



**AGENDA ITEM:**

**SUMMARY**

<b>Report for:</b>	<b>Cabinet</b>
<b>Date of meeting:</b>	<b>13 February 2018</b>
<b>Part:</b>	<b>1</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Budget 2018/19</b>
<b>Contact:</b>	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations)
<b>Purpose of report:</b>	To present to Cabinet budget proposals for recommendation to Council in relation to: <ul style="list-style-type: none"> <li>• Revenue and Capital Expenditure together with the potential use of reserves</li> <li>• The setting of the Council Tax for 2018/19</li> <li>• The Treasury Management Strategy 2018/19</li> <li>• The level of fees and charges for 2018/19</li> <li>• Advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003</li> </ul>
<b>Recommendations</b>	It is recommended that Cabinet recommend Council to: <p><b>General Fund Revenue Estimate</b></p> <ol style="list-style-type: none"> <li>a) set a Dacorum Borough Council General Fund Council Tax requirement of £11.094m, and of £11.872m for the combined Borough Council and Parish Councils' requirement for 2018/19;</li> <li>b) approve an increase of 2.99% in Council Tax for Dacorum Borough Council, taking Band D Council Tax to £195.51 for 2018/19;</li> <li>c) approve the base estimates for 2018/19, as shown in Appendix A1, and the indicative budget forecasts for 2018/19 – 2021/22, as shown in Appendix A2;</li> <li>d) approve the forecast balances of Revenue Reserves as shown in Appendix J, and approve section 10 of this</li> </ol>

	<p>report as the updated Reserves Strategy;</p> <p>e) approve increases in Fees and Charges for 2018/19 as set out in Appendices C3, D3, and E3;</p> <p>f) approve and adopt the Treasury Management Strategy for 2018/19, attached at Appendix K (to follow);</p> <p>g) approve and adopt the Treasury Management Principles and Practices for 2018/19, attached at Appendix L (to follow);</p> <p>h) note that this budget paper, when approved by Council, will form part of the Medium Term Financial Strategy.</p> <p><b>Capital Programme</b></p> <p>i) approve the revised Capital Programme for 2017/18, and for 2018/19 to 2022/23, as detailed in Appendix I;</p> <p>j) approve the financing proposals in Appendix I subject to an annual review of the financing options by the Corporate Director (Finance &amp; Operations), in consultation with the Portfolio Holder for Finance and Resources, during the preparation of the Statement of Accounts.</p> <p><b>Housing Revenue Account (HRA)</b></p> <p>k) reduce dwelling rents by 1% in accordance with government legislation, resulting in an average rent of £101.22 per week (based on 52 weeks);</p> <p>l) approve the HRA estimate for 2018/19 as shown in Appendix F.</p> <p><b>Terms &amp; Conditions</b></p> <p>m) approve the continued application of a living wage supplement for all affected employees, in accordance with the rates of the Living Wage Foundation, for 2018/19 (to be reviewed annually thereafter).</p> <p><b>Statement by Chief Finance Officer</b></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 M.</p>
Corporate objectives:	All of the Council's corporate objectives are reflected in the Budget proposals.
'Value For Money Implications'	Contained within the body of the report
Risk Implications	Budget Risk Assessment completed within report (Appendix M)
Equalities	Group Managers are responsible for carrying out Equality

Implications	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 arising directly from this report.
Monitoring Officer/S.151 Officer Comments	<p><b>Monitoring Officer:</b></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><b>S.151 Officer:</b></p> <p>Comments contained in body of report. Chief Finance Officer Statement contained in Appendix M of the report.</p>
Consultees:	<p>Overview and Scrutiny Committees</p> <p>Budget Review Group</p> <p>Town and Parish Councils</p> <p>Public Engagement Forum</p> <p>Corporate Management Team</p> <p>Leadership Team</p>
Background papers:	Joint Overview and Scrutiny Reports: 5 December 2017, and 6 February 2018.
Abbreviations	<p>GF – General Fund Revenue Account</p> <p>HRA – Housing Revenue Account</p> <p>MTFS – Medium Term Financial Strategy</p> <p>NHB – New Homes Bonus</p> <p>OSC – Overview and Scrutiny Committee</p> <p>PWLB – Public Works Loan Board</p> <p>RSG – Revenue Support Grant</p> <p>SFA – Settlement Funding Assessment</p>

Appendices to this report are as follows:

**Corporate view**

- Appendix A1 – General Fund Budget Summary 2018/19
- Appendix A2 – Draft General Fund MTFS update 2017/18 – 2021/22
- Appendix B1 – Budget Change Analysis 2017/18 – 2018/19
- Appendix B2 – Budget Summary by Overview & Scrutiny Committee

**Finance & Resources**

- Appendix C1 – Finance & Resources Budgets Summary 2018/19
- Appendix C2 – Finance & Resources Budgets Detail 2018/19
- Appendix C3 – Finance & Resources Fees and Charges 2018/19

**Housing & Community**

- Appendix D1 – Housing & Community Budgets Summary 2018/19
- Appendix D2 – Housing & Community GF Budgets Detail 2018/19
- Appendix D3 – Housing & Community Fees and Charges 2018/19

**Strategic Planning & Environment**

- Appendix E1 – Strategic Planning & Environment Budgets Summary 2018/19
- Appendix E2 – Strategic Planning & Environment Budgets Detail 2018/19
- Appendix E3 – Strategic Planning & Environment Fees and Charges 2018/19

**Housing Revenue Account**

- Appendix F – Housing Revenue Account Budget 2018/19
- Appendix G – Housing Revenue Account Movements 2017/18 -2018/19

**Capital Programme**

- Appendix H – Capital Programme Summary of new and amended projects
- Appendix I – Capital Programme 2017/18 - 2022/23, by OSC

**Reserves**

- Appendix J – Statement of Earmarked Reserves

**Treasury Management**

- Appendix K – Treasury Management Strategy Statement 2018/19
- Appendix L – Treasury Management Principles & Practices 2018/19

**S151 Officer**

- Appendix M – Statement by the Chief Finance Officer

## **1. The Budget-setting process**

1.1 The 2018/19 budget proposal and the updated Medium Term Financial Model have been produced to ensure that the Council maintains a sustainable financial position over the planning period to 2021/22. The following Council strategies and policies have informed the budget-setting process:

- The Council's Vision and Priorities, as stated in the Corporate Plan
- The Medium Term Financial Strategy (MTFS)
- Service Strategies and Plans

1.2 In accordance with the Medium Term Financial Strategy, a Budget Review Group comprising the Leader, Portfolio Holder for Finance and Resources, Chief Officers and the Group Manager (Financial Services) has met to review and monitor emerging budget proposals throughout the budget preparation period.

1.3 There has been a series of budget briefings and planning meetings throughout the budget cycle involving Portfolio Holders and members of the Council's Leadership Team. In addition, there have been combined briefings for Overview and Scrutiny Committees in December 2017 and February 2018, during which Members undertook detailed scrutiny of the budget proposals.

1.4 External stakeholders have also been consulted, with the Corporate Director (Finance & Operations) providing a briefing to Town and Parish Clerks at the Parish Council in November 2017 followed in January 2018 by a residents' consultation event, where residents from across the borough had the opportunity to feedback on the Council's proposals for 2018/19.

1.5 The Council commissioned Opinion Research Services (ORS) to arrange and facilitate a consultation with a representative sample of 30 Dacorum residents. The event took place on 13 January 2018, and involved participants working in discussion groups to prioritise some broad strategic options open to the Council to address its savings targets. The full report is available on the Council's website.

1.6 At the end of the meeting, views were taken and 26 of the 30 attendees (87%) declared themselves satisfied with the Council's financial performance and strategy, with 25 of the 30 (83%) supporting the Council's proposal to increase Band D Council Tax by £5 per year. (Since the residents' forum took place, the Council has proposed to make use of newly announced flexibility in the setting of its Council Tax and increase it by 2.99%, which equates to £5.68 per year for a Band D.)

## **2. The 2018 Local Government Finance Settlement**

2.1 On 19 December 2017, the Secretary of State for the Department for Communities and Local Government, Sajid Javid MP, made a statement to Parliament on the provisional Local Government Finance Settlement 2018/19.

2.2 This details of the Settlement were consistent with the four-year funding agreement (to 2019/20) announced in 2015 for those local authorities (including Dacorum) which submitted an Efficiency Plan demonstrating how they would benefit from increased funding certainty. Given that 97% of local

authorities accepted this offer, the level of central government funding, nationally, has remained largely as forecast in late 2015.

- 2.3 The largest source of central government funding is the Settlement Funding Assessment (SFA) which for 2018/19 consists of two funding streams: Business Rates Retention and Revenue Support Grant (RSG).
- 2.4 Nationally, the total amount of SFA paid out by government to local authorities will reduce by 6% in 2018/19, down to £15.8bn. Continued reductions are planned for next year as part of the four-year settlement, which will reduce the annual amount of SFA paid nationally to £14.7bn by 2019/20. This equates to an aggregate reduction of 12% between 2017/18 and 2019/20, and 22% over the course of the 4-year deal (since 2016/17).

### 3. Dacorum's Key Funding Streams – Settlement Funding Assessment

- 3.1 Historically, the Council has benefitted from two elements of funding within the Local Government Finance Settlement (which together comprise the Settlement Funding Assessment (SFA)):
  - Revenue Support Grant (RSG)
  - Baseline Funding (the guaranteed element of Business Rates Retention)
- 3.2 **Revenue Support Grant** is general, unrestricted grant paid by Government to Local Authorities in support of their provision of their day-to-day services. RSG is currently being phased out as Central Government continues to step back from its historical role in the Local Government finance model, instead driving an agenda of Locally Financed Expenditure in which LAs raise all funds locally, primarily through Council Tax and Business Rates growth. In 2018/19 Dacorum will not receive any RSG, a reduction of £105k from 2017/18. This completes the trend of reducing RSG for the Council, and demonstrates the full extent of recent funding reductions – down from the £4m RSG received in 2013/14.
- 3.3 **Baseline Funding** is funded by Central Government through redistributed Business Rates, and the amount is determined by Government's assessment of need within Dacorum. The provisional settlement for 2018/19 is £2.9m compared to £2.8m in 2017/18 (an inflationary increase).
- 3.4 Baseline Funding is part of the Government's Business Rates Retention Scheme, which is designed to incentivise local authorities to grow their local economy by enabling them to share in any increase in Business Rates income (i.e. growth in the tax base). However, under the terms of the Scheme, the reverse is also true, i.e. that local authorities must absorb a portion of the lost business rates income arising from a contraction in the tax base. Government has capped at 7.5% the income that can be lost to councils from their Baseline Funding as a result of a reduced tax base. This cap is known as the 'Safety Net'.
- 3.5 There is currently a significant backlog of Business Rates valuation appeals that have been submitted by businesses across the country, including within Dacorum. The Valuation Office (VOA) is responsible for adjudicating on these appeals. Based on historical data, there is a risk that a high number of these backlogged appeals will be upheld, and that consequently Business Rates reductions will be granted to a sufficiently high number of businesses to reduce the Dacorum tax base below the 7.5% Safety Net.

- 3.6 However, annual tax base growth within the borough over the last couple of years, together with the Council having made adequate provision for successful appeals, indicates that the Council can prudently budget for the full amount of Baseline Funding in 2018/19, i.e. not at Safety Net. The surplus growth from previous years has been placed within the Funding Equalisation reserve and can be drawn down to fund a one-off shortfall in annual funding arising from an unforeseen significant in-year reduction in the tax base.
- 3.7 As expected under the four-year settlement, the combined reduction to the Council's **Settlement Funding Assessment** in 2018/19 is 0.7% (£20k) rising to 32.5% (£1m) by 2019/20, i.e. the remaining period of the four-year settlement. The 32% reduction forecast for the period to 2019/20 is significantly higher than the national average for district councils, which is 22%.
- 3.8 The reason Dacorum's SFA reduction is high relative to the district council average is that grant reductions within the four-year settlement are based on Government's assessment of each council's **Core Spending Power**. Rather than simply applying the same percentage grant reduction to all authorities, Core Spending Power ensures that the grant reduction for each council also takes into account the amount that a council can raise locally, i.e. through Council Tax and New Homes Bonus.
- 3.9 Dacorum has one of the highest tax bases among the 200 district councils in England (£11.1m for 2018/19; £10.7m compared to an average of around £6.7m for 2017/18). This means that Dacorum can generate more income locally than most district councils and therefore, within the government's context of Core Spending Power, can absorb a greater reduction in government funding than most district councils.

#### **4. Dacorum's Key Funding Streams – New Homes Bonus**

- 4.1 The provisional NHB allocation for Dacorum in 2018/19 has been announced as £2.1m. This is £1m less than the £3.1m received in 2017/18 and is consistent with the amount forecast within the MTFS.
- 4.2 The £1m reduction reflects changes to the NHB allocation model announced by Government as part of the Local Government Finance Settlement in December 2016, which came into force from 2017.
- 4.3 The key changes announced for the allocation model were:
- a) A move to 5-year payments from 2018/19 (from the previous 6 years) and then to 4-year payments from 2018/19; and,
  - b) The introduction of a national baseline of 0.4% growth, below which no NHB will be paid – i.e. Local Authorities will only receive NHB for growth in the number of dwellings above 0.4%. Government has reserved the right to revisit this baseline annually.
- 4.4 It is proposed that the Council will continue with its current strategy to use only £325k per annum of NHB to support the provision of General Fund services, with the remainder being used to support delivery of the Capital Programme. The impact of utilising the NHB for capital purposes has revenue benefits in that it reduces the need to borrow, along with the associated revenue costs, as

well as insulating the Council from fluctuations in future NHB payments arising from potential changes in Government policy.

## 5. Dacorum's Key Funding Streams – Council Tax

- 5.1 The Council's Council Tax requirement for 2018/19 is calculated as £11.872m (inclusive of parish precepts) and £11.094m (exclusive of parish precepts). The approved taxbase for 2018/19 is 56,744 based on a collection rate of 99.4%.
- 5.2 The income due from Council Tax goes into the Collection Fund. Throughout the year the actual number of properties (as well as allowances for exemptions, discounts or appeals) inevitably varies from the figure estimated at the start of the year. This leads to a change in the amount of Council Tax due, and therefore a surplus or deficit on the Collection Fund.
- 5.3 In 2017/18 a deficit position is forecast on the Collection Fund as at 31 March 2018 of £150,678.49 (which equates to less than 0.2% of the precepts declared when the Council Tax was set). This surplus is shared between the Major Preceptors, i.e. the County, the Police Authority and the Borough, in proportion to their precepts for the year.
- 5.4 The proportion of this surplus that each of the Major Preceptors will receive from the Collection Fund when calculating the Council Tax for 2018/19 is as follows:

Dacorum Borough Council	£18,907.64
Hertfordshire County Council	£117,607.98
Hertfordshire Police & Crime Commissioner	£14,162.87
<b>Total Surplus</b>	<b>£150,678.49</b>

- 5.5 Cabinet approved the Collection Fund surplus in December 2017.
- 5.6 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. Within the 2018 Settlement, Government announced a revised referendum threshold for district councils at the higher of £5 or 2.99%. The proposed increase of £5.68 (2.99%) for Dacorum in 2018/19 is therefore within the threshold. This referendum threshold does not currently apply to Town and Parish Councils. The cost of holding a referendum within Dacorum is estimated to be around £80,000.

## 6. Local Government accounting requirements

- 6.1 The budget-setting process for the Council is governed by a number of statutory requirements. Some of the key requirements are explained, below.

### Capital charges

- 6.2 Where a Service benefits from the use of a council-owned asset, the Revenue expenditure budget for that Service includes a nominal charge for the use of that asset. This is in line with standard accounting practices, and the nominal charge is known as a Capital Charge.
- 6.3 Capital Charges ensure that the 'true' cost of running a Service is captured in the budget. However, in order to ensure that this nominal charge is not passed

onto the Council Tax payer, there is corresponding credit (reversing out the charge), which can be seen in the General Fund Summary (Appendix A1).

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

### **Prudential Code**

- 6.5 The Council complies with the Prudential Code for controlling Local Government Capital Finance, and the Budget for 2018/19 has been prepared in the context of these plans and controls. (More details of the Prudential Code are included within the Treasury Management Strategy in Appendix K.) The key objectives of the Code are to ensure that:

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

### **7. Forecast Outturn 2017/18**

- 7.1 Appendices C2, D2 and E2, which breakdown the proposed 2018/19 budget by Overview & Scrutiny Committee (OSC) remit, also show the forecast budget outturn for the current financial year, as at December 2017. This is included to provide Members with comparative context for the 2018/19 budget proposals.

- 7.2 As at January 2018, the outturn for financial year 2017/18 is forecast to be broadly on budget. However, if revenue underspends are identified as part of the year-end process, it is recommended that they be contributed to earmarked reserves in order to fund specified expenditure in future years. Formal approval for movements in reserves will be sought from Members as part of the year-end process. The Council's Reserves Strategy, including justifications for current balances and recommendations for future movements, can be found in section 10 of this report.

### **8. Budgetary assumptions 2018/19**

- 8.1 The inflationary assumptions used to compile the 2018/19 estimates are set out below.

<b>Inflation Factors</b>	
Salary Inflation (annual pay settlement) for 2018/19	2%
Business Rates	1.4%
Fuel	0%

Utility Cost increase assumptions: Gas	5%
Electricity	5%
The Council is in a fixed price contract until 2018/19.	
<b>Other Assumptions</b>	
Average rate of return on Investments	0.5%
Salary Vacancy Factor (excluding front-line Waste services)	5.0%
Growth in numbers of Band D equivalent properties	0.6%

- 8.2 No inflation has been applied to fuel budgets in 2018/19 as inflation applied in prior years is considered to provide sufficient budget.
- 8.3 The salary vacancy factor for the 2017/18 budget was 5%, excluding front line staff within Waste Services. Analysis of the employee related budget undertaken during the last financial year shows that this level is appropriate. It is therefore proposed to maintain the vacancy factor at 5% for 2018/19.

## 9. Revenue Income

- 9.1 In addition to the key funding streams explained in section 5 of this report, the Council receives income from a number of sources.
- 9.2 Housing Rents received through the Council's housing stock are ring-fenced within the Housing Revenue Account (HRA) for the administration and maintenance of existing stock, and for the delivery of new buildings. More detail on the HRA budget is covered in section 14 of this report.
- 9.3 Investment Income – Low interest rates in recent years have led the Council to reduce its dependency on investment income as a means of financing revenue expenditure. Investment income has been further eroded as the Council has delivered a number of high value capital projects, which has reduced the capital balances, and, therefore, the balance of investable funds available. Budgeted General Fund investment income for 2018/19 is £160k, and £390k within the HRA.
- 9.4 Fees and Charges – Service managers have proposed changes to fees and charges for 2018/19 as detailed in Appendices C3, D3 and E3.

## 10. Reserves Strategy

- 10.1 The Council's Reserves Strategy is reviewed annually, and was most recently approved by Members within Sections 10-20 of the Budget and Council Tax Setting Report (February 2017).
- 10.2 The Council holds two types of reserve, both of which are subject to audit by the Council's external auditors, Grant Thornton, as part of the year-end process. The two types of reserve are:
- **Working balances**, which are required as a contingency against unforeseen events, and to ensure that the Council has sufficient funds available to meet its cash flow requirements. The Local Government Act 2003 requires the Section 151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year. This requirement is met within Appendix M.
  - **Earmarked reserves**, which are funds approved by Members to finance specific items of future expenditure. The Council's Financial Regulations

dictate that Earmarked Reserves can be created only with Member approval, and that all subsequent transfers to and from those reserves also require Member approval.

- 10.3 In line with the Council's approach in previous years, it is recommended that the **General Fund Working Balance** is maintained at a level between 5% and 15% of Net Service Expenditure. The proposed budget forecasts a General Fund Working Balance of £2.5m by the end of 2018/19, which equates to 15% of the Net Cost of Services of £16.537m (as shown in Appendix A1).
- 10.4 The **HRA Working Balance** is maintained by the Council at a level of not below 5% of turnover, as approved by Members as part of the MTFs Reserves Strategy. The proposed budget maintains the HRA Working Balance at £2.9m by the end of 2018/19, which equates to 5.2% of the £56m turnover (as shown in Appendix F).
- 10.5 It is recommended that Council approves the continued use of these parameters for the maintenance of both General Fund and HRA Working Balances.

### General Fund Earmarked Reserves

- 10.6 The General Fund budget proposes a Net Cost of Service of £16.5m, as set out in Appendix A1. A balanced budget has only been possible as a result of making savings within Services, generating increased income, and identifying efficiencies, together with a net contribution of c£1m to earmarked reserves for non-recurring future items of expenditure (excluding Revenue Contributions to Capital). The proposed movements of General Fund earmarked reserves for revenue use in 2018/19 are as follows:

<b>Earmarked Reserve</b>	<b>Net Movement to/(from) Reserves £000</b>
Earmarked Grants Reserve	(61)
Management of Change Reserve	(177)
Technology Reserve	200
Savings Contingency Reserve	604
On Street Car Parking Reserve	50
Dacorum Development Reserve	(110)
Planning & Regeneration Projects Reserve	(42)
Vehicle Replacement Reserve	350
Tring Swimming Pool Reserve	8
Youth Provision Reserve	(40)
Election Reserve	30
Training and Development Reserve	(22)
Housing Conditions Survey Reserve	15
Pensions Reserve	200
Maylands Plus Reserve	23
<b>Total Net Movement</b>	<b>1,028</b>

- 10.7 Appendix J identifies the proposed movements on General Fund Earmarked Reserves. All reserves have been reviewed during the preparation of the Budget for 2018/19, and there will be a further review of the reserves position as part of the closure of accounts process for 2017/18.

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

- **Civic Buildings Major Repairs Reserve**  
This reserve was created as the Civic Centre Major Repairs Reserve to cover the costs arising from unplanned repairs to the Civic Centre. It is recommended that a balance of £200k be retained in this reserve in order to finance costs associated with unplanned repairs to civic buildings, and the reserve be renamed the Civic Buildings Major Repairs Reserve.
- **Earmarked Grants Reserve**  
This reserve has been set up for unutilised grants from current and prior years. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas. It was previously agreed that £10k of this reserve be drawn down each year for four years (starting in 2017/18) in order to fund energy efficiency initiatives across the Council. This use of funding is in accordance with the award of the original £40k grant. A further £50k is forecast to be drawn down from previously awarded new burdens grants to fund Homelessness Prevention initiatives in 2018/19.
- **Management of Change Reserve**  
To finance any one off costs of projects required to make improvements or significant changes to services for which no budgetary provision exists, including redundancy and pension strain payments.

With continually increasing pressure on the Council's funding streams, service transformation remains high on the Council's agenda. This has resulted in a recommended draw down from this reserve of £527k in 2018/19 to fund various initiatives including: one-off costs for the first year of the new leisure contract (£375k), flats recycling project (£81k), resource to develop the Council's website (£46k) and a two year Sport England project (£25k). There will be a contribution to the reserve of £350k in order to ensure sufficient balances going forward, giving a net budgeted drawdown of £177k.

- **Technology Reserve**  
This reserve was set up in 2010/11, to be utilised with the Management of Change reserve to invest in technology improvements which will help improve efficiency and resilience. There will be a contribution of £200k to this reserve in 2018/19 to fund planned investment in the Council's key IT systems over 2019/20.
- **Savings Contingency Reserve**  
This reserve was created in order to mitigate the risk of the Council's savings initiatives failing to complete on time, and thereby causing an in-year budgetary pressure. The reserve is funded through savings achieved ahead of the 'pre-smoothed' savings targets laid out in the MTFS. Achievement of all the savings initiatives planned for 2018/19 will result in a contribution to this reserve of £600k.
- **On Street Car Parking Reserve**  
There are statutory requirements the Council must observe in relation to income derived from certain parking activities, particularly on street car parking and penalty charge notices. Any operating surplus generated from

these activities is transferred to this reserve for future re-investment in parking activities. It is recommended that a contribution of £50k be made to this reserve in 2018/19 in order to fund future one-off costs associated with consultations on Controlled Parking Zones.

- **Dacorum Development Reserve**  
This reserve was created in 2011/12 to support regeneration and economic development initiatives across the Borough. The net draw down of £110k proposed for 2018/19 includes £20k to fund events planned to commemorate Armed Forces Day; £50k to fund improvements at the Leys Road Hostel; and, £40k support for the Dacorum Ambassadors programme.
- **Planning Enforcement & Appeals Reserve**  
To meet the costs of urgent action on planning enforcement, and stabilise the financing of fluctuating annual costs of planning appeals.
- **Planning and Regeneration Projects Reserve**  
This reserve is designed to meet any one-off costs associated with planning or regeneration projects. The £40k draw down proposed for 2018/19 funds one-off revenue expenditure associated with the Water Gardens project.
- **Litigation Reserve**  
The funds within this reserve are held to support one-off costs associated with the defence against, or settlement of legal claims. The Council is currently involved in a number of complex legal cases which are likely to progress in 2018/19, and it is therefore recommended that this reserve is maintained.
- **Vehicle Replacement Reserve**  
This reserve was created to enable the Council to make regular contributions to the capital costs associated with replacing of key fleet vehicles. Funding replacement costs through Revenue Contributions to Capital enables the Council to reduce or avoid the costs associated with borrowing. From 2018/19 onwards, annual contributions to the reserve are recommended to continue at £350k.
- **Invest to Save Reserve**  
This reserve was created in 2015/16 to support the one-off costs associated with spend to save initiatives and investing in new ways of working. It is used to fund the up-front costs of projects that can demonstrate payback within a 5-year period. Successful bids require sign-off by the S151 Officer, before requesting Member approval, and the proposed savings are removed, or income targets inserted, for the Service's future years' budgets at the point the bid is approved.
- **Longdean School Repairs Reserve**  
A reserve created to enable operating surpluses from previous years to be used in future years to contribute toward the cost of repairs.
- **Tring Swimming Pool Repairs Reserve**  
To set aside income from a dual use agreement in order to contribute toward the cost of future repairs at Tring Sports Centre. The proposed top up of £8k in 2018/19 is the setting aside of income from the dual use agreement in relation to the cost of future major repairs.

- **Youth Provision Reserve**  
To assist with repairs expenditure and the provision of youth provision. The proposed draw down of £40k in 2018/19 is a Council contribution towards the start-up of the cycle hub at Grovehill Adventure Playground.
- **Election Reserve**  
This reserve was created to smooth the cost of Borough Elections over a four-year period. A contribution of £30k per annum is made from revenue to be drawn down to fund elections on a four-yearly basis.
- **Uninsured Loss Reserve**  
To cover potential liabilities which are above the budgeted amount for uninsured losses or those covered by the Council's insurance policy. As part of a re-tendering exercise in 2017, the Council undertook a detailed review of its insurance provision and risk exposure, and £500k was deemed a reasonable holding.
- **Training and Development Reserve**  
This reserve was created to finance specific development programmes for Council staff. It complements the Management of Change reserve and ensures that Officers are able to access the training required to deliver services more efficiently. There is a draw down of £21k planned for 2018/19 to fund one-off costs associated with the Council's apprenticeship scheme.
- **Housing Conditions Survey Reserve**  
This reserve was created to smooth the costs associated with periodic Council inspections of private dwellings. As pressure continues to grow on the private rented sector across the borough, it is recommended that the Council continues to contribute to this reserve at a rate of £15k per annum.
- **Dacorum Partnership Reserve**  
This reserve was funded from the Performance Reward Grant received in 2009/10, and is used towards Dacorum Partnership projects.
- **Dacorum Rent Aid and Rent Guarantee Reserves**  
These reserves are to provide assistance to clients to obtain/retain accommodation.
- **Funding Equalisation Reserve**  
Funded through annual surpluses on the Collection Fund, this reserve is essentially a means of making the necessary accounting adjustments that arise when actual collection rates differ from forecast collection rates.
- **Pensions Reserve**  
This reserve was created in 2012/13 in order to fund potential costs to the Council arising from the statutory triennial reviews of the pension scheme. The results of the December 2016 triennial review announced that the payments the Council currently makes are, based on present assumptions, sufficient to reduce the pensions deficit within the 20-year planning horizon employed by the actuary, and that no further increase or one-off payment is required. However, the scale of the current deficit repayments, at c£2m per year, means that a small change in actuarial assumptions can result in significantly increased payments. On this basis, it is recommended that the

Council makes an annual contribution of £200k to this reserve, to be reviewed at the next valuation.

- **Maylands Plus Reserve**  
This reserve was created in 2013/14 to set aside surpluses generated at Maylands Business Centre for re-investment into Economic Development across the Borough.

### **Earmarked Reserves future priority areas**

10.9 Priority areas that Members may wish to consider for future contributions to Earmarked Reserves, subject to outturn, include:

- **Management of Change Reserve**  
This reserve has been used to fund a range of transformational projects over the last few years, as the Council seeks to deliver its services more efficiently. The continued reductions in grant from central government continue to underline the need for the Council's transformation agenda. There are a number of further projects in the pipeline, including the evolving digital agenda, and the focus on channel shift for public access to the Council's services.
- **Savings Contingency Reserve**  
This reserve was created in order to mitigate the risk of the Council's savings initiatives failing to complete on time, and thereby causing an in-year budgetary pressure. The reserve will be funded through savings achieved ahead of the savings targets laid out in the MTFS.

### **Housing Revenue Account Earmarked Reserves**

10.10 The Council holds one Earmarked Reserve within the HRA; the New Build and Capital Investments Reserve, with a forecast year-end balance of £18.1m. It is forecast that £4m will be drawn down from this reserve for the purchase of land in 2018/19.

The New Build and Capital Investments Reserve holds fund that before 2017/18 would have been contributed directly to capital rather than being held in a revenue reserve. The rationale behind keeping these funds within a revenue reserve is to enable the Council to benefit from the increased financial flexibility that comes with holding funds as revenue rather than capital. This increased flexibility enables the Council to mitigate its financial risk exposure to further changes in government legislation governing the setting of rent.

This approach does not change the Council's ability to use the funds for capital purposes. It simply preserves the flexibility of revenue until the funds are required within the Capital Programme. This reserve operates in tandem with the New Build programme approved within the HRA Business Plan.

### **Capital Reserve**

10.11 This reserve is utilised to finance the Capital Programme. General Fund capital balances have now been fully utilised on a range of capital projects, and the balance brought forward to 2018/19 contains receipts from the sale of HRA properties under the Right-to-Buy scheme, along with the associated 1-4-1 receipts. It is estimated that the HRA capital balances will be £49.6m as at 1 April 2018, and £45.4m as at 31 March 2019.

## 11. Capital Programme

11.1 The Capital Programme has been structured to enable delivery of the Council's Corporate Plan over the medium- to long-term. The Programme includes all of the capital schemes within both the General Fund and the Housing Revenue Account (HRA).

11.2 The recommended Capital Programme detailed in Appendix I includes a revised programme for 2017/18, together with a proposed 5-year programme encompassing £190m of capital investment across the Borough.

11.3 Areas of major investment within the 5-year programme include:

### General Fund

- £10.8m to purchase and replace fleet vehicles, plant, machinery and other equipment;
- £18.3m Asset management of community facilities including Council-owned buildings, car parks, public conveniences, cemeteries and community and sports premises.
- £17.8m Economic Development, Affordable Housing, Town Centre and Gadebridge Park Regeneration;
- £1.6m Investment in Information and Communications Technology, including upgrading of software systems. This investment will enable future revenue efficiencies to be achieved through customer services 'channel shift' and service transformation projects; and,
- £3.8m Capital grants and loans to voluntary organisations and Private Sector Housing grants (including Disabled Facility Grants and improvement grants). It should be noted that the Council has no discretion over the payment of Disabled Facility Grants, which are mandatory.

### Housing Revenue Account

- £86.4m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens); and,
- £51.7m for the New Build programme.

## Financing the Capital Programme

11.4 It is recommended that the Capital Programme for 2018/19 is financed as per the table below.

<b>Proposed Financing for Forecast Capital Programme 2018/19</b>	
	<b>£m</b>
Grants and External Funding	2.6
Capital Receipts and Reserves	32.1
1-4-1 Capital Receipts	8.0
Revenue Contribution	9.1
Borrowing	6.4
<b>Total Indicative Funding</b>	<b>58.2</b>

- 11.5 Key assumptions around the Capital Programme's primary financing streams are detailed below:

#### **Major Repairs Reserve**

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

#### **Forecast of Capital Receipts**

In accordance with the Council's Medium Term Financial Strategy, estimates of the likely Capital Receipts to be generated during 2018/19 and subsequent years have been made based on the Council's Asset Management Plan and the current economic climate. The level of receipts anticipated during 2018/19 is £13.8m (of which £5.5m will relate to General Fund and £8.3m will relate to the HRA).

#### **Revenue Contribution to Capital**

This refers to charges on revenue budgets in order to finance capital projects. Of this £2.1m relates to the General Fund and £7m to the HRA.

#### **Borrowing**

In May 2015, Members approved the Council's General Fund taking borrowing of £19.8m from the Public Works Loan Board (PWLB) in order to support the delivery of the approved Capital Programme. The PWLB offers low interest rate loans to Local Authorities, with interest rates derived from the gilt rate at which Government itself can raise funds.

Through the PWLB, the Council was able to structure a portfolio of loans, with a range of differing maturities (the longest at 40 years), designed to minimise the amount of interest payable by the Council whilst at the same time ensuring that annual repayments remain sustainable. The average interest rate secured was 2.9%, which reflects a discount of 40 basis points (0.4%) on the standard PWLB rates. This additional discount was secured through a combination of the PWLB's 'project rate' (20 bps) and through the Local Enterprise Partnership (LEP) support for the Council's regeneration programme (20 bps).

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

- 11.6 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 Asset Management Strategy and Medium Term Financial Strategy. Cabinet will be briefed at least annually on the performance of assets and in particular non-operational assets. The briefing will identify any potential surplus assets that do not meet the Council's needs and may be considered for formal decision for disposal.

## **12. Flexible Use of Capital Receipts**

- 12.1 Guidance issued by the Secretary of State under Section 15(1) of the Local Government Act 2003 states that local authorities may finance costs associated with service reform from capital receipts.
- 12.2 This flexibility is currently offered to local authorities for the three- year period 1 April 2016 -31 March 2019. Local authorities can only use capital receipts from the disposal of property, plant and equipment assets received in the years the

flexibility is offered. Local authorities may not use their existing stock of capital receipts to finance the revenue costs of reform nor may they borrow to finance the revenue costs of service reform.

12.3 Local authorities applying capital receipts as described at 12.1 are required to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. This Strategy should list each project which plans to make use of capital receipts flexibility, together with the expected savings that the project will realise.

12.4 Consideration is being given to the application of capital receipts to support breakage costs associated with the re-tender of the Council's leisure management contract. A Flexible Use of Capital Receipts Strategy will be put before Members for agreement, subject to finalisation of these breakage costs and an associated funding proposal.

### **13. Treasury Management Strategy**

13.1 In accordance with the requirements of the Local Government Act 2003 the Council produces an annual Treasury Management Strategy, see Appendix K. This appendix includes:

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

### **14. Housing Revenue Account 2018/19**

14.1 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 payment to the Government of £354.015 million.

14.2 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 at a minimum of 5% of total income, which for 2018/19 equates to £2.9m. The Council keeps the medium and long-term funding of housing services under regular review through updates to the HRA Business Plan.

#### **HRA Business Plan update**

14.3 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.

14.4 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.

## HRA Financial assumptions for 2018/19

14.5 The HRA business plan incorporates the following key financial assumptions, based on the draft 2018/19 HRA budget:

Budget	Assumptions
HRA Working Balance	Minimum 5% of turnover.
Major Repairs Reserve (MRR) Balance	Nil – to be fully utilised each year to fund capital works and new build
Rent	Years 2 & 3 minus 1%, then CPI (2.2%) + 1% (3.2% total) for the next five years, and CPI (2.2%) for the remainder years throughout plan. New tenancies re-let at (social) formula rent. De-pooling of Service Charges & Rent for flats has been implemented in 2017/2018.
RPI	Year 2 RPI (3.9%), Year 3 RPI(3.3%) and 2.9% for the remainder years throughout plan
CPI	Year 2 RPI (3%), Year 3 RPI(2.6%) and 2.2% for the remainder years throughout plan
New Build Programme	170 units planned with provision for expenditure for 100 more. Let at existing (social) formula rent levels
Voids and Bad Debts	Voids: 0.8% of gross income Bad Debts: 0.55% rising to 1.9% then reducing to 1.5% with the increases making a provision for the impact of Welfare Reform
Right to Buy	Assumption of 55 sales per year for 3 years then reducing to 50 and then to 20

14.6 In 2015, Government issued new legislation on social rent setting for the four years commencing in April 2016. This legislation imposes a 1% rent reduction on social housing properties every year for the next four years. This legislation constitutes a fundamental change to Government's previous involvement in the setting of local authority rents, which has until now been limited to the issuance of guidance as opposed to legislation.

14.7 Implementing this legislation had a dramatic effect on the Council's HRA Business Plan, reducing rental income by £30m over the next four years, and by a forecast £750m over the 30-year life of the plan.

14.8 An updated HRA Business Plan will be brought to Cabinet in March 2018.

## 15. Staff Terms and Conditions

15.1 Within Budget 2015/16, the Council introduced a Living Wage supplement for all affected employees, in accordance with the Living Wage Foundation. Council agreed to review the Living Wage annually thereafter, but did not seek accreditation thereby avoiding the loss of autonomy that might entail.

15.2 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.

15.3 The current 'out of London' living wage, which would apply to the Council, was announced in November 2017 as £8.75 per hour, a 30 pence increase over the previous year. The total cost to ensure all Council employees are the Living Wage for 2018/19 is approximately £30k. This increase has been included within the Budget proposals.

## **16. Summary and Conclusion**

16.1 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.

16.2 The statement from the Chief Finance Officer at Appendix M provides assurance regarding the robustness of the 2018/19 budget and the level of the Council's reserves.