Benefit staff would not be transferred under TUPE, if this position is upheld the Council are likely to face significant redundancy costs.

3.47 Universal Credit will be a single payment containing on element towards housing, with tenants being responsible for paying rents to landlords. This is likely to have an impact on the net collection rates for the HRA and the MTFS has incorporated an increase in HRA bad debt provision.

3.48 Detailed information of the roll out of Universal Credit is still awaited from the Government and it is increasingly likely that the start of the phased roll out will be delayed from the original planned date of October 2013.

3.49 **Spending Round 2013** – On 26 June 2013 the Chancellor of the Exchequer announced the Spending Round 2013. The key announcements for Local Government were as follows:

- Reduction in total spending (in real terms) by the same rate as Spending Review 2010 for the financial years 2015/16, 2016/7 and 2017/18;
- 10% reduction in Councils' core funding from Department for Communities and Local Government in 2015/16 which equates to £2.1bn;
- Council Tax – further support announced to enable Councils to freeze Council Tax;
    - Funding equivalent to a 1% increase in Council Tax;
    - Council Tax freeze funding available for 2014/15 and 2015/16;
    - Council Tax increase referendum limit to be set at 2% increase inclusive of any amounts from levying bodies;
- Council efficiency and transformation fund set up with £100m funding available;
- Funding of £200m for the Troubled Families Programme, subject to Council match funding;
- Growth funding - £2bn made an available annually for a Single Local Growth Fund (SLGF). The majority of this funding has been made available by reallocating existing council or devolved funding. The Government has announced that £400m will be top sliced from New Homes Bonus (NHB) allocations in 2015/16. The mechanism for top slicing the NHB will be subject to consultation during the summer of 2013. The SLGF will be allocated on a competitive basis to the Local Enterprise Partnerships.

3.50 The Council's MTFS has been reviewed to take account of the estimated impact of the Spending Round 2013. The key areas of concern for the Council are:

- Whilst the real terms impact of the funding reduction to Councils is 10% overall and this stage the actual impact on Dacorum will not be known until the announcement of future Local Government Finance Settlements. Therefore, the MTFS will need to be reviewed in the future to take account of the actual impact;
- The Council Tax freeze grant will be set at 1% lower that the referendum limit. Therefore, the Council will need to consider the impact on the Council tax base when determining whether to accept the freeze grant or not. For the purposes of modelling the MTFS has been prepared on the basis of a 2% Council Tax increase to optimise the available funding to the Council;
- Top slicing of NHB will severely impact on the Council's future funding streams with effect from 2015/16, it is currently estimated that this could be in excess of £600k per annum;
- The NHB top sliced will be allocated to LEPs and therefore, the amount distributed back to the Council is likely to be dependent upon the Hertfordshire LEP's priorities.

4. UPDATED GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY

Updated General Fund Medium Term Financial Strategy

4.1 The Medium Term Financial Strategy sets out the link in financial planning terms between the Authority's priorities as set out in the Corporate Strategy, and the resources that will be allocated to meet these priorities.

4.2 The MTFS forecasts the Council's financial position for the duration of the Corporate Plan. It anticipates the resource it has to spend, and how this affects the level of Council Tax. The forecast also allows the Council to predict whether savings are necessary to balance the budget and keep Council Tax increases to a reasonable level.

4.3 The budget for 2012/13 required an increase in Council Tax of 2.5% for the Dacorum element (although this was offset by Government funding, resulting in no actual increase to tax payers). This gave a band D Council Tax for the Dacorum element of £170.37. The total net expenditure budget for the year was set at £16.020m representing the net cost of services. The financing of the total net expenditure for the year was as follows:

- £6.101m Government Formula Grant (revenue support grant £116k and redistributed business rates £5.985 m)
- £9.995m council tax income (excluding parish precepts of £618k)
- Less £76k Collection Fund deficit

2012/13 Outturn

4.4 The table on page 14 shows the 2012/13 outturn position (subject to audit) for the Council's General Fund service expenditure and other operating costs, together with income from grants, local taxpayers and other sources. This is compared in overall terms with the budget.

4.5 The directly attributable cost of running the Council's services for 2012/13 was £19.860, or £1.943m less than the revised budget.

4.6 The following paragraphs set out the main budget variations for the General Fund Net Cost of Services by subjective category:

Employees - £804k below budget

- £861k relating to statutory pension adjustments. This results from an accounting entry undertaken as part of the year-end process and is reversed out below the Net Cost of Services line to ensure that taxpayers are unaffected.

Supplies & Services - £604k below budget

- £125k underspend on the Public Sector Quarter (PSQ) project due to a change in the timing of related consultancy services. These services will still be required as part of the ongoing PSQ project, but costs will now be met in 2013/14.

- £54k of the expected costs involved in the inspection of the Local Development Framework (LDF) documents supporting the Council's Spatial Planning Strategy will not now be incurred until 2013/14.

- £250k underspend relates to garage maintenance, where a higher value contract was let for works to be completed in 2013/14.

- £156k underspend which relates to a lower than expected amount required for bad debt provision following a strong performance from the Council's Accounts Receivable team.

Income - £421k over recovery

- £45k arising from increases in the number of sales of pre-purchased grave spaces.

- £154k from Investment Properties due to the successful implementation of retrospective rent reviews since the revised budget process.

- £48k from increased occupancy levels achieved at the Maylands Business Centre, 100% was achieved against a budget of 90%.

- £34k of Local Sustainable Transport Funding was agreed in year and received in quarter 4 of 2012/13.

- £44k additional income was achieved from Building Control fees through an improving level of demand.

- £36k additional income was achieved from Land Charges through an improving level of demand.

- £40k relating to rental income now recovered through housing benefits, in relation to tenants at Leys Road hostel (homelessness accommodation).

- £49k due to a higher than expected level of taxi licence fees following an increase in demand.

4.7 These variances, together with additional savings and income forecast at the revised budget-setting exercise in November 2012 (approved by Council in February 2013), have been transferred to Earmarked Reserves. Decisions over Earmarked Reserves, and how best to plan for future challenges, are taken by Full Council following recommendation from Cabinet, in line with the Council's Medium Term Financial Strategy.

Table: 2012/13 Outturn Position

	Revised Budget £'000	Actual £'000	Variance £'000
General Fund Service Expenditure	**21,803**	**19,860**	**(1,943)**
Interest (Receipts)/Payments	(680)	(698)	(18)
Capital Financing Adjustments	(3,912)	(3,936)	(24)
Pension Adjustments	0	861	861
Other Government Grants	(1,138)	(1,360)	(222)
Revenue Contributions to Capital	717	506	(211)
Contributions to/(from) Earmarked Reserves	(1,702)	570	2,272
Leave Accrual	0	(94)	(94)
Net Expenditure Prior to use of General Fund Working Balance	**15,088**	**15,709**	**621**
Contribution to/(from) Working Balance	932	311	(621)
Budget Requirement (General Fund)	**16,020**	**16,020**	**0**
Parish Precepts	618	618	0
Budget Requirement Including Parishes	**16,638**	**16,638**	**0**
Revenue Support Grant	(116)	(116)	0
National Non-Domestic Rate Grant	(5,985)	(5,985)	0
Collection Fund Deficit/(Surplus)	77	77	0
Net Expenditure Including Parishes	**(10,614)**	**(10,614)**	**0**

Council Tax

4.8 Government grant, which is met from national taxation, makes up the significant amount (38%) of resources available to fund the Council's net budget requirement (after taking account of fees and charges, interest receipts and use of earmarked reserves). The only source of local taxation available to the Council is Council Tax, which makes up the other (62%). Because of these ratios, the Council is subject to a "gearing effect" whereby relatively small percentage changes in grant or spending need can result in much greater increases in Council Tax (broadly a 1% spending increase in the net Budget Requirement without any additional Government support would result in a 2% increase in council tax).

4.9 In 2013/14 the Council tax rate for Dacorum was £184.88 per Band D (inclusive of parish precepts), lower than the District Council group average of £203 and 8.5% lower than the average rate set by comparable authorities across England.

4.10 The government provided an incentive to freeze council tax for 2012/13, providing offsetting funding for one year only. The effect of this was to reduce the resource base carried over into 2013/14 by £250,000.

4.11 The Localism Act included powers to abolish Whitehall Council Tax capping in England and instead allow local residents to veto excessive Council Tax rises. In December 2012 the Government confirmed that local authorities were required to seek approval of their local electorate in a referendum if, compared with 2012/13 figures, they set a Council Tax increase in excess of 2%. For the purpose of the MTFS an assumption has been made that similar principles will apply in future years, taking account of the Spending Round 2013 announcement of referendum limits.

4.12 Previous versions of the MTFS assumed a year on year increase of 2.5% in Council Tax. The award of the Council Tax Freeze Grant meant that the Council Tax Freeze in 2011/12 did not result in a reduction in resource base for 2011/12 as originally anticipated. The MTFS has assumed a further increase in Council Tax of 2% per annum with effect from 2014/15 together with an assumed 0.2% increase in the tax base.

Medium Term Financial Strategy Assumptions

4.13 The Corporate Director (Finance and Governance) has cross-referenced a wide range of information sources in order to attempt to produce the most realistic updated financial forecast for the General Fund over the next 5 years.

4.14 The following assumptions have been used in the MTFS:

	2011/12 %	**2012/13 %**	**2013/14 %**	**2014/15 %**	**2015/16 %**	**2016/17 %**	**2017/18 %**
Income							
Council Tax	0	0	1.9	2	2	2	2
Formula Grant*	(16.2)	(11.6)	(10.2)				
Revenue Support Grant				(23.2)	(20.1)	(21.6)	(21.9)
Business Rate Local share				2.8	3.2	3.6	3.6
Fees & Charges	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Investment Income	0.9	1.0	1.0	0.8/	1.0	1.25	1.5
Expenditure							
Pay Costs							
Pay settlement**	0.0	0.0	1.0	1.0	1.0	1.0	1.0
Pay – contractual increments	1.75	1.75	1.75	1.0	1.0	1.0	0.5
Pay – National Insurance	1	0	0.0	0.0	0.0	0	0
Pension contributions	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Non – Pay Costs							
Utilities	0.0	7.5	7.5	7.5	5.0	5.0	5.0
Fuel		7.5	2.5	5.0	5.0	5.0	5.0
Supplies & Services	2.5	2.5	2.5	28	3.2	3.6	3.6
IT Licenses	2.5	2.5	2.5	2.8	3.2	3.6	3.6

Further sensitivity analysis will be undertaken on the assumptions made above as new information becomes available

The cost of the Pension scheme will continue to provide budget pressure for the Council as a triennial review of the pension fund is currently being undertaken by the Actuary and is due to be reported in December 2013. Also, the implementation of auto-enrolment of staff to the pension scheme is due to commence in the second half of 2013/14.

Target Balances

4.15 In setting the Council's annual budget, the level of balances and earmarked reserves need to be carefully considered. Guidance issued by CIPFA emphasises this requirement, particularly in light of the responsibilities placed upon the Chief Finance Officer under the Local Government Act 2003, to report on the adequacy of proposed reserves at the time of the Council setting the Council Tax for the forthcoming year, on an annual basis.

4.16 The Act includes a reserve power for Government to lay down the minimum reserves local authorities must allow for when they set their budgets. It is therefore expected, that authorities will have regard to the CIPFA guidance when considering the adequacy of balances and earmarked reserves.

4.17 In order to assess the adequacy of unallocated general reserves when setting the budget, the Corporate Director (Finance and Governance) as Chief Finance Officer must take account of the strategic, operational and financial risks facing the authority. The budget report for 2013/14 was accompanied by a Chief Finance Officer Statement together with an analysis of potential budget risks which assessed a "cover ratio" (based on the budgeted General Fund working balance). The cover ratio for the 2013/14 budget was 1.37:1.

4.18 In terms of determining the level of general balances, the Corporate Director (Finance and Governance) has based her advice on consideration of the following factors:

(a) An amount held as a contingency against unforeseen events;
(b) An amount necessary to cover the Council's cash flow requirements.

Best practice suggests that the General Fund balance should be maintained at 4% to 5% of gross turnover or 10% to 15% of net expenditure to provide cover for any unanticipated expenditure or loss of income that may occur over the course of the financial year. The forecast of revenue balance should reflect the Council's Policy of maintaining the General Fund balance at a level of between 5% and 15% of net service expenditure.

4.19 Based on the above assessment and taking account of the current fragile nature of the economy and the substantial savings requirement over the life of the MTFS, it is the Chief Finance Officers view that the minimum level that the Council's General Fund balance should be set as follows (year 13/14 reflects the actual balance after 12/13 outturn has been incorporated):

2013/14	2013/14	2014/15	2015/16	2016/17	2017/18
£2.9m	£2.4m	£2.4m	£2.4m	£2.4m	£2.4m

These target working balances will be kept under review during the 2014/15 budget cycle to ensure that they remain adequate.

Savings Targets

4.20 It is important that a balanced budget position is maintained over the life of the MTFS. A balanced budget allows the Council to maintain a prudent level of general balances to address any unforeseen budget pressures, or as described in detail above, funding cuts as part of the Government's deficit reduction programme, whilst being able to continue to deliver agreed levels of service.

4.21 The savings target for the next four years can be calculated as follows to deliver the minimum level of general balances identified in paragraph. 4.6.

Indicative Savings over the Life of the MTFS

		2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total Over the period of MTFS £m
Indicative Savings Target		1.0	1.8	1.4	0.9	5.1
Resulting General Fund Balance		2.6	2.4	2.4	2.4	

Note: the above assumptions take account of an estimate of the future years' award of New Homes Bonus together with a contribution to earmarked reserves to support the Council's regeneration and growth priorities for 2014/15. From 2015/16 the contribution to earmarked reserves for regeneration has been removed to reflect the impact of the Government's decision to top slice NHB to support the SLGF.

4.22 In the Autumn of 2010 the Council set an overall savings target for the four years 2011/12 to 2014/15 of £5.2m on a phased basis of £1.5m per annum for the first three years with a final year target of £0.7m. It was recommended that this approach would also need to be linked to a review of earmarked reserves to identify any opportunities to provide an earmarked reserve to smooth the impact of CSR. A CSR reserve has since been created and the revised assumptions shown above take account of the utilisation of this reserve up to and including 2015/16.

4.23 The overall savings target for 2014/15 to 2017/18 has been revised to £5.1million, as shown in the table. It is recommended that the savings target be phased at £1.275m per annum, this will enable the impact of the savings requirement to be smoothed. It should be stressed that these savings targets will be kept under review as more detail emerges relating to the outturn position for the first year of the Business Rate Retention Scheme and Localisation of Council Tax Support scheme

4.24 All savings identified as a result of the savings targeted for 2013/14 have already been included within the base budget position for the revised MTFS.

Prioritised Growth

4.25 No provision has been made for unavoidable and essential growth items, however, it is anticipated that there will be continuing demand for the Housing Advice Service and Homelessness arising from the Welfare Reforms and current economic situation. Any other items of growth will need to be funded by making savings elsewhere in the Council budget, or through the generation of additional income. As the Council manages its overall budget corporately in accordance with its Corporate Plan and identified priorities, it may be necessary to transfer money from one activity to another to match limited resources to the highest priorities. Therefore, in the event that there is unavoidable or essential growth, a business case would need to be prepared by the service and this will be considered by Corporate Management Team when advising Cabinet in the preparation of recommendations to Council.

Fees and Charges Strategy

4.26 The fees and charges set by the Authority for services provided are the subject of an annual review as part of the service planning and budget process. Changes made between years are agreed as part of the overall budget and council tax setting procedure and form part of the Council's key revenue stream forecasts.

The key principles behind charging are that:

- discretionary charges should recover costs unless the strategy is to provide a particular service at a subsidy;
- discretionary income should be optimised through appropriate commercial charges;
- a sound and robust system of discounts or concessions should be in place for those who would otherwise find that they could not access services where deemed appropriate.

4.27 Provision of many of the Council's services is a statutory requirement and charges for access to these are laid down as part of that requirement. There is therefore no discretion on the setting of these fees available to the Authority.

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

4.29 There are certain services that must be provided free of charge and it is therefore important that these services are provided in the most efficient and cost effective manner possible, in line with existing Council policies.

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

4.31 An increase of 2.5% for the annual review of fees and charges has been included in the MTFS projections. Although, it is likely that the current inflationary assumptions included within the MTFS forecast for Fees and Charges will be challenging in the current economic environment, and will need to be kept under close scrutiny over the next 12 months.

5. HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL STRATEGY

Self-Financing

5.1 The introduction of Self-Financing in April 2012 saw each Local Authority with a housing landlord function take on a share of the national housing debt in return for greater autonomy over the way it operates its Housing Revenue Account (HRA). The Dacorum share of the national debt was £354m, which has been financed through a portfolio of fixed term loans from the Public Works Loan Board (PWLB) that will be fully repaid within 30 years, and some internal lending from the General Fund.

5.2 The fact that the annual repayments associated with these loans are fixed, and therefore known for the next thirty years, has provided the Council with a level of long-term certainty that was unachievable under the previous HRA funding system of annual subsidy. This means that for the first time the Council is able to develop a business plan over which it has complete control and which can take a long term view of investment priorities.

5.3 This combination of increased certainty over expenditure and increased resources allows the Council to develop the whole of its housing business over the coming years, rather than focus exclusively on the fabric of the stock, which has been the case in recent years due to scarcity of resources. This includes an ambitious new build programme and increased investment in planned maintenance, both of which are key factors within the HRA business plan.

The Business Plan Model

5.4 In order fully to realise the longer-term opportunities available to the Council it is important to understand future cash flows within the HRA in a way that was not necessary under the annually renewable subsidy arrangement. For this purpose the Council has procured from the Chartered Institute of Housing (CIH), the 'HRA Business Plan and Self-Financing Model' (the Model).

5.5 The Model includes all the income and expenditure, for both revenue and capital, associated with the HRA for a period of 35 years. The Model includes income and expenditure associated with future projects for which the timing and approximate costs are known. In addition, for those factors which influence future income and expenditure but cannot be known in advance, e.g. inflation or rent reviews, a series of assumptions are made to enable future projections.

5.6 The Model is a live document, with the flexibility to be constantly updated as new information becomes available. This means that, at any given moment, the Council has access to the clearest picture possible of the HRA financial position over the next thirty years. This same flexibility can be used to model a range of possible outcomes of particular decisions, which when combined with qualitative information will provide Members with a more robust basis for decision-making than has previously been available.

Core financial principles in the Model

5.7 There are several core financial assumptions and principles that materially influence the Model. These are detailed below.

- Rental income

  Future rental income is currently assumed to continue with national rent policy, leading, for the majority of properties, to convergence by 2021/22. In effect, this means uplifting rental income within the Model annually by RPI + 0.5% + £2, until 2021/22, and by RPI + 0.5% thereafter. (RPI is currently assumed to be 2.5%, based on the Bank of England target.)

New tenancies begin at target rent for the property. However, the Chancellor of the Exchequer announced in the Spending Round 2013, (effective from 2015/16) that national rent policy will be capped at annual increases of CPI + 1%., this will need to be modelled when the HRA business plan is reviewed.

- Interest charges

  The HRA pays interest on loans taken to fund the Self-Financing transaction on 28 March 2012. More detail on the composition and management of these loans can be seen in the Treasury section, below.

- Depreciation

  The depreciation charge in the model is the same amount as the Major Repairs Allowance (MRA) assumed in the DCLG Self-Financing debt allocation model, and is used to finance planned capital expenditure. Adopting the MRA figure as a proxy for depreciation is compliant with the CIPFA transitional arrangements for the adoption of Self Financing, which are applicable for five years.

  In conjunction with the implementation of the new HRA Asset Management System over the next 12 months, further work will be undertaken to refine the depreciation charge to the HRA on a componentisation basis.

- Revenue Contribution to Capital (RCCO)

  This annual charge comprises two elements: 1) financing the annual shortfall between planned capital expenditure and depreciation, 2) repayment of loans maturing in that year.

- Minimum Revenue Balance

  The HRA is set to maintain a minimum balance of 5% of turnover.

Treasury

5.8 The HRA booked loans totalling £354m on 26 March 2012 in order to fund the Self Financing payment made to the Department for Communities and Local Government (DCLG) on 28 March 2012. £347m of loans were taken from the Public Works Loan Board (PWLB), with the remaining £7m borrowed from the General Fund (GF). These loans mature on an annual basis and the first year's capital repayment of £1.4m, relating to 2012/13, has now been made, leaving an outstanding debt of £352.6m.

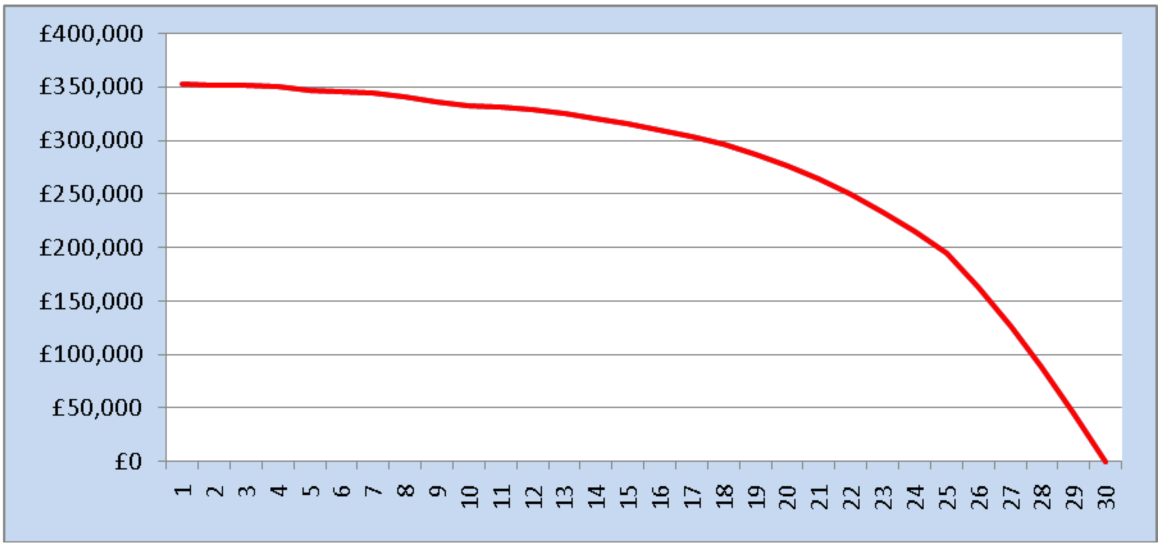
5.9 The rules of Self Financing impose a debt cap on the HRA equal to the level of borrowing undertaken for the purpose of the Self Financing transaction, i.e. £354m. The repayment of the first year's loan has generated headroom of £1.4m. Further capital headroom will be generated annually as loans mature and the HRA repays debt principal.

5.10 The loan portfolio has been structured to secure the optimal average interest rate, i.e. balancing quick repayment of loan principal (in order to minimise annual interest charge), with the need to ensure sufficient capital funds are available to deliver the Dacorum Standard in line with the Asset Management Strategy.

5.11 The remaining portfolio comprises 29 maturity loans, with one maturing each financial year until the final payment is made in 2041/42. The four loans with the shortest maturity dates are from the General Fund, and incur interest charges at the same rate as would maturity loans for the same period from the PWLB. This is effectively an arm's length transaction in compliance with the principles of the HRA ring fence.

5.12 The HRA retains the flexibility to repay these loans earlier than their maturity date (for which a penalty may be payable), or to refinance in order to fund future priorities.

5.13 The graph below, taken from the current version of the business plan model, illustrates the rate at which debt is repaid over the thirty years of the business plan. The gradient of the curve steepens significantly towards the end of the 30-year period as the increasing surpluses generated in these years enable larger annual repayments to be made.



The horizontal axis shows the year of the plan, and the vertical axis shows the amount of debt outstanding.

The New Build Programme

5.14 The original HRA Business Plan, agreed in 2012, made provision for 15 new homes per year until year 10 and then 30 per year thereafter. Following the successful transition to the Self Financing regime, throughout 2012/13, HRA resources enable this plan to be accelerated.

5.15 Cabinet approved Phase 1 of a New Build Programme in October 2012 to deliver 71 new homes by April 2015.

5.16 The following proposals were for Phases 2 & 3 of the Council's New Build Programme were approved by Cabinet in April 2013:

Phase 2
100 new homes

Cost	Approximately £15million
Development Phase	2013/14 – 2015/16
Delivery	2016/17 – 2017/18

Phase 3
100 new homes

Development Phase	2018/19 – 2019/20
Delivery	2020/21 – 2021/22

(For Business Planning purposes the new build assumptions then revert to 30 per year for the remainder of the Business Plan until further review.)

It should be noted that the phased approach to delivery allows the Council to respond relatively quickly to changed circumstances and, should it be required, the 'tap' could be turned off if financial pressures occur elsewhere in the business plan.

HRA Balance

5.17 The pre-audit closing balance on the HRA as at 31 March 2013 is £2.8m. This is consistent with the HRA target working balance set by Council at a minimum of 5% of turnover, which equates to around £2.5m.

5.18 The table below illustrates the target and forecast balances for the HRA up to 2017/18, taken from the Business Plan. It should be noted that the target balance may change in subsequent years if there is a change in forecast turnover from which the minimum balance is derived.

Year	2013/14	2014/15	2015/16	2016/17	2017/18
Target Minimum Balance	£2.641m	£2.767m	£2.915m	£3.052m	£3.195m

5.19 The Council's Chief Finance Officer will keep this target balance under review to ensure that it remains adequate.

RTB

5.20 Changes in RTB legislation, including an increase in the amount of discount available, have contributed to an increase in dwelling sales, 63 in 2012-13 compared with 9 in 2011-12. A total receipt of £6.7 million was generated with DBC able to retain £1.9 million related to the debt of the properties sold and £457k capped share of the remaining pooled receipts.

5.21 DBC has signed up to DCLG's 'One for One Replacement' scheme which enables the retention of receipts above the share cap, provided that it is used for new build and is match-funded. Total 'One for One' receipt retained in 2012-13 was £3.2 million.

5.22 The original assumption incorporated in the HRA Business Plan was based upon lower sales and is £500k RTB receipt per year. The level of RTB sales is being monitored closely to try and establish a stable trend, which can be incorporated into the Medium Term Business Plan. The plan is reviewed on a quarterly basis.

6 AVAILABLE CAPITAL RESOURCES

6.1 In July 2011 the Council adopted a revised capital strategy which was designed to strengthen procedures for ensuring that the Council retains sufficient resources to meet its capital needs over a five year rolling programme. During the 2013/14 budgeting and outturn processes the existing programme was revised to ensure that the profile of capital spending over the five years of the programme was appropriate and manageable. These actions clarified the availability of capital funds beyond the lifetime of the programme and the amounts available for investment in the short and medium term.

6.2 On 28 March 2012 the Council took on a debt of £354m, of which £347m was funded from external borrowing. These loans were required as a result of a Government decision to abolish the Housing Subsidy system and to transfer the responsibility of financing the future capital needs of the Council's housing stock through the Housing Revenue Account. The ability of the HRA to borrow was capped at the level of transactional debt i.e. £354m. The Council has developed a business plan to ensure that the full interest and capital costs of the loans can be met over a 30 year period.

6.3 In addition to the external loans, the Council funded £7.3m of the debt from existing cash holdings by way of an internal loan from the General Fund to the HRA. An annual payment of interest and capital repayment schedule has been incorporated into the HRA business plan.

HRA

6.4 The Self Financing arrangements and the current version of the business plan suggest that all future capital expenditure within the HRA, including the New Build programme, can be funded from depreciation and revenue surpluses. Revenue is contributed to capital on an annual basis as required to fund the shortfall between planned capital expenditure and depreciation contributions to the Major Repairs Reserve. Surplus revenue not required for capital expenditure is transferred to HRA revenue reserves.

General Fund

6.5 As at the 2012/13 outturn (unaudited), General Fund capital resources are c£15m, sufficient to fund the capital programme until 2014/15, when it is anticipated that there will be a borrowing requirement of c£4.5m increasing to £10.8m in 2015/16. The capital programme is monitored on a monthly basis, and the need to borrow will be kept under close scrutiny as new projects are approved and included in the programme. Prudential Borrowing limits therefore need to be reviewed to assess the revenue impact and affordability of any future capital spend. At this stage an assumption has been made around the revenue impact of borrowing (Minimum Revenue Provision) in 2014/15 and 2015/16. The assumption will need to be reviewed in light of actual borrowing patterns and the length and terms of the lending.

6.6 The General Fund Capital Programme is financed as follows:

	2013/14	2014/15	2015/16	2016/17	2017/18
Forecast Spend	16,825,606	17,276,938	13,411,975	2,796,000	1,545,060
Financed by:					
Capital Receipts	11,335,460	7,878,991	1,479,486	1,958,000	857,060
Borrowing	-	4,491,195	10,824,941	-	-
Grants	3,684,410	4,496,752	697,548	278,000	278,000
S106 Receipts	10,736	-	-	150,000	-
Revenue Contributions	1,795,000	410,000	410,000	410,000	410,000

6.7 The level of capital spending and short-term future capital commitments have implications for the funds available for investment and consequently on income from investments which can be used to support revenue budgets or future borrowing needs. As at 31 March 2013 the Council had £62.7m external investments, although the average value of investments throughout 2012/13 was £74.2m.

6.8 Reprofiling the capital programme can potentially free up resources to enable short term investments to be transferred to longer term investments which generate higher interest. The Council's advisers, Sector currently recommend that Councils should place no funds in investments of over 12 months because of the danger of loss as a result of the global economic position. The Council already has maximum permitted 12-month investments under its current Treasury Strategy. Therefore, reprofiling planned capital expenditure over more than one year will have no impact on available funds for investment. This may change in future.

7 DELIVERING PROPOSED BUDGET SAVINGS

7.1 For a number of years the Council has continued to find more efficient ways of delivering its services, identifying savings and has implemented a large number of projects through the Improving Dacorum Programme (IDP).

7.2 However, to become more efficient and effective, the Council, its members and officers will need to ensure that it is budgeting for and spending on priorities; continuing to improve the management information available on productivity, quality and performance; considering alternative methods of service delivery and extending collaboration and joint working to deliver services; and identifying opportunities for generating income streams. Inevitably this will require difficult decisions to be taken and developing new approaches to find further ways to increase efficiency and reduce spending.

7.3 Most councils will need to continue to increase significantly the level of savings made, this will not be unique to Dacorum. Strong leadership and engagement from elected members and senior managers will be paramount in continuing to challenge, monitor and support the council to deliver the on-going efficiency and productivity improvements required.

7.4 Corporate Management Team is of the view that Members and officers should continue to develop savings proposals for approval during the 2014/15 budget preparation cycle.

7.5 Assistant Directors and Group Managers will once again be asked to review all aspects of the services that they are responsible for, and identify any further savings options for consideration by the Budget Review Group during the 2013/14 budgeting cycle.

7.6 To achieve the level of savings required over the period of the MTFS, radical and transformational options will need to be pursued. Therefore, in addition, the MTFS approved in September 2010 included a recommendation to establish a Joint Member/Officer Budget Review group to consider strategic and cross cutting savings options that would not naturally develop through the reviews undertaken by Assistant Directors and Group Managers. The Budget Review Group was established during the 2011/12 budget cycle. The issues covered by the group include a range of strategic cross cutting issues, such as: alternative service provision and delivery methods; options for shared services; review of staff-related costs; asset rationalisation; contract review and procurement improvements and fees and charges. These strategic themes have been incorporated into a number of workstreams which are being led by Chief Officers for inclusion in the budget cycle for 2014/15 and future years. Terms of reference have been agreed for this group.

7.7 The timetable for the savings options will be as follows:

TIMETABLE FOR SAVINGS OPTIONS		
Activity	**Commencement**	**Responsibility**
Medium Term Financial Strategy approved	September 2013	Council
"Budget Review Group" consideration of savings proposals for inclusion in draft budgets	Ongoing	Portfolio Holder Finance & Resources & Corporate Director (Finance & Governance)
Assistant Directors (AD) work with Group Managers (GM) to develop draft service budget proposals and savings options based on principles agreed for discussion with individual Portfolio Holders	August 2013	Assistant Directors and Group Managers
Budget Review Group to consider AD & GM savings options plus review of development of cross cutting and corporate savings options for presentation and scrutiny by the combined Overview and Scrutiny meeting	Mid October 2013	Chief Officer Group
Combined Overview and Scrutiny review of savings package hosted by Resources OSC Chairman	December 2013	Overview & Scrutiny Chairmen
Consultation on draft budget proposals	January 2014	Members - OSC and Citizens Forum
Cabinet recommendation on budget proposals	February 2014	Cabinet
Council approval of budget incorporating savings. Council set Council Tax	February 2014	Council

Consultation & Communication

7.8 It is proposed that a Citizen Forum event is held to consult on the draft budget proposals, prior to submission to Council. This would provide Taxpayer and Resident input to the budget proposals.

7.9 The use of "Social Media" was piloted during the 2011/12 budget cycle and it is proposed that this medium is used again for the 2014/15 budget cycle in addition to the provision of information in the Dacorum Digest. The Council's website will also continue to provide details of opportunities for involvement in the budget consultation process.

7.10 The Council is also committed to working with partners in the local business, parish councils and voluntary community to ensure that they are fully involved and understand the Council's financial position. Therefore it is proposed that our key strategic partnerships are consulted, this will include the Destination Dacorum Board. In addition, it is proposed that business partners will be consulted via the existing mechanisms.

7.11 The outline financial position of the Council and the savings targets required to achieve a sustainable budget for the Council will be discussed with Staff and the Trade Unions at the earliest opportunity.

8. BUDGET RISK

8.1 A review of the risks facing the General Fund budget has identified several issues that at the present time have unknown impacts on the overall financial position of the General Fund. The current MTFS projections are based on prudent assumptions, and include the Chief Finance Officers best assessment of financial risk. However, if any of any of these risks become a reality then the MTFS will need to be updated once the actual impacts are known.

RISK	Risk Mitigation	Impact	Likelihood
Government Grant Reductions - as part of its public expenditure reduction programme the Government frontloads Local Government Grants at a faster or higher rate than included in the MTFS	Annual review of reserves and reserves policy to identify available earmarked reserves. Assumptions beyond 2013/14 have been based on national framework outlined in the CSR, and subsequent Chancellor's statements these will be kept under review	Negative	Low
Inflation – RPI is currently running at 3.3% (June 2013) if this rate does not reduce in coming years any contracts linked to RPI will impact on the MTFS (June figure for CPI 2.9%)	General balances are risk assessed to ensure that overall levels are maintained that can meet higher than expected inflation rates.	Negative	Medium
Investment returns – continue at current low levels	Treasury Management options kept under review with interim reports to Cabinet	Negative	Medium/ High
Prolonged slow Economic Recovery– A number of key income streams could suffer in the event of a prolonged slow economic recovery. Also this is likely to result in further increased demand for services such as Benefits or Homelessness	Current economic climate likely impact will be mitigated by planned short-term use of earmarked reserves. Also CSR reserve created in 2011 to help smooth the impact of the CSR and prolonged slow economic recovery by a phased release of the earmarked reserve over the next four years.	Negative	Medium
Pension Fund – the size of the pension fund deficit has a direct relationship on the level of contributions the Council has to make into the fund. A triennial review of the Pension Fund is ongoing with the results due in December 2013. The impact of auto-enrolment may have a negative impact on the pension fund deficit.	A contribution stabilisation model has been established by the actuaries that limits contribution increases or decreases to an annual stepped basis. The Council has adopted an approach that results of steps of no more than +/- 1% per annum. This may need to be reviewed subject to the outcome of the triennial review. Revenue budgets will be closely monitored to assess the impact of take-up	Negative Negative	Medium Medium
Council Tax – The government announces a further freeze on Council Tax without compensation.	The Spending Round 2013 included an announcement on Council Tax freeze grant at 1% compared to a council tax increase limit of 2% for referendum purposes. A Council Tax freeze would require compensating reductions in planned spending within services to meet the 1% difference between grant and potential yield from a tax increase	Negative	Low

Business Rate Retention – The outcome from first year of operation of the new system will not be confirmed until the year end.	Close monitoring of the current Business rate performance (including appeals; growth; small business rate reductions) will be monitored monthly.	Negative	Medium
Localisation of Council Tax Support – the introduction of a local scheme with a 10% reduction of funding financed through a grant provides the following risks during the first year of operation:			
• Initial baseline used for setting grant will be forecasted rather than based on actual spend therefore it may be too low.	The Local CTS Scheme will be kept under review during year 1 to identify any scope for future amendment. Other savings may need to be identified in year.	Negative	High
• The new scheme is provides a discount rather than being a benefit, this could result in an increase in take up		Negative	Medium/High
• Reductions in support to Working Age claimants may impact on Council Tax Collection rates	The impact of the Collection Rate will be kept under review for future use in tax base calculations.	Negative	Medium/High
Welfare Reforms – Reforms being introduced under the Welfare Reform Act 2012 may have the following impact:-			
• Increase in take up for Housing Advice and Homelessness Services – arising from the implementation of Local Housing Allowance limits and Benefit Caps	The budget will be kept under review. Consideration will be given to introduction of new initiatives e.g. Private Sector Leasing scheme.	Negative	Medium/High
• Increase in rent arrears on the HRA	Keep HRA debt provision under review	Negative	Medium
• Staffing cost implications arising from the transition from Housing Benefit to Universal Credit as DWP are indicating that TUPE will not apply	- Keep Redundancy reserve under review - Ongoing review of staffing requirements and policies	Negative	Medium/High
• Demand for Discretionary Housing Allowance may exceed the council's approved budget	On-going review of allocated budget through budget monitoring	Negative	Medium
Decant – the revenue and capital costs arising from the proposed decant to 39/41 The Marlowes may exceed the funds available in the earmarked reserves to support one off revenue expenditure	Detailed costings are being reviewed as part of the preparation for Decant, this will be kept under review during the preparation of budgets for 2014/15 and beyond. Opportunities to make contributions to earmarked reserves will be kept under review to support these costs, during the preparation of revised estimates	Negative	Medium/High

DACORUM BOROUGH COUNCIL – MTFS 2013/14 to 2017/18

Appendix A

General Fund Budget 2013/14 to 2017/18	2013/14	2014/15	2015/16	2016/17	2017/18
Service Expenditure & Direct Income					
Employees	22,058	21,704	22,598	23,245	23,990
Premises	3,633	3,724	3,852	3,997	4,148
Transport	1,484	1,558	1,615	1,676	1,739
Supplies & Services	8,151	8,359	8,322	8,441	8,685
Supplies & Services (Contribs to Provisions)	451	464	479	496	514
Third-Parties	376	386	399	413	428
Transfer Payments	47,214	47,214	47,214	47,214	47,214
Capital Charges	4,133	4,133	4,133	4,133	4,133
Income	(63,417)	(63,732)	(63,859)	(64,078)	(64,420)
Net Recharges to HRA	(2,276)	(2,333)	(2,391)	(2,451)	(2,512)
Net Cost Of Services	21,808	21,478	22,361	23,087	23,920
Cumulative Savings Requirement		0	(1,024)	(2,884)	(4,265)
Net Cost Of Services after Savings	21,808	21,478	21,337	20,203	19,655
Less:					
Interest Receipts	(374)	(227)	(244)	(276)	(238)
Interest Payments & Minimum Revenue Provision	0	320	1,090	1,090	1,090
Reversal of Capital Charges	(4,133)	(4,133)	(4,133)	(4,133)	(4,133)
Revenue Contributions to Capital	1,885	422	410	410	410
Net movement on Earmarked Reserves	(1,314)	210	(334)	15	15
Net Exp Prior to use of General Fund Balance	17,872	18,070	18,126	17,309	16,800
Contributions From Working Balance	(172)	(200)	(219)	0	0
Budget Requirement General Fund	17,700	17,870	17,907	17,309	16,800
Revenue Support Grant	(3,962)	(3,044)	(2,432)	(1,907)	(1,489)
Baseline Funding	(2,636)	(2,710)	(2,797)	(2,897)	(3,001)
Business Rates Share over Baseline Funding	(392)	0	0	0	0
New Homes Bonus	(1,500)	(1,644)	(1,162)	(1,256)	(1,349)
Collection Fund Surplus	36	0	0	0	0
Net Expenditure	9,245	10,473	11,516	11,249	10,960
Demand on the Collection Fund	(9,245)	(9,448)	(9,656)	(9,869)	(10,086)
general Fund Working Balance B/F	(2,991)	(2,819)	(2,619)	(2,400)	(2,400)
In year use	172	200	219	0	0
Balance C/F	(2,819)	(2,619)	(2,400)	(2,400)	(2,400)
Target Working Balance	(2,500)	(2,400)	(2,400)	(2,400)	(2,400)
In Year Savings Target to Meet Target Working Balance	0	1,024	1,860	1,380	874

APPENDIX B Earmarked Reserve	Reason for holding the reserve	Balance b/f 1/4/13 £k
Dacorum Rent Aid - Guarantee Scheme	Resource to support Dacorum Rent Aid guarantee scheme	**15**
Civic Centre Major Repairs Reserve	To provide a revenue contribution to one-off major repairs costs relating to the civic centre	**348**
Earmarked Grants Reserve	Balance of ABG and other general grants - non-ring-fenced grant which were not utilised at 31 March 2011	**328**
Redundancy Reserve	Reserve held to protect the General Fund from the one off impact of redundancy costs. Utilised to meet the one-off costs related to the early termination of employment where there is a corporate requirement to support a business case to provide future savings and efficiencies	**1,125**
Management of Change Reserve	Reserve utilised to finance one-off invest to save requirements to facilitate future opportunities for savings and efficiencies	**1,452**
Car Parks Commuted Sums Reserve	Reserve holds car parking commuted sums	**266**
Local Development Framework Reserve	Used to finance the one off costs relating to the development of the LDF, drawn down annually	**536**
Planning Enforcement & Appeals Reserve	To finance one off costs of planning enforcement and appeals	**125**
Planning Project implementation reserve	2010/11 budget report recommended re-designation of reserve to Planning and Regeneration Project reserve to provide one off revenue funding for either planning or regeneration projects which will support further efficiencies within these related services or provide revenue finance for feasibility studies related to regeneration.	**185**
Vehicle Replacement Reserve	Revenue contributions to finance the capital cost of vehicle purchase in accordance with planned programme	**1,018**
GAF Reserve	Growth Area Funding – drawn down in accordance with approved action plan	**5**
Cemeteries Safety Reserve		**61**
Longdean School Repairs Reserve	Asset related reserve	**7**
Tring Swimming Pool Repairs Reserve	Asset related reserve	**67**
Youth Club Reserve	Asset related reserve	**101**
Election Reserve	Annual Contributions made to smooth the impact of financing the 4 yearly Council Election (drawn down every four years)	**99**
Local Land Charges Reserve	Reserve holds any surpluses from the chargeable element of Local Land Charge activities to help finance service improvements and offset any future deficits	**214**
Uninsured Loss Reserve (Insurance)	Reserve set up to mitigate potential future impact of incident of claims against the General Fund	**700**

Building Control Reserve	Reserve holds any surpluses from the chargeable element of Building Control activities to help finance service improvements and offset any future deficits	**0**
Rent Guarantee Scheme Reserve	Resource to support rent guarantee scheme	**15**
Private Sector Housing Conditions Survey Reserve	To support the one off cost of undertaking a private sector housing conditions survey	**68**
Dacorum Partnership Reserve	Set up following receipt of Hertfordshire Local Area Agreement (LAA) Performance Reward Grant and made available for Dacorum Partnership Board use. Council approval that this be ring-fenced to fund future work of the Dacorum Partnership Board including the appointment of a Partnership Development Officer (two years funding). The earmarked reserve was created as part of the closure of accounts for 2009/10. During 2010/11 the proposed use of this resource will be considered by the Dacorum Partnership Board to meet the LSP's priorities. Upon approval of priority expenditure a supplementary estimate will be referred to Cabinet and Council for approval to be financed from this earmarked reserve. (Note: announcement made in June '10 by the Dept of Communities and Local Government following the Government's review of the Performance Reward Grant, resulted in the grant payable to the Council being reduced in 2010/11. This will require this reserve to be kept under review)	**91**
Training & Development Reserve	Created to fund organisational training and development requirements arising out of the strategic change project initially funded by contribution from savings on training budgets	**150**
VAT Reserve	Newly created pending the final outcome of the "no win, no fee" claim lodged by the Council for overpaid VAT and related interest with Her Majesty's Revenue and Customs (HMRC) at the end of the 2008/09 financial year. Outstanding claim for compound interest. A further review of the potential re-designation and utilisation of this reserve to be carried out once all outstanding claims are settled and the chance of any appeal has been evaluated.	**1,905**
On Street Car Parking Reserve	This reserve holds any surplus made within On Street Car Parking which must be reinvested in Parking Services.	**218**
S106 Commuted Sums Reserve	This reserve holds funds received under section 106 agreements towards future expenditure.	**622**
Technology Reserve	This was a new reserve in 2010/11, which will be utilised with the management of change reserve in future years to help invest in technology improvements which will help improve efficiency and resilience in preparation for shared service agenda	**800**
CSR Transitional Reserve	This reserve is to support the aim of the MTFS to phase in impact of CSR over the four year period of the CSR including deductions in government grant funding – particularly to protect the council from the impact of year three and four for which funding announcements are still awaited	**550**
PSQ Transition Reserve	This reserve is a prudent measure designed to enable the Council to mitigate some of the inevitable risks associated with a project on the scale of the PSQ development including Decant costs	**1,150**
Dacorum Development Programme Reserve	To contribute to the financing of revenue costs associated with the set-up and governance arrangements for the Local Investment Plan.	**374**

Local Government Resource Review & Localisation of Council Tax Support Transitional Reserve	To assist the Council with developing a scheme to provide transitional protection for benefits recipients.	**259**
Pensions Reserve	To mitigate the impact of pension fund deficits	**1,500**
Maylands Plus Reserve	Reserve set up to receive surpluses from the Maylands Business Centre operation to be utilised to support economic development and growth initiatives	**56**
Total General Fund Earmarked Reserves		**14,410**
General Fund Working Balance		**2,991**
Total Earmarked Reserves & General Fund Balance		**17,401**