MEDIUM TERM FINANCIAL STRATEGY

2012/13 – 2016/17

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

Affordable Housing ♦ Regeneration ♦ Building Community Capacity ♦ Safe and Clean Environment ♦ Dacorum Delivers

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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 2012/13 to 2016/17, being the current year plus four.

1.3 The Strategy reviews savings targets set for the 2012/13 budget cycle and identifies targets for the financial year 2013/14 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 and the Local Government Finance settlement issued in January 2012.

1.5 The Strategy has also been updated to take account of the consultation papers on 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 £1.1 million be approved for the 2013/14 Budget Process, subject to review following the closure of the consultation on Local Government Resource Review and the Local Government Finance Settlement for 2013/14 expected in early December 2012;

2.4 a combined four year General Fund Savings Target of £4.1 million be approved for the duration of this Medium Term Financial Strategy which accommodates the duration of the Government Comprehensive Spending Review;

2.5 a review of the Housing Revenue Account base budget and efficiency plan be undertaken as part of the review of the HRA business plan;

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 purposes 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 purposes 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 2013/14 budget and during the development of future plans for the HRA self financing proposals;

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 Resource Review and Local Government Finance Settlement in early December 2012;

2.11 the Fees and Charges Strategy continues to be adopted to require a thorough review to be undertaken of the true cost and effectiveness of providing statutory services 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, 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:

- Listening events scheduled for September;
- 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 be consulted on the key messages contained within the Medium Term Financial Strategy and, more specificall, 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 highly 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 is not anticipated until December 2012. For the purposes of modelling, further reductions of 12.3% and 8% have been anticipated for 2013/14 and 2014/15 respectively.

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. The paper considered the localisation of Business Rates. More detailed consultation papers have since been issued. The most recent consultation paper was the "Business Rate Retention – Technical Consultation", issued on 17 July 2012.

3.11 Initial modelling of the potential impact of these reforms has been undertaken and incorporated into this strategy. However, further consultation papers and details are expected prior to the announcement on Local Government Finance Settlement anticipated in December 2012.

3.12 As a result, the assumptions and projections are continuing to evolve. The MTFS has been reviewed to reflect the Government's announcements on public finances and the Corporate Director (Finance and Governance) has attempted to interpret and highlight the range of announcements still to come.

3.13 It should be noted there will be a need for further updating of the projections and forecasts contained in this document once further announcements on the Local Government Resource Review have been made. 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 Whilst funding for Districts through the Revenue Support Grant and distribution from the NNDR Pool (collectively known as Aggregate External Finance) had been increasing in recent years, there have been annual reductions since 2011/12.

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

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

a) Key income streams such as planning fees; 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 a recent Government announcement has indicated that whilst localised fee setting will not be introduced for the foreseeable future, an increase in scale fees calculated on the basis of RPI will be announced in the autumn;
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;
d) The Department for Works and Pensions funding may 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 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 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 are currently being 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

3.17 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.

3.18 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".

3.19 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 Improving Dacorum Programme has provided a focus for delivering savings and efficiencies over the last four years.

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

3.21 The steps taken during the last four years, as part of the Improving Dacorum Programme (IDP), phases 1 and 2, and the delivery of the Corporate Realignment process during the financial years 2010/11 - 2011/12 have helped the Council to prepare for, and deal with to date, the significant reductions in public expenditure announced as part of the CSR 2010.

3.22 Whilst the Council has been able over the last five years to make ongoing 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 the start of 2012/13 there has also been 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 emerging impact of the current Welfare Reforms such as restrictions on Local Housing Allowance in some area.

3.23 Nonetheless, taking account of the current levels of inflation and service demand, together with the impact of further reductions in the Local Government Finance Settlement anticipated for 2013/14, the position beyond 2013/14 will become increasing difficult. Also there is considerable uncertainty around the future baseline position for Government funding until formal announcements are made with regard to Business Rate Retention and the Local Government Finance Settlement.

Balances and Reserves

3.24 As part of the closure of accounts for 2011/12, 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.

3.25 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 and the public spending review and also to help dampen the impact of repositioning the budget base. Resources have also been identified to part-fund the Council's Regeneration priorities.

3.26 The Council's General Fund balance as at 1 April 2012 was £2.880 million (against an estimate of £2.792m), and is forecast to be £2.626 million by 31 March 2013 based on the revised closing balance for 2011/12.

3.27 The Council's General Fund Earmarked Reserves as at 31 March 2012 were £13.839m. Appendix B provides details of the reserves held at 31st March 2012, following the closure of accounts for 2011/12 (pre-audit).

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

Latest Government Announcements

Coalition Agreement

3.29 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

3.30 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.

3.31 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. However, the Government was clear that these reductions were necessary in order to restore confidence in the economy and support the recovery. The Government has also been clear that it is for local authorities to decide where their priorities and opportunities for efficiencies lie across the totality of their responsibilities.

3.32 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.

3.33 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.

3.34 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.

3.35 The announcements included areas of funding that impacted on District Councils. The announcements had the following direct impact on our 2010/11 General Fund revenue budget:

(a) **Local Authority Business Growth Incentive Scheme** – The assumptions for the Council's 2010/11 budget did not include any provision for a LABGI receipt during 2010/11, therefore there is no impact on the budget arising from this announcement**.**

(b) **Housing and Planning Delivery Grant** – Following an initial nil award notification for HPDG, a nil budget assumption was made for 2010/11. Therefore, the removal of this specific grant did not directly impact the base budget position.

(c) **Growth Area Funding –** comprises both revenue and capital funding, impact on these funding streams will be reviewed during the budget cycle.

(d) **LAA Reward –** The announcement represented a 50% reduction in the total grant expected. This means the LSP had a reduced funding stream**.**

3.36 **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.

3.37 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.

3.38 The forecasts 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.

3.39 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.

3.40 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.

3.41 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.

3.42 The first consultation paper on the Local Government Resource Review was issued on 18 July 2011. The paper set out proposals for the retention of some 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 are to be introduced from April 2013. A number of Technical Papers have subsequently been issued by the Government to accompany the Consultation Paper. In addition, a further technical consultation on Business Rate Retention was issued by Government on 17th July 2012 with a closing date for responses by 24th September. Some initial modelling of the impact of the consultation paper has been undertaken, but it is likely that there will be a need to further update the MTFS as the modelling work is refined.

3.43 It is proposed that TIF will allow Councils to borrow against future additional uplift within their business rate base, which could be used to support regeneration schemes. At this stage the MTFS does not contain any assumptions about the potential use of TIF.

3.44 In addition, there are a number of Welfare Reforms which will impact on the MTFS. These include:

- 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.

3.45 **Localisation of Council Tax Support** - The Local Government Finance Bill (to be enacted later in 2012) will require councils to publish a local scheme for Council Tax Support by 31st January 2013 for implementation from 1st April 2013. Councils are required to consult major precepting authorities and all interested persons on the proposed scheme before it is adopted.

3.46 As part of its commitment to reducing public expenditure, the Government has specified that the cost of the schemes will be 10% less than the current cost of providing Council

Tax Benefit in England. In devising local schemes Councils may either choose to pass on some or all of its funding reduction to recipients, or to absorb it into overall budgets.

3.47 The Scheme will only be 90% funded by Central Government when compared to the current subsidy system. The funding will be 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 is reduced by 10% (compared to forecasted spend for 2013/14) with estimated financial impact for the Council of a 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).

3.48 As the new Scheme will operate through the Council Tax Discount Legislation and be managed through the Council's Collection Fund, the change from 'benefits' to 'discounts' will impact on the Council's Council Tax Base which is expressed as a number of Band D properties. The number of Band D equivalents will automatically reduce whilst major preceptors will be compensated through the direct grant payment to offset the impact of this change on taxpayers. At this stage no method has been raised for Government to pay the 10,000 Parish and Town Councils in the same manner.

3.49 The DCLG Consultation paper on funding suggests that it "expects billing authorised and local precepting authorities to work together to manage the impact on local precepting Councils." Therefore, it is likely that some degree of protection for Parishes will be required in order to mitigate the immediate impact of the change from subsidy payments to discount payments on the Parish tax base.

3.50 **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 is likely to face significant redundancy costs.

3.51 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.

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 resources 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 2011/12 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 £16.608m representing the net cost of services. The financing of the total net expenditure for the year was as follows:

- £6.674m Government Formula Grant (revenue support grant £1.576m and redistributed business rates £5.098 m)
- £9.976m council tax income (excluding parish precepts of £0.595m)
- Less £0.042m Collection Fund deficit

2011/12 Outturn

4.4 The table on page 15 shows the 2011/12 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 2011/12 was £17.824m, or £3.025m less than the revised budget.

4.6 Around £2.1m of the underspend is attributable to year-end accounting adjustments that are required in order to comply with accounting regulations. It is important to note that these adjustments are 'reversed out' prior to the setting of Council Tax and have no impact on the tax-payer. Key contributors to the £2.1m accounting adjustments comprise:

- Capital Entries
  The table reflects an impact of c£1.4m resulting from revaluations carried out on General Fund properties by the Council's valuers Wilkshead and Eve.

- Employee Benefits
  The table reflects an impact of c£800k resulting primarily from adjustments made to the Council's pension liabilities, following the year-end report from the Council's actuaries, Hymans Robertson LLP. More detail on the Council's pension liabilities can be seen in Note 14 to the Accounts.

4.7 The remaining variance of c£1m comprises savings, additional income and underspends that have occurred since the setting of the Council's revised budget. Significant contributors to this variance are detailed below:

Premises £298k below budget

- £82k net underspend on Building Works arising from an increase in the number of statutory repairs diverting resources away from planned maintenance tasks.

- £140k underspend on utilities and insurance due to savings following a retendering exercise.

- £35k saving on the project to update car park signs and machines to reflect new tariffs.

- Offset by £41k over budget on Homelessness, reflecting a dramatic increase in demand over the winter months for the Council's statutory obligation to provide temporary accommodation for homeless families.

Supplies & Services £809k below budget

- £231k under budget on the Local Development Framework (LDF) project. Primarily this is due to reprofiling of the work on the overall master planning process (£170k). In addition, a further £55k was saved as the Council opted not to print bound copies of the LDF plan, instead utilising discs.

These LDF project costs were to have been funded through reserves. However, the reserves will now be drawn down in future years to meet expenditure incurred in the delivery of the project as it occurs.

- £100k saving arising from budgeting amendments within Finance & Governance.

- £25k under budget on Financial Services reflecting reduced Audit Commission fees following their reassessment of the Council's audit risk.

- £90k various efficiencies and underspends within Revenues & Benefits relating to reduced bailiff usage for Housing Benefit overpayments cases, reduced court fees, and underspends on IT relating to Northgate.

- £87k over budget in Clean Safe & Green relating to higher than anticipated uninsured payouts, particularly around subsidence caused by tree roots.

- £120k under budget reflecting reprofiling of some aspects of the Improving Dacorum Programme relating to IT consultancy services in advance of the Aylesbury Vale District Council partnership, and the Facilitating Change programme.

Transfer payments £365k below budget

- The amount of benefit paid throughout 2011/12 was lower than anticipated at the time of the original claim. As benefits are funded through government subsidy paid to the Council, the reduced amount of benefit paid also affected the amount of income received by the Council, as referred to below.

Income £525k under recovery

- £362k reduced government grant income reflecting the reduced amount of benefits paid (see above).

- £328k reduction in income to reflect the audit opinion of the 2010/11 final benefit grant claim, which is likely to result in the Department for Work & Pensions (DWP) making a one-off reduction to future grant payments of £328k. This is an annual adjustment and reflects systemic timing issues between the claiming of grant by the Council and the payment being made by DWP. It is prudent to recognise this adjustment in the current year, though the final position will not be confirmed until DWP respond to the audit opinion.

- £66k increase in rental income relating to retrospective rent reviews.

- £74k increase in income relating to an increase in the number of Penalty Charge Notices (PCNs) issued.

- £120k increase in car-parking income reflecting the fact that there was less snow this year than last which meant that car parking income was not adversely affected as it has been in previous years.

4.8 These variances, together with additional savings and income forecast at the revised budget-setting exercise in November 2011 (approved by Council in February 2012), 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: 2011/12 Outturn Position

	Revised Budget £'000	Actual £'000	Variance £'000
Finance and Governance	5,780	2,324	(3,456)
Housing and Regeneration	3,472	4,583	1,111
Performance, Improvement and Transformation	11,597	10,917	(680)
General Fund Service Expenditure	**20,849**	**17,824**	**(3,025)**
Less:			
Interest (Receipts)/Payments	(528)	(520)	8
Reversal of Capital Entries	(4,298)	(2,940)	1,358
IAS19 Adjustments	0	796	796
Extraordinary Items	(1,227)	(1,227)	0
Other Government Grants	(571)	(672)	(101)
Revenue Contributions to Capital	1,205	1,174	(31)
Contributions to/(from) Earmarked Reserves	(987)	2,274	3,261
Net Expenditure Prior to use of General Fund Working Balance	**14,443**	**16,709**	**2,266**
Contributions to/(from) Working Balance	2,165	(101)	(2,266)
Budget Requirement (General Fund)	**16,608**	**16,608**	**0**
Parish Precepts	595	595	0
Budget Requirement Including Parishes	**17,203**	**17,203**	**0**
Revenue Support Grant	(1,576)	(1,576)	0
National Non-Domestic Rate Grant	(5,098)	(5,098)	0
Collection Fund Deficit/(Surplus)	42	42	0
Net Expenditure Including Parishes	**10,571**	**10,571**	**0**

Council Tax

4.9 Government grant, which is met from national taxation, makes up the significant amount (41.6%) 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 (57.3%). 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).

4.10 The government provided an incentive to freeze council tax for 2011/12, which resulted in an average national Council Tax increase of just 0.1%. A further Council Tax freeze for 2012/13 was funded for one year only, the effect of this is to reduce the resource base carried over into 2013/14 by £256,000.

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 2011 the Government confirmed that it would introduce arrangements for Council Tax referendums if an authority sets a tax which exceeds principles endorsed by Parliament. These provisions were implemented for 2012/13. The Government confirmed principles that local authorities were required to seek approval of their local electorate in a referendum if, compared with 2011/12 figures, they set a Council Tax increase that exceeded:

- 3.5% for most principal authorities
- 3.75% for the City of London
- 4% for the Greater London Authority, Police Authorities and single purpose Fire and Rescue Authorities
- There were no equivalent principles for Town and Parish Councils for 2012/13.

For the purpose of the MTFS an assumption has been made that similar principles will apply in future years.

4.12 The 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 an increase in Council Tax of 2.5%per annum with effect from 2013/14.

Medium Term Financial Strategy Assumptions

4.14 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.

4.15 The following assumptions have been used in the MTFS:

	2011/12 %	**2012/13 %**	**2013/14 %**	**2014/15 %**	**2015/16 %**	**2016/17**
Income						
Council Tax	0	0	2.5	2.5	2.5	2.5
Formula Grant*	-16.2	-12.3	-12.3	-8	-8	-8
Fees & Charges	2.5	2.5	2.5	2.5	2.5	2.5
Investment Income	0.9	1.0	1.0	1.0	1.0	1.0
Expenditure						
Pay Costs						
Pay settlement**	0.0	0.0	1.0	1.0	1.0	1.0
Pay – contractual increments	1.75	1.75	1.75	1.5	1.5	1.0
Pay – National Insurance	1	0	0.0	0.0	0.0	0
Pension contributions	0.0	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
Fuel		7.5	2.5	5.0	5.0	5.0
Supplies & Services	2.5	2.5	2.5	2.9	1.9	1.9
IT Licenses	2.5	2.5	2.5	2.9	1.9	1.9

The above assumptions take account of the proposed adjustment in Government Spending Totals identified in the Technical Consultation on Business Rate Retention issued in July 2012.

Further sensitivity analysis will be undertaken on the assumptions made above as new information becomes available regarding the implementation of the Local Resource Review in April 2013 at which time it is proposed councils will be able to retain some element of Business Rates locally.

Target Balances

4.16 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.

4.17 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.

4.18 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 2011/12 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 2012/13 budget was 1.42:1.

4.19 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% to 15% of net service expenditure.

4.20 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 Officer's view that the minimum level that the Council's general fund balance should be set as follows:

2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
£2.8m	£2.6m	£2.5m	£2.4m	£2.4m	£2.4m

These target working balances will be kept under review during the 2013/14 budget cycle to ensure that they remain adequate once the Local Government Finance Act is enacted.

Savings Targets

4.21 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.

4.22 The savings target for the next four years can be calculated as follows to deliver the minimum level of general balances identified in paragraph. 4.16.

Indicative Savings over the Life of the MTFS

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total Over the period of MTFS £m
Indicative Savings Target	1.1	0.9	1.2	0.9	4.1
Resulting General Fund Balance	2.5	2.4	2.4	2.4	

Note: the above assumptions take account the implementation of Council Tax Support; 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.

4.23 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. The overall savings target for 2012/13 to 2015/16 was reviewed and estimated at £3.8m (made up of £0.9m, £1.1m, £0.8m).

4.24 The overall savings target for 2013/14 to 2016/17 has been revised to £4.1million, made up of £1.1 m, £0.9 m, £1.2 m and £0.9 m respectively. It should be stressed that these savings targets will be kept under review as more detail emerges relating to the impact of the introduction of the Business Rate Retention Scheme and the implementation of the Localisation of Council Tax Support scheme. In addition, further modelling work will be undertaken throughout the summer of 2012 to test the assumptions in light of the recently-launched Government technical consultation on Business Rate retention.

4.25 All savings identified as a result of the savings targeted for 2012/13 have already been included within the base budget position for the revised MTFS.

Prioritised Growth

4.26 No provision has been made for unavoidable and essential growth items. However, it is anticipated that there will be increased 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

4.27 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.

4.28 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.

4.29 Decentralisation Minister, Greg Clark, announced on 3rd July 2012 plans for a one-off increase in planning fees of around 15% based on inflation since 2008: the last time fees were uprated. A further announcement is anticipated in the Autumn, therefore, the impact of this announcement has not been factored into the MTFS at this stage.

4.30 It is, however, crucial that these charges are updated in line with statutory changes and the information made available to our customers. 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.

4.31 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.

4.32 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.

4.33 An increase of 2.5% for the annual review of fees and charges has been included in the MTFS projections. 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 over its largest annual category of housing expenditure 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 In addition to the benefit of certainty over expenditure, the low average interest rate that the Council was able to secure on the Self Financing loans has significantly increased the level of resources available for stock investment over the next thirty years. This is because in calculating the Dacorum debt settlement, DCLG assumed that the long-term interest rate for the repayment of debt would be around 6.5%, equating to an annual interest payment broadly equal to the c£20m negative subsidy payment. However, continued economic uncertainty has kept the price of gilts low, which in turn has kept PWLB rates low and enabled the Council to access loans at an average interest rate of 3.3%.

5.4 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

5.5 In order to realise the longer-term opportunities available to the Council fully 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).

5.6 The Model includes all the income and expenditure, for both revenue and capital, associated with the HRA for a period of 35 years, starting in the financial year 2012/13. The income and expenditure includes future projects for which the timing and approximate costs are known and are therefore entered directly into the Model. 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.

5.7 The Model should be seen as 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

5.8 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% up to £2 per week for those properties that have not yet reached convergence (still around 40% of stock), 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.

- Interest charges

  The HRA pays interest on loans totalling £354.015m, 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

5.9 The HRA has loans totalling £354m. These loans were all booked 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).

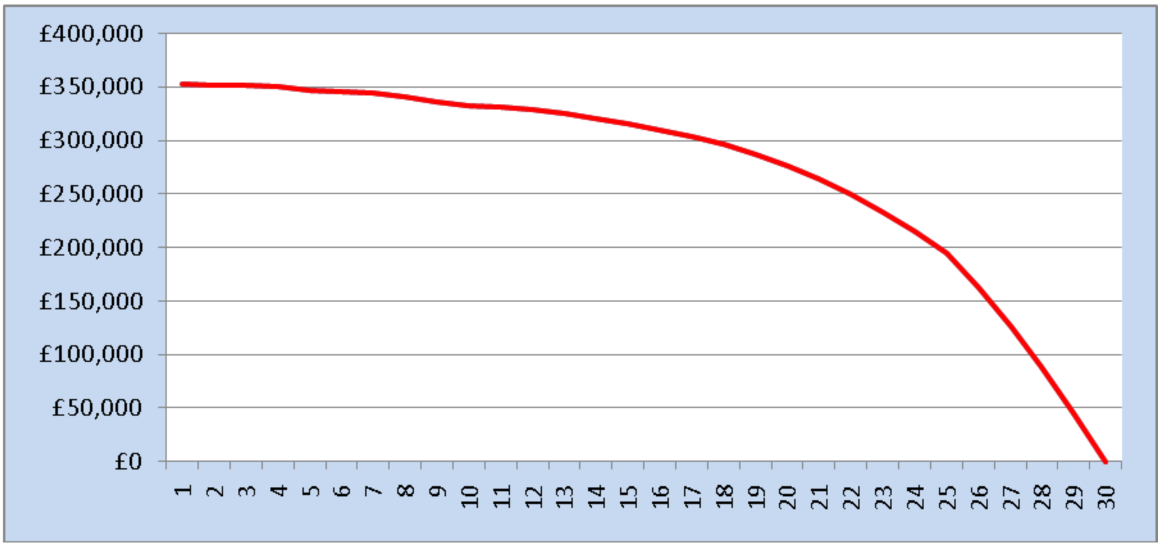
5.10 The rules of Self Financing impose a debt cap on the HRA equal to the level of borrowing undertaken for the purpose of the Self Financing transaction, i.e. £354m. Because the HRA Capital Financing Requirement (CFR) was in credit by £8.1m before the loans were taken, the HRA currently has headroom of £8.1m which it is envisaged will be spent on land assembly for New Build projects. Further capital headroom will be generated annually as loans mature and the HRA repays debt principal.

5.11 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 AMS.

5.12 The portfolio comprises 30 maturity loans, with one maturing each financial year until the final payment is made in 2041/42. The five loans with the shortest maturity dates are from the GF, 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.

5.13 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.

5.14 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 first year of the Model

5.15 The actual interest rates available from PWLB were not available until the loan was booked on 26 March 2012, well after the HRA business planning process was under way.

5.16 In the absence of certainty around PWLB interest rates, a decision was taken to model on the basis of a prudent interest rate of 4.5%. This prudent rate was assumed in order to insulate the approved Dacorum Standard against inevitable fluctuations in PWLB rates.

Securing interest rates below the assumed level has reduced the annual interest charge to the HRA and consequently unlocked new capacity over the life of the plan of up to £145m.

5.17 This capacity generates the flexibility to investigate further business planning options in addition to those within the current plan, including, amongst others: earlier repayment of debt, increased stock investment, an enhanced new build programme, and setting rent increases at less than national rent policy'.

5.18 These options will be considered throughout 2012/13 before a final decision is made on the utilisation of additional resource within the plan. This approach will enable the business plan to be tested thoroughly and reviewed throughout its first year before committing the flexible capacity.

5.19 In particular, review should focus on the following key challenges:

- monitoring of the current inflationary assumptions, and how they compare to an uncertain economic climate;
- the finalised Stock Condition Survey;
- the forthcoming tendering of the major repairs and improvement contracts;
- the impact of new Right to Buy legislation; and,
- the financial performance of the first year of the business plan.

HRA Balance

5.20 The pre-audit closing balance on the HRA as at 31 March 2012 was £4m. 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.

5.21 The table below illustrates the target and forecast balances for the HRA up to 2016/17, 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. As reported in paragraphs 5.15 – 5.19, the forecast balances in the table reflect the additional resources resulting from the securing of low interest rates which have yet to be allocated.

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Target Minimum Balance	£2.508m	£2.649m	£2.789m	£2.928m	£3.063m
Forecast Balance	£3.198m	£6.755m	£11.372m	£16.245m	£20.664m

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

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 2012/13 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 As described in Section 5, 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.

6.4 The Self Financing arrangements and the business plan should ensure that, in the longer term, all future capital requirements in respect of improvements to the existing housing stock can be met from the HRA.

6.5 In the short term there is a need for affordable housing within Dacorum. Three sources of capital financing are available to address this: £6.2m has been budgeted from Growth Area Fund grant and HRA Capital Expenditure from Revenue Contributions to Capital Outlay (RCCO) as affordable Housing Development funds over the period 2012/13 to 2015/16. The third source of funding is from previously set-aside capital receipts that are specific to the HRA. These arise from two sources:

- Housing capital receipts set aside under the statutory process in place until 31 March 2004 (which become the property of the General Fund)
- Appropriations of Garages from the HRA to the General Fund (previously approved by Secretary of State).

6.6 The value of these set-aside receipts is £8.1m. Two items of capital expenditure have been identified in 2012/13 relating to the acquisition of land that can be developed for affordable housing purposes (St Peter's Church and London Road), with a total estimate cost of £1.055m. The acquisition costs will be charged against the HRA set aside receipts.

6.7 In respect of General Fund capital financing requirements, the Council currently holds sufficient capital resources that it has no need to borrow to meet the current five-year capital programme. Hence there is a negative CFR for the General Fund. At 2011/12 outturn (unaudited), non-HRA capital resources are estimated to be £25.9m.

6.8 A major reprofiling exercise was undertaken during closedown for the 2011/12 accounts. This maintained the value of the capital programme but reallocated expected costs to the appropriate financial year. In addition, capital items have been included in the programme since the budget was set on 29 February 2012. As a result of these changes, and the inclusion of anticipated capital receipts, the capital resources available at the end of the current rolling programme, assuming no further borrowing are £11.574 (£4.515m General Fund and £7.059m HRA), as shown below.

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
General Fund spend estimate	11.393	13.714	4.059	5.286	3.308
HRA spend estimate	16.672	17.117	19.277	20.365	20.874
Estimated use of grants, and RCCO	(21.606)	(23.521)	(20.074)	(21.161)	(21.821)
Use of set-aside- GF	(6.459)	(7.310)	(3.262)	(4.490)	(2.361)
Use of set-aside - HRA	(1.055)	0*	0*	0*	0*
Estimated resultant Capital resources before borrowing	(26.998)	(20.187)	(17.425)	(13.435)	(11.574)

* *Note: to be written down as part of HRA business planning (see section 5)*

6.9 The Council has made a commitment to replace its main civic offices within the next five years. The costs of the replacement building have not been assessed in sufficient detail to date to be included within the programme. However, estimates suggest that there will be a shortfall of approximately £4m between the new build costs and the capital receipts generated from the existing building. This means that any new bids for capital spending in addition to the existing five-year programme will require borrowing. Prudential Borrowing limits therefore need to be reviewed to assess the revenue impact and affordability of any future capital spend.

6.10 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. At 28 March 2012 the Council had £59.5m external investments, although the average value of investments throughout 2011/12 was £72.0m.

6.11 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. 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 This will not be unique to Dacorum: most councils will need to continue to increase significantly the level of savings made. 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 ongoing 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 2013/14 budget preparation cycle.

7.5 In 2010 the Council supported a Corporate Realignment Programme as part of a broader Strategic Change Programme in a bid to mitigate the potential impact of funding reductions on front-line services. The first phase of the Realignment Programme, to review the top three management tiers below the Chief Executive, was completed during 2010 and the full-year impact of this phase generated £750k of savings (the final impact of the phase one realignment was built into the base budget for 2011/12). The appointed Corporate Directors worked with their Assistant Directors and Group Managers to identify further realignment priorities and the second phase of the Realignment process was completed in 2011. A further £1.27m (combined General Fund and HRA) of savings was indentified. The budgets approved for 2012/13 have already taken account of the deletion of a number of vacant posts held at the time of the budget preparation. The MTFS projections for future years have been adjusted to take account of these post deletions.

7.6 As a result, and also bearing in mind the savings target required over the next four years, 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.

7.7 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 2013/14 and future years. Terms of reference have been agreed for this group.

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

TIMETABLE FOR SAVINGS OPTIONS		
Activity	**Commencement**	**Responsibility**
Medium Term Financial Strategy approved	September 2012	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 2012	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 2012	Chief Officer Group
Combined Overview and Scrutiny review of savings package hosted by Resources OSC Chairman	December 2012	Overview & Scrutiny Chairmen
Consultation on draft budget proposals	January 2013	Members - OSC and Citizens Forum
Cabinet recommendation on budget proposals	February 2013	Cabinet
Council approval of budget incorporating savings. Council set Council Tax	February 2013	Council

Consultation & Communication

7.9 A series of Listening events are scheduled throughout the Borough for September. It is proposed that the headline issues arising out of the MTFS are consulted upon at these events and views sought relating priorities and potential areas savings.

7.10 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.

7.11 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 2013/14 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.

7.12 The Council is also committed to working with partners in the local business 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.

7.13 A meeting with Parish Clerks is planned for September followed by further liaison and consultation with Parish Councils.

7.14 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 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 2012/13 have been based on national framework outlined in the CSR, and subsequent Chancellor's statements these will be kept under review	Negative	Low/ Medium
Inflation – RPI is currently running at 2.8% (June 2012) if this rate does not reduce in coming years any contracts linked to RPI will impact on the MTFS (June figure for CPI 2.4%)	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/Double Dip Recession – A number of key income streams could suffer in the event of a prolonged slow economic recovery or double dip recession. 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 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.	Negative	Low
Council Tax – The government announces a further freeze on Council Tax without compensation.	A Council Tax freeze would require compensating reductions in planned spending within services.	Negative	Medium
Business Rate Retention – The baseline position, damping and levy payment requirement will not be announced until December 2012, therefore the assumptions in the MTFS may need to be amended.	Further views to test the assumptions in the MTFS will be undertaken throughout the budget cycle for 2013/14	Negative	Medium/High

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: • Initial baseline used for setting grant will be forecasted rather than based on actual spend: therefore it may be too low. • The new scheme is provides a discount rather than being a benefit, this could result in an increase in take up	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 Negative	High 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	Keep the budget under review. Introduction of new initiatives e.g. Private Sector Leasing scheme.	Negative	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

Appendix A

General Fund Budget 2012/13 to 2016/17

	2012/13	2013/14	2014/15	2015/16	2016/17
Service Expenditure & Direct Income					
Employees	22,958	23,668	24,423	25,198	25,869
Premises	3,097	3,196	3,310	3,391	3,474
Transport	1,642	1,683	1,731	1,764	1,798
Supplies & Services	8,547	7,620	7,424	7,489	7,621
Supplies & Services (Contribs to Provisions)	443	454	467	476	485
Third-Parties	352	325	335	341	348
Transfer Payments	56,793	56,793	56,793	56,793	56,793
Capital Charges	4,008	4,008	4,008	4,008	4,008
Income	(72,814)	(72,112)	(72,423)	(72,742)	(73,068)
Net Recharges to HRA	(2,587)	(2,652)	(2,718)	(2,786)	(2,856)
Net Cost Of Services	**22,439**	**22,984**	**23,352**	**23,933**	**24,472**
Cumulative Savings Requirement			(1,086)	(1,960)	(3,131)
Net Cost Of Services after Savings	**22,439**	**22,984**	**22,266**	**21,973**	**21,342**
Less:					
Interest Receipts	(500)	(374)	(283)	(244)	(221)
Reversal of Capital Charges	(4,008)	(4,008)	(4,008)	(4,008)	(4,008)
Revenue Contributions to Capital	1,637	405	405	405	405
Net movement on Earmarked Reserves	(2,157)	(371)	80	380	790
Net Exp Prior to use of General Fund Balance	17,411	18,635	18,459	18,505	18,307
Contributions From Working Balance	(254)	(126)	(100)	0	0
Budget Requirement General Fund	17,157	18,509	18,359	18,505	18,307
Retained Business Rates and RSG	(6,101)	(5,249)	(4,829)	(4,186)	(3,831)
Council Tax Grant	(256)	0	0	0	0
Council Tax Support Grant	0	(890)	(890)	(890)	(890)
New Homes Bonus	(882)	(1,100)	(1,250)	(1,400)	(1,500)
Collection Fund (surplus)/deficit	77	0	0	0	0
Net Expenditure	**9,995**	**11,271**	**11,390**	**12,029**	**12,086**
Demand on the Collection Fund	(9,995)	(10,185)	(10,516)	(10,858)	(11,211)
general Fund Working Balance B/F	(2,880)	(2,626)	(2,500)	(2,400)	(2,400)
In year use	254	126	100	0	0
Balance C/F	(2,626)	(2,500)	(2,400)	(2,400)	(2,400)
Target Working Balance		(2,500)	(2,400)	(2,400)	(2,400)

In Year Savings Target to Meet Target Working Balance	0	1,086	874	1,161	875

APPENDIX B **Earmarked Reserve**	**Reason for holding the reserve**	**Balance b/f 1/4/12 £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	**262**
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	**775**
Management of Change Reserve	Reserve utilised to finance one-off invest to save requirements to facilitate future opportunities for savings and efficiencies	**1,586**
Car Parks Commuted Sums Reserve	Reserve holds car parking commuted sums	**288**
Local Development Framework Reserve	Used to finance the one off costs relating to the development of the LDF, drawn down annually	**437**
Planning Delivery Grant Reserve	HPDG receipts used to finance improvements and project posts within Development management	**190**
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.	**281**
Vehicle Replacement Reserve	Revenue contributions to finance the capital cost of vehicle purchase in accordance with planned programme	**711**
Historic Building Grants Reserve		**1**
GAF Reserve	Growth Area Funding – drawn down in accordance with approved action plan	**5**
Cemeteries Safety Reserve		**62**
Longdean School Repairs Reserve	Asset related reserve	**7**
Tring Swimming Pool Repairs Reserve	Asset related reserve	**67**

Highfield 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)	**69**
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	**53**
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)	**90**
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	**190**
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 as been evaluated.	**3,484**
On Street Car Parking Reserve	This reserve holds any surplus made within On Street Car Parking which must be reinvested in Parking Services.	**158**
Commuted Sums Reserve	This reserve holds funds received under section 106 agreements towards future expenditure.	**624**
Discretionary Travel Reserve	This reserve is to finance the transitional scheme over the next two years under the well being powers (ie circa £50k in 2011/12 and £25k in 12/13) for existing residents using scheme	**25**

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	**715**
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	**750**
Benefits Recession Reserve	This reserve was financed from additional grants received from the government to assist with the increased workloads of benefits processing due to the recession. Fixed term contracts and agency staff are being used to utilise these funds.	**8**
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.	**1,000**
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.	**233**
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.	**250**
Total General Fund Earmarked Reserves		**13,839**
General Fund Working Balance		**2,880**
Total Earmarked Reserves & General Fund Balance		**16,719**