



AGENDA ITEM: 17

SUMMARY

Report for:	Cabinet
Date of meeting:	11 February 2014
PART:	1
If Part II, reason:	

Title of report:	<p>BUDGET 2014/15</p> <ul style="list-style-type: none"> • Revenue Estimates 2014/15 and indicative General Fund projections for 2015/16 to 2018/19 • Capital Estimates 2014/15 to 2018/19 • Fees and Charges 2014/15 • Treasury Management Strategy 2014/15
Contact:	Cllr Nicholas Tiley, Portfolio Holder for Finance & Resources Martin Hone, Corporate Director (Finance & Operations)
Purpose of report:	<p>To present to Cabinet budget proposals for recommendation to Council in relation to:</p> <ul style="list-style-type: none"> • Revenue and Capital Expenditure together with the potential use of reserves • The Treasury Management Strategy 2014/15 • The level of fees and charges for 2014/15 • Advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003 • The setting of the Council Tax for 2014/15. <p>This report deals with the budget proposals for Dacorum Borough Council for the financial year 2014/15. The report proposes revenue budgets for 2014/15 and indicative projections for the General Fund for 2015/16 to 2018/19 together with a 5 year capital programme to 2018/19.</p>

<p>Recommendations:</p>	<p>It is recommended that Cabinet recommend Council to:</p> <p><u>General Fund Revenue Estimate</u></p> <ul style="list-style-type: none"> a) set a Dacorum Borough Council General Fund Council Tax requirement of £9.506m and of £10.099m for the combined Borough Council and Parish Councils' requirement for 2014/15 (inclusive of parish precepts of £593k); b) agree an increase of 1.75% in Council Tax for Dacorum Borough Council; c) set a garage rent increase of £0.45 per week based on a chargeable 48 week year; d) approve the revised revenue estimates for 2013/14 and original base estimates for 2014/15, as shown in Appendix A; e) approve and adopt the Treasury Management Strategy and Annual Investment Strategy for 2014/15 provided at Appendix N; f) approve increases in Fees and Charges for 2014/15 (in accordance with the Council's Fees and Charges Strategy) and as set out in Appendix L; g) approve the forecast balances of Revenue Reserves as shown in Appendix G; h) note that this budget paper, when approved by Council, will form part of the Medium Term Financial Strategy as set out in Appendix M. <p><u>Capital Programme</u></p> <ul style="list-style-type: none"> i) approve the revised Capital Programme for 2013/14 and Programme for 2014/15 to 2018/19 detailed in Appendix J; j) authorise the funding proposals subject to an annual review of the financing options by the Corporate Director (Finance & Operations), in consultation with the Portfolio Holder for Finance & Resources, during the preparation of the Statement of Accounts to optimise the use of Council resources. <p><u>Housing Revenue Account (HRA)</u></p> <ul style="list-style-type: none"> k) set dwelling rent increases in accordance with Government guideline rent increase and rent convergence principles, resulting in an average increase of 5.23% which makes the average rent £101.83 per week (based on 52 weeks);
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	<p>l) approve the HRA revised estimate for 2013/14 and base estimate for 2014/15 as shown in Appendix H.</p> <p><u>Terms & Conditions</u></p> <p>m) approve the introduction of a living wage supplement for all affected employees, in accordance with the Living Wage, for 2014/15; to be reviewed annually thereafter.</p> <p><u>Statement by Chief Finance Officer</u></p> <p>n) approve the statement by the Chief Finance Officer regarding the robustness of the budget estimates and level of reserves as set out in Appendix O.</p>
Corporate objectives:	Balancing the books.
Implications:	<u>Financial & Value for Money</u>
'Value For Money Implications'	Contained within the body of the report.
Risk Implications	Budget Risk Assessment completed within report (Appendix O)
Equalities Implications:	Group Managers are responsible for carrying out Equality Impact Assessments for individual budget proposals contained within the overall budget. Group Managers will need to confirm these have been carried out prior to Budget and Council Tax setting.
Health And Safety Implications:	None directly arising out of the report.
Monitoring Officer/S.151 Officer Comments:	<p>Monitoring Officer</p> <p>Under the Council's Constitution it is the responsibility of Cabinet to draw up firm proposals for the Budget, having regard to the responses to the consultation, and to present those proposals to full Council for approval. Once full Council has approved the Budget it is the responsibility of Cabinet to implement it.</p> <p>S.151 Officer</p> <p>Comments contained in body of report. Chief Finance Officer Statement contained in Appendix O of the Report.</p>
Consultees:	<p>Corporate Management Team</p> <p>Group Managers</p> <p>Community and Public Staff</p>
Background papers:	Local Government Finance Report (England) 2014/15

1. BACKGROUND

1.1 The 2014/15 Budget and indicative budget projections for 2015/16 to 2018/19 have been drawn up to take account of the Council's various strategies and policies, in particular:

- The Corporate Plan
- The Council's Vision and Priorities
- The Medium Term Financial Strategy (MTFS)
- The Asset Management Strategy
- Service strategies and plans.

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

- The Chancellor's Autumn Statement
- The Local Government Finance Settlement for 2014/15 and provisional settlement for 2015/16 and beyond.
- The HRA Item 8 Credit and Debit Determinations for 2014 onwards.
- Budget Consultation, including:
 - Town and Parish Council liaison during the budget cycle
 - Overview and Scrutiny Committee feedback during the budget cycle
 - Social media
 - Budget Consultation event
 - Dacorum Deliberative Day

The budget has been prepared on the basis that the Council maintains a sustainable financial position over the planning period.

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

2 ACCOUNTING REQUIREMENTS AND EXTERNAL FACTORS AFFECTING THE BUDGET

2.1 Capital Charges

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

2.2 Prudential Code

The Council complies with the Prudential Code for controlling Local Government Capital Finance. The key objectives of the code are to ensure that:

- Capital Investment Plans are affordable, prudent and sustainable
- All external borrowings and other long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudence, affordability and sustainability
- The Council is accountable for decisions made
- It supports local strategic planning, local asset management planning and proper option appraisal.

The 2014/15 estimates have been prepared in the context of these plans and controls.

2.3 Integrated Service and Financial Planning

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

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

2.4 Efficiency Agenda & Savings Projections

The attached budget for 2014/15 incorporates new service efficiencies and projected budget savings, together with an assumed salary vacancy factor of 5% of net salary budget (excluding front-line staff in Clean, Safe and Green) to reflect the budget savings achieved when filling staff vacancies. A summary reconciliation of the budget movements is provided as part of Appendix B.

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

2.5 National Local Government Financial Context

(i) The overall position

Over the planning period, local government faces a period of significant change driven by budget cuts and rising demand for public services. By 2015, central government funding for local authorities will have fallen by £20 billion (43%) compared to 2010.

However, in his Autumn Statement, the Chancellor announced that local government would be exempt from the additional cuts to government department budgets of £1 billion planned for 2014 to 2016. At the same time he confirmed that future grant settlements would be set out over several years to allow better medium to long term financial planning within councils.

(ii) Business rates

The increase in business rates for 2014/15 will be capped at 2.0%. It would otherwise have risen by 3.2% in line with the increase in the September 2013 RPI.

The temporary extension of small business rate relief which was due to expire in March 2014 has been extended until March 2015. In addition, a new discount of up to £1,000 for both 2014/15 and 2015/16 has been introduced against business rates for retail premises such as pubs, cafes, restaurants and charity shops that have a rateable value of less than £50,000. The government has also announced a new 'temporary reoccupation relief grant', effectively a 50% discount from business rates for new occupants of previously occupied retail premises for 18 months.

Councils will be fully compensated for the loss of income arising from the business rate measures, which the Treasury estimates to be £1.1 billion.

(iii) Welfare reform

The planned roll-out of Universal Credit has been subject to some delays and will not be fully operational until at least 2016, with claimant cases currently handled by local authorities not migrating to the new arrangements until financial year 2016/17 at the earliest. The government will however press ahead with its plans to create a single national fraud investigation service to address benefit fraud, and further information on how this will operate, and the implications for anti-fraud staff currently employed in local government, will be forthcoming during 2014.

(iv) Funding reorganisation

The Chancellor recently announced that Councils may be able to use receipts from the sale of capital assets to fund the revenue costs of service reforms (e.g. redundancies). However, the total amount of receipts to which this flexibility will apply is limited to £200 million across 2015/16 and 2016/17.

(v) Stimulating growth

The composition and size of the Local Growth Fund (LGF) will be maintained over the planning period, with a commitment that annual funds available will be at least £2 billion. However, £330 million of New Homes Bonus funding will be removed from the LGF for 2015/16 and 2016/17. The 'shortfall' in the LGF will be addressed largely through: increasing the Housing Revenue Account borrowing limits

(£150 million); providing additional Regional Growth Funds (£110 million); and through additional Large Sites funding (£50 million).

In addition, £800 million of borrowing at the Public Works Loans Board project rate announced in the 2012 Autumn Statement will be made available in 2014/15 and 2015/16 to Local Enterprise Partnerships, allocated on a competitive basis alongside the LGF as part of combined 'Growth Deals'.

(vi) Housing

As stated above (see (v)), the Government has removed New Homes Bonus (NHB) from the Local Growth Fund (with the exception of London Councils). However, it has recently been announced that the operation of the scheme is to be reviewed with a proposal that NHB will be withheld where houses are built only after a successful appeal against the local planning authority.

Borrowing limits for the Housing Revenue Account have been increased by £150 million per annum for 2015/16 and 2016/17, and Councils can apply for additional borrowing via their LEP.

3. REVISED ESTIMATE – 2013/14

- 3.1 Projected outturn of the General Fund for financial year 2013/14 is summarised in Appendix A.
- 3.2 Budget variances have been reported to Cabinet and Overview & Scrutiny Committees.
- 3.3 Current revenue projections to the end of the financial year show that the Net Cost of Services is likely to be £97k below the original budget.
- 3.4 In addition, investment income is expected to be £13k more than the original estimate. The average interest rate assumed in the original estimate was 0.73%. The forecast average return is estimated to remain at 0.73% to the end of the current financial year.
- 3.5 It is proposed that during the closure of accounts process any net underspend be contributed to General Fund reserves.
- 3.6 During the year budget management has been undertaken, specifically monthly budget monitoring by Group Managers, Departmental Management Teams and Cabinet, supported by Financial Services, with scrutiny by the Overview and Scrutiny Committees. This has resulted in the use of virements in accordance with the Council's Financial Regulations; these have been reflected in the revised estimate base for 2013/14.
- 3.7 When the 2013/14 budget was set it was anticipated that the closing balance would be £2.818m. The budget report and justification of working balance took account of an overall risk analysis to ensure that the working balance would remain sufficient in the event of a number of risks being realised. A further review of the projected working balance for 31 March 2014 has been undertaken during the preparation of the revised estimate. The revised projection is £2.991m subject to outturn.

4. ESTIMATES 2014/15

- 4.1 The budget assumptions used in compiling the 2014/15 estimates are set out below:

Inflation Factors	
Salary Inflation (annual pay settlement) for 2014/15	1.0%
Consumer Price Index (Sep 2013)	2.7%
Business Rates	2.8%
Fuel	5.0%
Utility Cost increase assumptions – Gas	5.0%
Electricity	5.0%
Other Assumptions	
Average rate of return on Investments	0.7%
Salary Vacancy Factor	5.0%
Growth in numbers of Band D equivalent properties	1.05%

4.2 Analysis of changes to base budget and budget pressures

The budget proposes a net cost of service expenditure of £20.302m as set out in Appendix A.

The effects of the current economic situation have continued to present budget pressures for the Council when preparing a balanced budget. In particular, the continued impact of reduced investment earnings capacity since 2009 has affected the Council's revenue budgets (both General Fund and HRA). Based on current interest rate projections, an investment income of £187k has been assumed for the General Fund in 2014/15. Investment rates are not anticipated to increase during 2014/15. (Further details of the Council's Investment Strategy are contained in Appendix N to this report).

A balanced budget has only been possible as a result of making service savings, income generation and efficiencies together with the use of £274k from earmarked reserves for non-recurring items (excluding revenue contributions to capital). Current and future resources continue to be tight, reflecting the fact that the main income streams for the Council: Government Grant, Specific Grant, Fees and Charges, Investment Income and Council Tax are, and are likely to continue to be, constrained, at a time when ambitions and customer expectations are increasing. Appendix B provides a reconciliation of the key budget changes.

Pension Fund – The result of the recent triennial review in addition to the proposed changes to the Local Government Pension Scheme has resulted in the freezing of the employer contribution rate. In line with the findings of the triennial review, the Council has made a one-off payment of £709k from reserves to reduce the deficit on the pension scheme.

Utility cost inflation – Inflation for utility charges has been included at 5% in line with the Medium Term Financial Strategy.

Salary vacancy factor - The salary vacancy factor for the 2013/14 budget was 5%, excluding front line staff within Clean Safe and

Green. Analysis of the employee related budget undertaken during the last financial year shows that this level is appropriate. It is therefore proposed to maintain the vacancy factor at 5% for 2014/15.

- 4.3 In preparing the Budget proposals, the use of and contributions to reserves have been taken into account. There is a net use of reserves of £274k. The proposed net movement of specific general fund revenue reserves are as follows:-

General Fund	Net Movement 2013/14
	£'000
Management of Change Reserve	133
Technology Reserve	-50
Dacorum Development Programme Reserve	518
Vehicle Replacement Reserve	350
Election Reserve	30
Training & Development Reserve	-40
Housing Conditions Survey Reserve	-83
PSQ Reserve	367
Business Rates Equalisation Reserve	-790
Pension Reserve	-709
Total Earmarked Reserves	-274

It should be noted that the medium-term financial strategy proposes a target General Fund working balance of c£2.5m by 2018/19.

A summary of the movement of reserves is attached to this report at Appendix G.

The budget assumptions result in a net Council Tax requirement of £9.506 million or £10.099 million including parish precepts.

4.4 Budget Performance Monitoring

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

5 INCOME

5.1 Investment Income

Historically, the Council has received a significant income stream from investments by utilising the Council's "negative Capital Financing Requirement" and by achieving relatively high levels of capital receipts from the sale of surplus land/assets and from housing "Right to Buy" sales.

However, since the autumn of 2008, bank base rates have reduced significantly to 0.5% where they have remained to date. The Council has received analysts' forward predictions on the level of base rates for 2014/15 which indicate that the base rate is not likely to increase during the financial year; this will be kept under review.

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

The amount of investment income included in the General Fund revenue budget for 2014/15 is £187k and £100k within the HRA. Both assume an average interest rate of 0.7%.

5.2 Fees and Charges

Managers have been requested to propose fees and charges in accordance with the Council's Fees and Charges Strategy. The schedule of all proposed fees and charges is attached at Appendix L.

The budget projections for 2014/15 have been reviewed and rebased to reflect the impact of the current economic climate. The projections will need to continue to be monitored to ensure that budgets remain sustainable.

5.3 Government Grants

The Council receives funding from the Government by way of Revenue Support Grant and Baseline Funding. Full details of these funding streams are provided in Section 9.

5.4 Housing Rents

These are set out in Section 13, below.

6 **CAPITAL PROGRAMME**

6.1 The recommended Capital Programme (Appendix J) provides a revised estimate for 2013/14 together with a further 5 year programme to 2018/19.

6.2 The Programme has been compiled based on the Council's Corporate Plan and Priorities, the new Asset Management Strategy agreed by Council in November 2013 and in accordance with the Council's Capital Strategy. Bids for the Capital Programme have been assessed by members of the Capital Strategy Steering Group, which includes the Portfolio Holder for Finance and Resources. The Programme comprises both General Fund and Housing Revenue Account (HRA) Schemes.

6.3 Revised Programme 2013/14

A revised Capital Programme for 2013/14 is submitted as part of this budget process for approval by Council.

	Original Est 2014/15 £m	Revised Est 2013/14 £m
General Fund	17.663	13.941
Housing Revenue Account	34.454	29.038
Total Capital Programme	52.117	42.979

Group Managers have been asked to critically review their capital spend estimates as part of the preparation of the revised capital programme. This has resulted in the identification of a re-phasing requirement of £10.2m on the General Fund and £3.1m on the HRA into future financial years.

Proposed Funding of the Revised Programme

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

Proposed Financing for Revised Capital Programme 2013/14	
	£m
Major Repairs Reserve	7.973
Grants and External Funding	5.687
S106 agreement funding	0.036
Capital Receipts	12.190
Revenue Contribution	17.093
Total Indicative Funding of Revised Capital Programme	42.979

6.4 Five Year Capital Programme 2014/15 to 2018/19

The proposed five year Capital Programme provides for a total programme of £190.319 million capital investment, split between General Fund £59.466 million and HRA £130.853 million.

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

HRA

6.4.1 £111.104m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens).

6.4.2 £19.749m for the new build programme.

General Fund

6.4.5 £7.057m to purchase and replace fleet vehicles, plant, machinery and other equipment.

- 6.4.6 £12.109m Asset management of community facilities including council-owned buildings, car parks, public conveniences and community and sports premises.
- 6.4.7 £34.627m Economic Development, Affordable Housing, Town Centre Regeneration and Growth Area schemes.
- 6.4.8 £1.507m Investment in Information and Communications Technology, upgrading of software systems has been included. It is anticipated that this section of the 5 year capital programme will need to be reviewed to incorporate additional ICT investment. This investment will enable future revenue efficiencies to be achieved through customer services 'channel shift' and service transformation projects.
- 6.4.9 £4.166m Capital grants and loans to voluntary organisations and Private Sector Housing grants (including disabled facility grants and improvement grants). It should be noted that Disabled Facility Grants are mandatory.

6.5 Proposed method of financing the Capital Programme

The Capital Programme also identifies the proposed method of financing the Capital Programme, which will be reviewed by the Corporate Director (Finance & Operations) when preparing the Statement of Accounts for each financial year. Members should note the forecast borrowing requirement in 2015/16.

6.6 Forecast of Capital Receipts

In accordance with the Council's Medium Term Financial Strategy, estimates of the likely Capital Receipts to be generated during 2014/15 and subsequent years have been made based on the Council's Asset Management Plan and the current economic climate. The likely level of receipts anticipated during 2014/15 is £10.650m (of which £5.900m will relate to General Fund and £4.750m will relate to the HRA).

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

7 TREASURY MANAGEMENT AND INVESTMENT STRATEGY

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

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

8 RESERVES AND PROVISIONS

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

8.2 Justification of balances

The General Fund balance is required as a contingency against unforeseen events and to ensure that the Council has sufficient funds available to meet its cash flow requirements. The Council maintains its General Fund balance at 5% to 15% of Net Service Expenditure.

8.3 Appendix G identifies the proposed movements on General Fund Revenue Reserves. All earmarked reserves have been reviewed during the preparation of the budgets for 2014/15. There will be a further review of the reserves position as part of the closure of accounts process for 2013/14. The following movements are proposed for 2014/15

- **Management of Change Reserve** – net contribution £133k
To mitigate the short-term impact of investment in service transformation initiatives that will deliver savings in the medium- to long-term.
- **Technology Reserve** – draw down £50k
To part finance the Council's investment in technology improvements to deliver future service efficiencies.
- **Dacorum Development Reserve** – net contribution £518k
To support regeneration and economic development initiatives within the borough.
- **Vehicle Replacement Reserve** – net contribution £350k
To part finance the Council's future vehicle fleet replacement programme.
- **Election Reserve** – contribution £30k
To finance future election costs incurred by the Council.

- **Training and Development Reserve** – draw down £40k
To finance specific development programmes for Council staff.
- **Housing Conditions Survey Reserve** – draw down £83k
To finance the costs of Council inspections of private dwellings.
- **Public Sector Quarter Reserve** – contribution £367k
To part finance the costs associated with the development of the PSQ, including consultancy costs, supplies and services and those costs associated with the decant process.
- **Funding Equalisation Reserve** – draw down £790k
To mitigate the annual fluctuations in the Council's collection fund and to smooth the impact of government grant reductions.
- **Pensions Reserve** – draw down £709k
To mitigate potential costs to the Council arising from future reviews of the pension scheme.

8.5 **The Working Balance on the HRA** – The submitted estimates show a closing working balance of £3.000m for 2014/15, in compliance with the Council's policy of maintaining a minimum working balance of 5% of income.

8.6 **Capital Reserve** – This reserve is utilised to finance the capital programme and the balance brought forward contains both receipts from the sale of General Fund assets and the sale of HRA properties under the Right to Buy scheme, and makes up the Council's negative capital financing requirement. It is estimated that the balance will be £20.494m as at 1 April 2014 and £7.619m as at 31 March 2014.

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

9. LOCAL GOVERNMENT FINANCE SETTLEMENT 2014/15

9.1 There are two elements within the Local Government Finance Settlement:

- Revenue Support Grant (RSG)
- Business Rates Retention (BRR)

Revenue Support Grant

9.2 The provisional RSG for 2014/15 is £3.017m compared to £3.962m in 2013/14.

Business Rates Retention

9.3 BRR relates to the net amount of Business Rates that the Council estimates will be collected throughout the year. This is apportioned between Dacorum Borough Council, Hertfordshire County Council and

Central Government, with the forecast Dacorum share for 2014/15 at £2.488m compared to £3.028 in 2013/14.

10. NEW HOMES BONUS 2014/15

- 10.1 Notification has been received of the 2014/15 allocation of “New Homes Bonus.” The grant is £2.196m for 2014/15 compared to £1.600m in 2013/14.
- 10.2 The New Homes Bonus allocation for Dacorum Borough Council will include instalments from years 1, 2, 3 and 4 of £325k, £557k, £618k and £696k respectively.

11. BUDGET CONSULTATION

- 11.1 During the preparation of the 2014/15 budget the Corporate Director (Finance & Operations) has provided briefings to Town and Parish Clerks.
- 11.2 This was followed in December 2013 by a briefing on the budget to all Overview and Scrutiny committees followed by individual Scrutiny Committees. A further Joint Scrutiny meeting was held on 5 February 2014.
- 11.3 Opinion Research Services (ORS) was commissioned to undertake a questionnaire as part of the budget consultation. Both local residents and local businesses were invited to have their say on how the Council’s budget should be spent. The residents’ questionnaire was made available online between 13 November and 9 December 2013. 435 responses were received. There were 33 responses to the local businesses’ questionnaire. Respondents were asked to rank 3 options to help the Council balance its budget. The findings were as follows:

Option	Ranking
Increasing Council Tax	1
Increasing Fees & Charges	2
Cutting Existing Services	3

62% of respondents supported an increase in Council Tax; 33% favoured a freeze; and 5% thought it should be reduced.

- 11.4 In addition, a deliberative consultation forum with members of the Citizens’ Panel took place on 18 January 2014. The forum was facilitated by ORS. The full report is available on the Council’s website. A summary of the key results is set out below.

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

Preferred options to balance the budget	%
Increase charges to generate income	22
Targeted budget reductions	39
Increase Council Tax	26
Across-the-board budget reductions	13

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

- 12.1 The Localism Act 2011 abolished Council Tax capping in England and instead allows local residents to reverse excessive Council Tax increases by means of referendum.
- 12.2 Currently, the Government has set the local authority tax referendum threshold to 2%. At the time of writing, Government is considering whether this threshold should be lowered for 2014/15, and also whether the same principles should be applied to Town and Parish Councils. A verbal update will be given to Cabinet if possible.
- 12.3 The cost of re-billing is estimated to be in the region of £70,000. The cost of holding a referendum is estimated at £80,000.
- 12.4 The Council's Council Tax requirement is calculated as £10.099m (inclusive of parish precepts) and £9.506m (exclusive of parish precepts). The approved taxbase for 2014/15 is 53,809.2 based on a collection rate of 99.4%.

13. HOUSING REVENUE ACCOUNT (HRA)

- 13.1 The HRA 'Self-Financing' regime was introduced under the Localism Act in April 2012. It replaced the previous HRA subsidy arrangements and required the Council to make a settlement to the Government of £354.015 million.
- 13.2 The Council has a duty to budget under Section 76 of the Local Government and Housing Act 1989 "to prevent a debit balance on the HRA". The Council sets its own target balance of 5% of total income, which for 2014/15 equates to £2.8m. The Council keeps the medium and long term funding of housing services under regular review through updates to the HRA Business Plan.

HRA Business Plan - Update

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

Financial Assumptions for 2014/15

- 13.5 The business plan incorporates the following financial assumptions, based on the draft 2014/15 HRA budget:

Budget	Assumptions
HRA Working Balance	Minimum 5% of turnover.
Major Repairs Reserve (MRR) Balance	Depreciation is ring-fenced to MRR. The plan does not show an increasing MRR balance because in all years planned capital expenditure exceeds depreciation, with revenue contributions to capital topping up any shortfall.
Debt financing cost	The average debt financing interest rate at point of final settlement in April 2012 was 3.35%.
Rent	The business plan assumes current Government rent policy of RPI + 0.5% + £2. (NB. See paragraph 13.6)
RPI	2.5%
Interest on HRA balances	1% for years 1-5 (consistent with current returns), rising to 2.5% in years 6-10, and 3% thereafter.
New Build Programme	Years 1 to 2: 71 properties. Years 3 to 10: 290 properties. Years 11 to 30: 30 properties per annum.
New Build Net Present Value	7% discount rate (based on common practice for Housing Association decision modelling).
Bad Debt provision	Increased five-fold in 2015/16 to take account of new restrictions on Housing Benefit rents (based on a 66% Benefits caseload)
Build cost per unit	£150,000 (incl. Land).
52 week rent per unit	£109 p/w; equal to Dacorum Borough Council average social 'Target Rent'.
General Management costs	Based on current stock is £620 per unit. This reduces to £400 per unit for new builds and is linked to the expected reduction in maintenance costs.
Special Management costs	There are no new build costs as the model assumes no new Elderly Persons Developments.
Right to Buy	The model reflects an assumption of 50 RTB sales in 2014/15, with 20 sales per annum thereafter.

- 13.6 The Government has announced that it intends to make changes in social rent policy, to apply from April 2015. One of the main changes proposed is to move from annual increases in weekly rents of RPI + 0.5% + up to £2, to increases of CPI + 1.0%.

Analysis of HRA budget proposals

- 13.7 The predicted outturn for 2013/14 is a deficit of £15k, compared to a budgeted surplus of £185k. The working balance is estimated to be £2.762m compared to the original budget of £2.962m.

- 13.8 The budget for 2014/15 reflects a surplus of £238k. The projected working balance as at 31 March 2015 is £3m. This is in line with the Council's minimum target balance of at least 5% of turnover.
- 13.9 The current rent policy is (RPI + 0.5% + £2). This would result in an average indicative rent increase for 2014/15 of 5.23%, with a maximum increase of 6.68%, resulting in an average rent of £101.83 (52 week basis).
- 13.10 The Repairs and Maintenance budget for 2014/15 reflects an increase of £1.2m on 2013/14. The main reasons for this relate to significant increases in responsive and void repair costs experienced during 2013/14.
- 13.11 Revenue contributions of £16.485m have been included in the budget to support the capital programme.

14. TERMS AND CONDITIONS

- 14.1 Following consultation, the Council is minded to introduce a living wage supplement for all affected employees, in accordance with the Living Wage, for 2014/15. The Council would review the Living Wage annually thereafter, but would not seek accreditation thereby avoiding the loss of autonomy that might entail.
- 14.2 The Living Wage is announced each year by the Living Wage Foundation based on a calculation by the Centre for Research in Social Policy at Loughborough University. It reflects the costs of those items identified by the University's consultation groups as necessary for a minimum acceptable standard of living.
- 14.3 The current 'out of London' living wage, which would apply to the Council, was announced in November 2013 as £7.65 per hour.
- 14.4 The total cost to raise all Council employees above Living Wage for 2014/15 is approximately £30k and relates mainly to posts in housing services.

15. SUMMARY AND CONCLUSION

- 15.1 This report sets out how the Council will provide the financial resources required to achieve its priorities during the next financial year. It assumes that planned savings will be achieved and that the capital programme will be delivered on time and to budget.
- 15.2 The statement from the Chief Finance Officer at Appendix O provides assurance regarding the robustness of the 2014/15 budget and the level of reserves.