



AGENDA ITEM:

SUMMARY

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| Report for: | Joint Overview & Scrutiny Committee |
| Date of meeting: | 4th December 2018 |
| PART: | 1 |
| If Part II, reason: | |

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| Title of report: | BUDGET PREPARATION 2019/20 |
| Contact: | Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations) Nigel Howcutt, Assistant Director (Finance & Resources) |
| Purpose of report: | To provide Members with an overview of the draft budget and provide the opportunity to scrutinise and provide feedback to Cabinet. |
| Recommendations | That Scrutiny Committees review and scrutinise the draft budget proposals for 2019/20 and provide feedback, to be considered by Cabinet, for each Committee's specific area of responsibility. |
| Corporate Objectives: | Setting a balanced budget to support the Council's corporate objectives. |
| Implications: | The financial and value for money implications are set out in the body of the report. |
| Risk Implications | The Council is required to set a balanced budget and scrutiny of the overall budget proposals will assist in the challenge process required. |
| Equalities Implications | Equality Impact Assessments are carried out in service areas when preparing individual budgets. |
| Health And Safety Implications | None. |
| Consultees: | Budget Review Group; Portfolio Holders; Chief Officer Group; Corporate Management Team; Group Managers. |
| Background | Medium Term Financial Strategy 2018/19 – 2022/23 |

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| Papers: | |
| Key Terms, Definitions & Acronyms | GF – General Fund HRA – Housing Revenue Account MTFS – Medium Term Financial Strategy OSC – Overview and Scrutiny Committee RSG – Revenue Support Grant |

Introduction

1. The purpose of this report is to present for scrutiny and review the draft budget proposals for 2019/20.
2. Budget detail for every area of the Council has been made available to all Members. A glossary of what is grouped under headings is set out in Annexe A.
3. With the exception of the Finance & Resources committee, which scrutinises all budgets, individual Overview and Scrutiny Committees should focus only on those appendices and that portion of the Capital Programme that relate directly to their remit.
4. A senior Finance Officer will be present in each of the committees to support the Chair.
5. The following appendices are attached:

Corporate view

- Appendix A – General Fund Budget Summary 2019/20
- Appendix Bi – Budget Change Analysis 2018/19 – 2019/20
- Appendix Bii – Summary by Committee

Finance & Resources

- Appendix Ci – Finance & Resources Budgets Summary 2019/20
- Appendix Cii – Finance & Resources Budgets Detail 2019/20

Housing & Community

- Appendix Di – Housing and Community Budgets Summary 2019/20
- Appendix Dii – Housing and Community GF Budgets Detail 2019/20

Strategic Planning & Environment

- Appendix Ei – Strategic Planning & Environment Budgets Summary 2019/20
- Appendix Eii – Strategic Planning & Environment Budgets Detail 2019/20

Housing Revenue Account

- Appendix F – Housing Revenue Account Budget 2019/20
- Appendix G – Housing Revenue Account Movements 2018/19 – 2019/20

Capital Programme

- Appendix H – Capital Programme: Summary of new and amended projects
- Appendix I – Capital Programme 2018/19 - 2023/24, by OSC.

Reserves

- Appendix J – Statement of Earmarked Reserves

Medium Term Financial Strategy (MTFS)

6. The current MTFS was approved by Council in July 2018 and contained the following key decisions which have informed the budget-setting process for 2019/20:
 - A General Fund savings target of £890k for 2019/20
 - A General Fund savings target of £2.8m over the duration of the MTFS period
 - A General Fund balance of between 5% and 15% of Net Service Expenditure
 - A minimum HRA working balance of 5% of turnover
7. The draft budget presented in Appendix A has a surplus bottom line of £60k. At this stage, this remains subject to a number of budgetary assumptions, which are currently at risk. Work continues on these assumptions, and the finalised position will be reported to Members at the Joint OSC in February.
8. Council has delegated authority to the S151 Officer to revise the MTFS if material changes to forecasts are required as a result of future government announcements.
9. Prior to seeking Member approval for the budget in February 2019, further consultation and communication will be undertaken, including the following:
 - Briefings to Town and Parish Clerks and Parish Councillors
 - Use of the Council's web site
 - Social Network Media
 - Citizen Forum events

Key Assumptions included in draft General Fund Budget

10. The following assumptions are incorporated within the draft budget:
 - £5 increase in Council Tax (as per MTFS)
 - An average 2.45% pay settlement (as per MTFS)
 - Vacancy factor of 5% for non-front-line services
 - Zero Revenue Support Grant (see paragraphs 11 - 16)
 - New Homes Bonus reduced by 10% (£200k)
 - Inflation freeze on Supplies and Services
11. In July 2018 the Secretary of State for MHCLG announced that government was considering the suspension of 'negative RSG' payments for the final year of the 4-year deal, which, if implemented, would increase the Council's funding by £900k for 2019/20. Final confirmation of the decision is expected as part of the Local Government Settlement announcement on 6th December.
12. It is crucial to note that whatever financial benefit the Council may receive from the full or partial suspension of negative RSG in 2019/20 should be seen as a one-year benefit. This position is explained in the paragraphs below.
13. The concept of 'negative RSG' was introduced to enable Government to reduce the level of funding paid to an authority when there was no further RSG left to reduce. The idea was that the negative RSG would net off against the Business

rates funding to bring total authority funding down to a level, which, in Government's opinion, reflected its level of need.

14. In this respect 'negative RSG' was only ever a transitional tool until each authority's needs-level funding is captured and baselined within the Business Rates funding methodology for 2020 and beyond. At this stage, Government has previously stated that RSG will cease to exist as a funding stream.
15. It is prudent to assume that Government has not fundamentally changed its medium-term assessment of Dacorum's level of need, and therefore that the suspension of negative RSG is a one-year relief, and not likely to be reflected in the funding methodology beyond 2020.
16. As a one-off funding benefit, which, still, at the time of writing remains uncertain, it is recommended that the full amount is transferred to reserves, as follows:
 - £500k contribution to the Dacorum Development Reserve – to support the delivery of future growth and regeneration initiatives across the borough; and,
 - £400k contribution to the Local Development Framework Reserve – to support the medium-term costs of additional work on the Local Plan that will be required over coming years.
17. Any additional changes to the 2019/20 funding levels announced within the Local Government Finance Settlement on 6 December will be incorporated within the second draft budget brought for Members' scrutiny in February 2018.

Key General Fund budget savings since last year

18. Detailed budget changes between 2018/19 and 2019/20 are shown in Appendix B. Key items include:
 - £230k total staff efficiency savings
 - £80k efficiency savings on transport
 - £130k efficiency reductions in expenditure on Supplies & Services
 - £870k increase in income generated
 - £150k increase in contributions and reimbursements
 - £30k increase in recharge to the HRA

Key General Fund budget growth since last year

19. Detailed ongoing growth areas (i.e. not one-off items of expenditure to be funded from reserves) are shown in Appendix B. Key items include:
 - £140k staffing
 - £570k on Supplies and services (£450k co-mingled waste)
 - £80k Third Party payments
20. In order to assist Members in their scrutiny, the draft budget is set out at a detailed Service level in appendices C - E.

Housing Revenue Account

21. The draft HRA Budget for 2019/20 is attached at Appendix F, with explanations of major movements between the Original Budget 2018/19 and Draft Budget 2019/20 shown in Appendix G.
22. Key assumptions incorporated into the draft budget are:
 - Rent reduction of 1% on all properties, in line with Government legislation
 - Increased higher level of bad debt provision (£300k) to reflect the impact of the roll out of Universal Credit
 - 2.4% pay settlement
 - Increase in depreciation (£475k)

Capital Programme

23. The draft Capital Programme is set out at Appendix I.
24. There have been a number of bids for new capital projects from across the Council's services. The financial implications of the new bids are summarised in Appendix H and total £1.8m in 19/20 and £5.4m between 2019-2023/24.

Reserves

25. The proposed movements in General Fund reserves are set out in Appendix J. The significant reserve movements are detailed below for inclusion within the 2019/20 budget:
 - **Savings efficiency Reserve** - Contribution of £317k to the Savings efficiency Reserve to smooth the impact of the MTFs savings requirements and provide a resilience fund to support savings delivery.
 - **Dacorum Development Reserve** - Contribution £455k. A £500k contribution from negative RSG (See para 11-16 for details) less a £20k release to cover costs associated with hosting the Armed Forces Day, and £25k towards the Parking Access and Movement project.
 - **Local Development Framework Reserve** - Contribution £254k. A £400k contribution from negative RSG (See para 11-16 for details) less a release of £146k towards fixed term staff employed to support the delivery of the local plan.
 - **Pension Reserve** – Ongoing contribution of £200k for the triennial payment due in 2020/21.
 - **Litigation Reserve** - Contribution of £200k to the litigation reserve to support any future litigation costs or compensation.
 - **Vehicle replacement reserve** - Ongoing £350k contribution to fund the fleet replacement strategy.

Next Steps

26. Members of the individual OSCs are asked to review and scrutinise the draft budget proposal for 2018/19, and to provide feedback for Cabinet to consider ahead of the next Joint OSC, in February 2019.

Annexe A

Explanation of expenditure categories used in appendices

Budget Categories Glossary

Employees

This group includes the cost of employee expenses, both direct and indirect, for example:

- Salaries
- Employer's National Insurance and pension contributions
- Agency staff
- Employee allowances (not including travel and subsistence)
- Training
- Advertising
- Severance payments

Premises

This group includes expenses directly related to the running of premises and land:

- Repairs, alterations and maintenance
- Energy costs
- Rent
- Business Rates
- Water
- Fixture and fittings
- Premises insurance
- Cleaning and domestic supplies
- Grounds maintenance

Transport

This group includes all costs associated with the hire or use of transport, including travel allowances:

- Repair and maintenance of vehicles
- Vehicle licensing
- Fuel
- Vehicle hire
- Vehicle insurance
- Employee mileage

Third Party Payments

Third party payments are contracts with external providers for the provision of a specific service. Examples for the Council include the Call Centre, Payroll Services, and Parking Enforcement.

Supplies & Services

This group includes all direct supplies and service expenses to the authority:

- Equipment, furniture and materials
- Catering/Vending
- Clothing and uniforms
- Printing, stationery and general office expenses
- External services (consultancy, professional advisors)
- Communications and computing (eg software maintenance, telephones and postage)
- Members allowances
- Conferences and seminars
- Grants and subscriptions

Capital Charges

These statutory accounting adjustments reflect a notional charge to the service for the use of a Councils asset. An example is Cupid Depot, for which a charge is made to Waste Services, for as long as the service uses the asset. These charges are reversed out centrally and do not impact on Council Tax.

Transfer Payments

This includes the cost of payments to individuals for which no goods or services are received. For the Council this only relates to Housing Benefit payments.

Income

This group includes all income received by the service from external users or by way of charges:

- Rental income
- Sales of goods or services (eg the sale of recyclables and waste sacks)
- Fees and charges (eg Planning, Parking and Burials)

Grants and Contributions

This group includes all income received by the service from external bodies:

- Specific Government grants
- Income for jointly run projects/services
- Reimbursement of costs (eg recovery of legal costs)
- Other contributions (eg recycling credits from Herts County Council)

Recharges

This statutory accounting adjustment charges out the back office functions (such as Finance and Legal) to the front line services. These adjustments are based on timesheet information provided by Group Managers and are subject to changes each year. The recharges overall will come back to zero, with the only impact on Council Tax being the overall charge to the Housing Revenue Account, as shown in Appendix A.