Report for:	**Overview and Scrutiny Committee**
Date of meeting:	**11th September 2018**
Part:	**1**
If Part II, reason:	

Title of report:	
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources James Deane, Corporate Director (Finance and Operations) Nigel Howcutt, Assistant Director (Finance and Resources)
Purpose of report:	To present to Cabinet the revised Medium Term Financial strategy for approval.
Recommendations	It is recommended that Cabinet recommend to Council the approval of the Revised Medium Term Financial Strategy for the period 2018/19 – 2022/23.
MTFS Review	As part of the budget scrutiny sessions, in December and February any proposed changes to the MTFS will be reviewed.
Corporate objectives:	The Medium Term Financial Strategy supports the delivery of all five of the Corporate Objectives.
Risk implications	There are potentially significant financial impacts associated with not clearly setting out and approving the Medium Term Financial strategy and financial modelling.
Community Impact Assessment	N/A
Health and safety Implications	N/A
Consultees:	Cabinet July 2018 Corporate Management Team. Budget Review Group. Finance & Resource Scrutiny
Background papers:	Budget Report to cabinet February 2018. Final Outturn Report to Audit Committee, July 2018.

Medium Term Financial strategy.

DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2019/20–22/23.

August 2018

CONTENTS

1. Introduction

1.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. In detailing the financial implications of the Corporate Plan over a five-year period, the MTFS provides a reference point for corporate decision-making and ensures that the Council is able to optimise the balance between its financial resources and delivery of its priorities.

1.2 The MTFS informs the annual budget-setting process, ensuring that each year's budget is balanced and considered within the context of the Council's ongoing sustainability over the entirety of the planning period. The annual budget-setting process is detailed in the Financial Planning Framework in Section 3.

1.3 In order to forecast the Council's future financial position, the MTFS contains a number of assumptions, the bases of which are detailed throughout the Strategy. It should be noted that these assumptions are subject to change. The Corporate Director (Finance & Operations) will report back to Cabinet as a matter of urgency if there are changes to key assumptions in the Strategy that threaten the sustainability of the approved MTFS.

2. Recommendations

2.1 The Overview and Scrutiny Committee are asked to review and note the Medium Term Financial Strategy.

3. Financial Planning Framework

3.1 The Financial Planning Framework, shown below, demonstrates the process by which the Council ensures that revenue and investment plans are developed in tandem, and that the annual budgets approved by Council each February are developed within the context of longer-term sustainability. It also demonstrates the consultation the Council undertakes with major stakeholders as part of the budgeting process.

July	The final 2017/18 audited accounts are approved by the Audit Committee. Proposed departmental savings targets and MTFS is approved and communicated.
August/September	Budget Holders begin developing Service Plans, in consultation with Portfolio Holders, for the following year. These plans include revenue and capital bids, and highlight new savings proposals and budgetary pressures.
September	Proposed Savings proposals and budget changes are scrutinised and challenged by the Corporate Director (Finance & Operations), Chief officers group and the Budget Review Group, supported by the Financial Services team.
October	Final Savings proposals approved by COG and the Budget Review Group.
November	Draft budget proposals presented to Joint Overview & Scrutiny Committee, for Members' scrutiny.

November – December	Provisional Local Government Finance Settlement announced by Government, which sets the level of grant the Council will receive over the next year(s). Consultation events held with Town and Parish Clerks and Members, and with members of the public.
January	Feedback from November Joint OSC is considered by Budget Review Group, and incorporated into final budget proposal presented to a second Joint Overview & Scrutiny Committee meeting.
February	Final budget report presented to Cabinet for recommendation to Council. Council considers the recommendations of Cabinet for approval.
April	The new financial year begins, and the approved budget is then assessed under the in-year budget performance monitoring process.

4. Review of the Council's primary funding streams (General Fund)

4.1 On 6 February 2018, the Secretary of State for the Ministry of Housing, Communities and Local Government, The Rt Hon Sajid Javid MP, made a statement to Parliament on the Local Government Finance Settlement 2018/19. This announcement was the third year of a 4 year offer, with 2019/20 being the final year. The Settlement's key implications for Dacorum are summarised, below.

Reduced central government grant to the local government sector

4.2 On a national level, in 2018/19 there was a 5.37% reduction in the amount of Settlement Funding Assessment paid by Government to local authorities – reducing from £17.9bn to £16.9bn. The final year of the current financial settlement, 2019/20, is forecast to see a further 14.1% reduction to £14.5bn. If this reduction crystallises, on a national level Settlement Funding will have reduced by 21.8% over the period from 2016/17 to 2019/20.

4.3 Settlement Funding Assessment (SFA) constitutes the primary source of government support for local authorities, and refers to the combined payments of Revenue Support Grant and Baseline Funding (Business Rates).

4.4 Dacorum's SFA has been reduced by 22.2% between 2016/17 and 2018/19. The Provisional Settlement agreement indicates a further £900k reduction in 2019/20, which will result in Dacorum having faced 46% funding reduction since 2016/17. This level of reduction is significantly higher than the national average for district councils, which is forecast to be 31.5% for the period up to 2019/20.

The concept of Core Spending Power

4.5 DBC's SFA reduction has been high relative to the district council average since 2016/17, when Government began to award grant on the basis of each authority's *Core Spending Power* (CSP). Government's rationale for adopting CSP is that it enables the amount of grant reduction to be determined by each individual council's affordability rather than simply applying similar percentage reductions to all authorities. In addition to SFA, the CSP affordability calculation takes into account the amount that a council can raise locally from Council Tax and New Homes Bonus (NHB) when apportioning funding reductions.

4.6 In 2018/19, DBC was forecast by Government to generate around £11m in Council Tax income compared to a national average for districts of around £6.8m. This means that DBC can generate more income locally than most district councils and therefore, within the context of Core Spending Power, Government deem it capable of absorbing a greater reduction in grant than most district councils.

Revenue Support Grant

4.7 The 4-year settlement agreed RSG grant funding levels until 2019/20.

4.8 In the last 2 years of the settlement DBC will receive no RSG. Further, it will also face the introduction of a 'Tariff Adjustment', costing £1m, in 2019/20, as detailed in table 1 below. The Tariff Adjustment is effectively 'negative RSG',

and its purpose is to allow Government to continue reducing an individual council's SFA, under the Core Spending Power calculation, even after they are no longer in receipt of any RSG to reduce.

Table 1: Four Year Funding Settlement.

	2016/17	2017/18	2018/19	2019/20
Revenue Support Grant	£970k	£100k	0	0
Transitional Grant	£130k	£130k	0	0
'Negative RSG'	0	0	0	(£1m)
Total Funding	**£1.1m**	**£230k**	**£0**	**(£1m)**

4.9 Within the 2018/19 Settlement announcement on 6 February 2018, the Secretary of State announced that a review would be undertaken into the rationale of negative RSG which could result in an amendment to the forecast 2019/20 figure. As of July 2018 further details have yet to be released, but it is possible that this review could result in a favourable adjustment for Dacorum in 2019/20.

4.10 Notably, the four-year deal excludes New Homes Bonus, of which Dacorum received £2.1m in 2018/19, and Baseline Funding, of which Dacorum received £2.9m in 2018/19. Updates on both of these funding streams are included within paragraphs 4.13 – 4.25 of this strategy.

4.11 Although the four-year deal offers the closest the Council can get to funding certainty over the medium-term, it is by no means guaranteed, with the Secretary of State confirming that the deal will not protect against:

- The extra responsibilities and functions that might need to be accepted by local government as part of the move to 100% business rates retention;
- Future transfer of functions to or between local authorities, or the impact of mergers; and,
- Any other 'unforeseen events'. (No parameters have been put on the breadth of this definition.)

4.12 A Government Spending Review will take place in 2019 which will provide additional information on future funding levels for the Local Government sector. Until further information is made available, the MTFS assumes that Government funding will continue to fall in line with average reductions over previous years, and that the Council will effectively be self-sufficient by 2022/23.

Baseline Funding

4.13 Baseline Funding (also known as Retained Business Rates) contributed £3m to DBC in 2018/19. This is based on Government's assessment of need within the borough, and it can be increased or decreased depending on whether the overall amount of business rates collectable across the borough increases or decreases. The amount by which the Baseline Funding can reduce is capped at 7.5%, which is known as the 'safety net'.

4.14 The Council is required to make financial provision against refunds arising from business rates appeals against the revaluations undertaken by the Valuation Office Agency in 2013 and 2017. Between 2013/14 and 2017/18 the MTFS projected that the impact of these appeals would more than offset business rates growth, and would therefore limit DBC to the safety net position.

4.15 However, based on analysis of growth levels and the success of appeals over the last two years, the assumption in this version of the MTFS is that the level of appeals payments will not outweigh additional business rates collected. Consequently, from 2018/19 onwards it is forecast that DBC will receive funding at the baseline position, the level at which the government has assessed the level of need. This roughly equates to an additional £250k per annum for the Council.

4.16 It should be noted, however, that Government continues to work on its Fair Funding Review which will determine a new model of business rates distribution beyond 2020. Current indications are that the new model will result in the local government sector retaining 75% of business rates collected nationally. Although the retention of 75% of business rates will represent increased funding for the local government sector as a whole, it's not yet possible to evaluate the real-world impact of the new model. This is because the method of distribution among individual authorities is yet to be determined, as are the additional burdens that will be transferred to local government in order to meet Government's objective of the scheme cost being net neutral.

4.17 It is widely anticipated that the updated redistribution model will favour those authorities with responsibility for adult social care at the expense of district councils. As previously stated, this MTFS has sought to plan for this economic risk with the assumption by 2022/23 DBC will receive no financial assistance from Government. Based on information currently available, this reflects a prudent approach to what will be a period of great uncertainty, and the S151 Officer will report back to Members as more detail emerges.

Council Tax

4.18 The Localism Act 2011 sets a cap on council tax increases of the higher of 2.99% or £5. As part of the 2018 financial settlement the government announced a revised referendum threshold for district councils at the higher of £5 or 2.99% for 2018/19. In February 2018, Council approved an increase in Dacorum Council Tax for 2018/19 of £5.68 (2.99%), within the new 2018/19 threshold. The government have not to date indicated that the additional CT cap increase applied for 2018/19 would be repeated in future years.

4.19 The proposed MTFS assumes continued increases of £5 per annum and growth in the tax base of 1% per annum, equating to around 560 dwellings per year. It should be noted that in calculating the four-year Settlement for Dacorum, Government assumed that DBC will increase Council Tax by £5 per year, and that the tax base will grow by around 1.5% per year.

New Homes Bonus

4.20 The Council received £3.1m of New Homes Bonus (NHB) from central government in 2017/18. NHB is paid to local authorities to stimulate local housing growth and takes the form of a grant payable to the Council for each additional home created within the borough.

4.21 As part of Spending Review 2015, Government announced a review of NHB and a planned reduction in the amount of grant paid nationally by around 50%, or £800m, in order to divert increased funds to the provision of adult social care. In December 2016, Government announced the results of this review, which will result in the level of payment to DBC reducing annually throughout the medium-term.

4.22 There are two principle changes to the grant calculation mechanism that result in this reduction:

- Firstly, NHB payments will be made for only 4 years in 2018/19 (down from 5 years in 2017/18, and from 6 years previously). All things being equal, this equates to a reduction in the annual payment to DBC of one third from 2018/19 onwards when compared to awards pre-2017/18;

- Secondly, from 2017/18 NHB will only be payable on growth in excess of 0.4% of the tax base, where previously it was payable on all growth. The proposed MTFS assumes annual tax base growth of 1% (based on average growth over the last three years), which equates to around 570 additional dwellings per year, of which only around 342 dwellings (0.6%) will now attract NHB.

4.23 The table below demonstrates how DBC's NHB payments are predicted to fall over the medium-term as a result of these changes:

Table 2: New Homes Bonus Funding

	Actual			**Forecast**		
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
New Homes Bonus	£3.5m	£3.1m	£2.1m	£1.9m	£1.2m	£1m

4.24 With the exception of £325k per year, which is used to support annual revenue budgets, the Council has always used NHB to fund capital projects. This strategy has prevented the Council's revenue budgets from becoming dependent on NHB, which has always been considered a volatile funding stream, thereby ensuring that reductions are unlikely to be severe enough to increase the MTFS savings requirements.

4.25 In addition, the forecast reductions in NHB do not leave the Capital Programme underfunded over the medium-term, and therefore do not affect the Council's revenue position by increasing the borrowing requirement. It is recommended that Members continue with the strategy of retaining only £325k of NHB to support the provision of General Fund services.

5. Review of MTFS assumptions

Update of General Fund budget assumptions based on 2017/18 outturn

5.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2018/19, over the next four years. The extrapolation process incorporates assumptions on government grant, inflation, changes in demand for services, changing legislation, and probable risks and opportunities.

5.2 The 2017/18 outturn is to be presented to the Audit Committee at its meeting of 25 July. A fundamental part of the outturn analysis is to focus on those areas where there were over- or under-spends in order to identify whether the budget assumptions could be updated in order to improve the accuracy of the MTFS. Budgetary assumptions for 2019/20 have been updated where appropriate.

Update of MTFS assumptions based on other information

5.3 A range of information sources have been used to inform the updated assumptions shown within the following table. The rationale behind estimates is shown in the notes below. Further sensitivity will be undertaken as new information becomes available.

Table 3: Budget Assumptions.

	Note	2019/20	2020/21	2021/22	2022/23
Income					
Council Tax	1	3.58%	3.52%	3.46%	3.46%
Revenue Support Grant	2	(£990k)	(£1.64m)	(£2.44m)	(£3.23m)
Business Rates Retained	3	2.3%	2%	2%	2%
Fees & Charges	4	0.87%	0.76%	0.76%	0.76%
Expenditure					
Pay settlement	5	2.45%	2%	2%	2%
Pay: contract increments	6	0.5%	0.5%	0.5%	0.5%
Pension contributions	7	0	1%	0	0
Utilities	8	5%	5%	5%	5%
Fuel	9	5%	5%	5%	5%
Supplies & Services	10	2.3%	2%	2%	2%

Notes:

1. Increase by £5 per Band D and 1% increase in tax base (see paras 4.18 – 4.19).
2. Based on four-year Settlement (see paragraphs 4.7 – 4.12).
3. Based on four-year Settlement (see paragraphs 4.7 – 4.12).
4. Inflation assumptions from OBR on controllable income.
5. Consistent with April 2018 LGS announcement on the pay settlement.
6. Based on actual increments due and historical staff turnover rates.
7. Increase 1% on past service costs from next revaluation in 2020/21.
8. Based on Current inflation estimates.
9. Based on Current inflation estimates.
10. Inflation assumptions from Office of Budget Responsibility (OBR).

Growth

5.4 Growth is defined as an increase in the expenditure, or the net expenditure, budgets of the Council. In the event that essential or unavoidable growth is required within a Service area, a business case outlining the requirements should be produced by the relevant Group Manager and Assistant Director, and be signed off by the Director and S151 Officer, before being submitted for consideration by the Budget Review Group.

5.5 Growth in the income generating capacity of a particular Service does not mean that the additional income automatically accrues to that Service. All Council income, unless stated otherwise by statute, is considered corporate income and is used to finance the provision of all Council services. All requests from budget holders to retain additional income budget in order to finance increased expenditure are subject to the growth process outlined above.

5.6 If, during the budget-setting process, a budget holder reduces the cost of providing one of their services, the resultant saving does not automatically become available to them to finance the expansion of an alternative service area. All savings made across services constitute a contribution to the Council's corporate budgetary position. Any expansion of a Service area constitutes growth, which necessitates a separate growth bid.

Fees and Charges Strategy

5.7 The fees and charges set by the Council are subject to annual review as part of the budget-setting process. Changes made between years are included within the annual Budget Report, and are subject to Council approval. 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; and,
- robust systems of discounts or concessions should be in place for those who would otherwise find that they could not access services, where deemed appropriate.

5.8 Provision of many Council services is a statutory requirement and charges for access to these are determined as part of that requirement. The Council therefore has no discretion in setting these fees.

5.9 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.

5.10 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.

5.11 Increases for the annual review of fees and charges have been included in the MTFS projections based on the percentages set out in table 5.3.

General Fund Working Balances and Earmarked Reserves

5.12 The Council's Reserves Strategy is integral to the MTFS because it demonstrates how the Council augments its annual ongoing running costs with plans to finance specific items of one-off expenditure over the medium-term. The Strategy is reviewed annually, and was most recently approved by Council within the 2018/19 Budget Report, in February 2018. The reserves position was most recently approved by the Audit Committee as part of the outturn process for 2017/18 and is included at Appendix C.

5.13 The Council holds two types of reserve. These are:

a. **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 S151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year. This requirement was met within Appendix M of the Budget Report to Cabinet in February 2018.

b. **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 by Member approval, and that all subsequent transfers to and from those reserves also require Member approval.

5.14 In accordance with best practice, the General Fund Working Balance is maintained at a level between 5% and 15% of Net Service Expenditure.

6. General Fund medium-term savings requirements

6.1 Based on the assumptions detailed throughout this Strategy, and the need to maintain the desired level of General Fund Working Balances, the Total Savings Requirement over the life of this MTFS is £2.8m.

6.2 In 2016/17 the Council adopted a three-year savings plan in recognition of the fact that the more easily deliverable savings opportunities have already been taken and that future initiatives are likely to be more complicated and have a longer lead-in period. As a result of this, the Total Savings Requirement comprises three elements which reflect the fact that the Council has a number of initiatives already underway to deliver savings in future years. The table below provides a breakdown of the savings requirement, and is followed by a brief explanation of each element.

Table 4: Medium Term Financial Savings Requirement.

		2019/20	2020/21	2021/22	2022/23
a.	Savings identified, and already delivered	0	0	0	0
b.	Savings identified, but still to be delivered	£366k	£280k	£15k	0
c.	Savings still to be identified	£523k	£292k	£599k	£735k
	Total Savings Requirement	**£889k**	**£572k**	**£614k**	**£735k**

a. **'Savings identified and already delivered'** – refers to additional income, over and above the budgeted level, which is already being realised by the Council. These savings are lower risk as they were identified as part of the year-end process as having already contributed to the year-end surplus for 2017/18.

b. **'Savings identified but still to be delivered'** – refers to those savings initiatives identified by budget holders as deliverable in future years. These savings, particularly the £366k identified for 2019/20, must be considered high risk. If delivery of these schemes is delayed, the savings target for 2019/20 will increase.

   To mitigate the risk of delayed delivery, the Finance Team implemented a new process in 2017/18 to scrutinise budget holders' progress on a quarterly basis. Updates will be reported to CMT each month and to Budget Review Group throughout the year, as well as formally to Members of OSC's and Cabinet as part of the quarterly Budget Monitoring reports.

c. 'Savings still to be identified' – refers to additional initiatives that must be put in place prior to April 2019 in order to meet the Total Savings Requirement. These initiatives will be identified through the annual budget-setting process detailed within the Financial Planning Framework in paragraph 3.1.

7. Key Budget Risks (General Fund)

7.1 The following paragraphs outline some of the key financial risks facing DBC over the medium-term. These risks will be monitored and Members kept updated on the implications for the MTFS.

Local Government Funding Changes.
Spending Review/Fair Funding/Business Rates Retention.

7.2 The MHCLG is in the process of reviewing the fundamental principle of local government funding. Government's stated strategic aim is for the local government sector to become financially self-sufficient, primarily through the continued implementation of its 100% Business Rates Retention policy from 2020 onwards.

7.3 There are currently two reviews underway within Central Government which will fundamentally influence the level of funding Dacorum receives in the future. These are:

- The 2019 Spending review;
- The Fair Funding Review.

7.4 A **Spending Review** is a Central Government exercise which sets Departmental Expenditure Limits (DEL) for a multi-year period for all government departments. In his 2018 Budget, the Chancellor announced an SR for 2019. SR19 is significant for the local government sector because it will determine the amount of funding available to MHCLG to fund local authorities over the next three or four years. In the face of competing priorities such as health and education, the overall funding envelope for local government may be negatively impacted.

7.5 The **Fair Funding Review** (FFR) is running concurrently with SR19 and has been set up to create a model that will assess the relative financial needs of local authorities, and allocate a level of funding accordingly. The FFR runs hand in hand with the Spending Review because it provides the model that will distribute the amount of funding made available through the SR.

7.6 Examples of criteria currently under consideration by the FFR to assess need are deprivation, demography and geographical location. Although the relative weighting of each criterion is yet to be determined, current thinking is that the final funding 'drivers' will favour those authorities providing social care, which will result in a diminished pot of funding available for distribution among district councils.

7.7 The current Business Rates Retention scheme will be incorporated within the FFR model, which it is anticipated will include drivers to continue incentivising local authorities to deliver the national policy agenda of economic growth and increased housing numbers.

7.8 The Spending Review and the Fair Funding Review are currently expected to be developed, consulted on and finalised by January 2020 for implementation from 2020/21 onwards. Members will be updated as more information becomes available.

Brexit

7.9 The continued move towards financial self-sufficiency means that local authorities are increasingly exposed to fluctuations and changes in the economy. In particular, the extent to which councils' financial sustainability will be linked to their ability to grow and retain rate-paying businesses has yet to be confirmed through the FFR.

7.10 Added to this uncertainty are the ongoing negotiations around Brexit, and the uncertainty around how multinational companies will view the UK's attractiveness as a base for investment as details of Brexit begin to emerge. There is a risk that demand for commercial property in the UK will fall as a result of the UK leaving the EU, resulting in reduced Business Rates and consequent funding pressures for local authorities in the medium-term.

Borrowing

7.11 There is a risk that the UK's credit rating could be downgraded as a result of slow economic growth and prolonged Brexit negotiations, thereby prolonging economic uncertainty in the eyes of investors.

7.12 If this risk were to crystallise, and the cost of government borrowing was to increase, the lending rates available to the Council through the Public Works

Loan Board would also increase. Based on the currently approved Capital Programme such an increase would not pose an immediate problem for the Council because there is a minimal additional borrowing requirement over the medium-term. However, this could change if the Council wished to extend the Capital Programme, thereby increasing its borrowing requirement at a time when interest rates were rising.

Pensions

7.13 The Council's pension fund is the most volatile material liability on the balance sheet and prolonged economic uncertainty could drive up the deficit in the short-term. The size of the pension fund deficit has a direct relationship with the amount of contributions the Council is required to make to the fund, and therefore to the annual revenue cost of providing the scheme.

7.14 Changes to the Council's contributions are triggered by the recommendations of the fund's triennial review, the next is due in December 2019. The previous 2016 review required the Council to increase its employer's contribution rate from 16% to 18.5%, c£370k per annum, from 2017 in order to meet the likely future costs for current employees. There is also the risk that increased deficit relating to past service costs will increase depending on the assumptions within the actuarial valuation.

7.15 The Council currently has a Pensions Reserve of £2m which could be used for one-off payments to reduce the deficit, pending future actuarial reviews. However, given the scale of potential payment fluctuations, this MTFS recommends a continued further annual contribution to the reserve of £200k per annum. This recommendation can be reviewed at the time of the next triennial review, December 2019, to ensure that it remains appropriate.

Staffing pressures

7.16 In common with other local authorities within Hertfordshire, the Council is currently facing difficulties in the recruitment of staff with professional qualifications e.g. within Finance, Legal, Building Control, Planning, and Environmental Health. In the short-term this can cause a revenue pressure as the Council is forced to increase its use of (more costly) agency staff in order to maintain service provision. Council officers continue to work with neighbouring authorities to identify a strategic solution to future recruitment needs.

7.17 The current MTFS assumes pay inflation of 2% per annum in accordance with recent Local Government pay agreements for 2018 and 2019. Any future increase in pay levels greater than 2% would result in additional financial pressure to the council. An additional increase of 1% in pay would result in an annual budgetary pressure of c£200k.

Universal Credit.

7.18 The implementation of Universal Credit, to be rolled out across Dacorum from 2018, is expected to have a financial impact on the Revenues and Benefits service. At present the extent of the impact is uncertain as the value of future Benefits Administration Grants is unknown, and the level of service the Council will be required to provide to residents on an ongoing basis is also

uncertain. These developments will be monitored closely as part of the UC implementation and any future government announcements will be communicated to Members accordingly.

8. Housing Revenue Account (HRA)

8.1 The HRA Business Plan plans delivery of the Council's housing objectives over a thirty-year period. The long-term perspective is necessary to ensure sound investment decisions both in terms of the Council's new build programme and in maintaining existing stock.

8.2 The Business Plan is kept constantly under review, and is presented for Members' approval at least annually. The most recently approved HRA Business Plan was approved by Cabinet in March 2018. The table below details the assumptions within the most recently approved plan,

Table 5: HRA Budget Assumptions.

Budget	Assumptions
HRA Working Balance	Minimum 5% of turnover, as per Reserves Strategy.
Major Repairs Reserve (MRR) Balance	Depreciation is ring-fenced to the MRR. The plan does not show an increasing MRR balance because in all years planned capital expenditure exceeds depreciation.
Rent	In accordance with Government policy, the Business Plan assumes an annual reduction to rents of 1% up to 2019/20. After this, the plan assumes uplift on rents of CPI + 1% to all rents for 5 years, followed by CPI for the remainder of the plan.
RPI	3.9% in 18/19, 3.3% in 19/20 and 2.9% thereafter. Applies to service charges, repairs and maintenance
CPI	2.2%, from 2020 onwards.
New Build Programme	170 units planned with provision for expenditure for 100 more. Let at existing (social) formula rent.
Bad Debt Provision	Voids 0.8% of gross income. Bad debts 0.5% rising to 1.9% then reducing to 1.5% with the increases making provision for the impact of Welfare reform.
52 week rent per unit	Average rent of £101.2 p/w for 2017/18 with future years subject to the inflationary or deflationary assumptions detailed above.
Right to Buy	Assumes 55 in 2018/19 and 2019/20 then 50 in 2020/21 reducing to 20 for the remainder of the 30 business plan.
Interest Rates	Existing borrowing rates, fixed between 1.5 - 3.5% depending on the duration. New borrowing assumed later in the plan is modelled at 4%

Key HRA Budget Risks

8.3 The rent levels within the HRA business plan are set to continue to decrease by 1% per year up to 2019/20, in line with current legislation. Rents after this period are assumed to increase at CPI + 1%, as per the previous rent policy.

Any future decisions by Government to impose further rent reductions will have a detrimental effect on the income levels assumed in this plan.

8.4 In order to finance the cost of implementing RTB for Housing Associations, the Housing and Planning Act 2016 stated that stock holding local authorities would be required to sell their high value properties. Receipts would be returned to HM Treasury, which would then allocate to HAs to cover the cost of the RTB discount. This policy was originally set for implementation in 2017 but has been postponed, though remains likely at some point in the future. Further detail is yet to be released on how the process would operate, though it is highly likely to result in reduced rental income for the Council as well as a diminution in the Council's overall asset value.

8.5 The number of properties sold under Right to Buy (RTB) reduced from around 100 in previous years to 53 in 2017/18 with a slow final quarter. The revised business model has RTB sales projected at 55 a year in 2018/19 reducing in future years. The 2018/19 Quarter 1 RTB sales processed has remained slow and this will be monitored as part of the monthly financial monitoring process. Within the current model, the resulting loss of rental income is not yet sufficient to jeopardise the Council's medium-term ambitions.

8.6 The Council subscribes to Government's 'One for One Replacement' scheme, which entitles it to retain substantially all of the receipts from RTB sales. However, in order to retain the income, the Scheme stipulates that it can only be used as a contribution to new build schemes up to a maximum contribution of 30%, and must be utilised within three years of receipt.

8.7 There is a risk that the Council will be unable to retain this income because the high value of receipts (£10.8m in 2017/18) means that the Council may struggle to cash-flow its 70% share of new build project costs within the three-year timeframe. The borrowing cap imposed by government as part of the Self-Financing settlement precludes the Council from borrowing sufficient amounts to meet the costs.

8.8 In order to retain the receipts locally, the Council is currently working with a number of local Housing Associations (HAs) with a view to grant aiding their development projects within the borough. This is consistent with the terms of the One for One scheme. During 2017/18 the council awarded £3.7m of grants to HA's to deliver 82 additional units. However, there remains a risk that RTB sales will continue at a rate that prevents HAs from meeting the 70% contribution rate required to retain the funding. This risk will be closely monitored to ensure that the council exhausts every opportunity to ensure that the funding is retained locally.

8.9 The 2018/19 Roll out of universal credit has meant an increase in bad debt provision has been made for 2018/19 onwards but the full impact on rental income is uncertain to predict at this stage.

9. Capital Resources

9.1 Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services, such as houses, vehicles, public buildings, play areas, ICT, etc.

9.2 Capital grants and borrowing can only be spent on capital items and cannot be used to support revenue budgets. However, it should be noted that revenue funds can be used to support capital expenditure. Under the Local Government Act 2003, each council can determine how much it can borrow within prudential limits. All borrowings must be financed from the total available resources of the Council.

Flexible use of capital receipts

9.3 Within the 2016 Settlement, Government provided new flexibility for local authorities to use capital receipts from the sale of property, plant and equipment to support upfront revenue expenditure on transformational projects that will deliver ongoing efficiency savings. Councils can only use capital receipts from sales made since the date of this announcement, and cannot use existing capital balances for revenue spending.

9.4 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.

Capital Spending Plans 2018/19 to 2022/23

9.5 The Council's approved Capital Programme for the current and future years was approved by Council in February 2018, and is summarised below:

Table 6: Capital Expenditure Budgets.

Capital Expenditure	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
General Fund	21.7	13.4	2.8	9.5	4.7
Housing Revenue Account	36.5	35.9	25.7	23.0	17.1
Total	**58.2**	**49.3**	**28.5**	**32.5**	**21.8**

General Fund

9.6 The Council's Capital Programme is currently fully funded, following borrowing of £19.4m taken in May 2015. The loan is structured over a portfolio of 30 loans, with one maturing each year. The loan was taken from the Public Works Loan Board (PWLB), at favourable rates, around 60 basis points above gilts, and resulted in an average initial interest rate of 2.98%.

9.7 The Council is required to pay off an element of borrowing each year through a revenue charge, the Minimum Revenue Provision (MRP). The Council's Treasury Management Strategy approved by Cabinet in February 2018, sets out the Councils policy to, at a minimum, pay off the debt over the life of the asset associated with the borrowing. This policy has been applied to the MTFS forecasts.

9.8 The full impact of borrowing costs of the current Capital Programme on the Council's revenue budgets is reflected in the forecasts included in this strategy. However, at the time of writing the Council is examining the potential

for further investment in a number of capital projects, most notably in a housing development company. The costs associated with these projects have yet to be finalised, and thus, at this stage, there is no provision for their funding within the MTFS.

9.9 The financing of the Capital Programme will continue to be supported through the following prioritisation of funds: firstly, appropriate application of grant funding; secondly, use of revenue contributions and capital receipts generated from the sale of Council assets; and, thirdly, through undertaking prudential borrowing.

9.10 The approved General Fund Capital Programme is financed as follows:

Table 7: General Fund Capital Funding.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Capital Receipts and Reserves	6.6	8.9	0.5	6.6	4.2
Capital 141 Receipts	5.4	1.8	0.6		
Borrowing	6.4				
Grants and Contributions	1.2	1.0	1.0	1.8	0.5
Revenue Contributions to Capital	2.1	1.7	0.8	1.0	
Total	**21.7**	**13.4**	**2.9**	**9.4**	**4.7**

Housing Revenue Account

9.11 The majority of the approved HRA capital programme is funded through depreciation allocated to the Major Repairs reserve and revenue surpluses. Revenue is contributed to capital on an annual basis as required to fund the shortfall between planned capital expenditure and depreciation contributions to the Major Repairs Reserve. Surplus revenue not required for capital expenditure is transferred to the HRA revenue reserves.

Table 8: Housing Revenue Account Capital Funding.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Capital Receipts and Reserves	25.4	28.3	17.7	14.4	9.2
Capital 141 Receipts	2.6	2.5	2.5	2.3	0.9
Borrowing					
Grants and Contributions	1.5				
Revenue Contributions to Capital	7.0	5.1	5.5	6.3	7.0
Total	**36.5**	**35.9**	**25.7**	**23.0**	**17.1**