

AGENDA



Report for:	Cabinet
Date of meeting:	12 February 2019
Part:	1
If Part II, reason:	

Title of report:	Budget 2019/20
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations)
Purpose of report:	<p>To present to Cabinet budget proposals for recommendation to Council in relation to:</p> <ul style="list-style-type: none"> • Revenue and Capital Expenditure together with the potential use of reserves • The setting of the Council Tax for 2019/20 • The Treasury Management Strategy 2019/20 • The level of fees and charges for 2019/20 • Advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003
Recommendations	<p>It is recommended that Cabinet recommend Council to:</p> <p>General Fund Revenue Estimate</p> <ol style="list-style-type: none"> a) set a Dacorum Borough Council General Fund Council Tax requirement of £11.532m, and a provisional amount of £12.338m for the combined Borough Council and Parish Councils' requirement for 2019/20; b) approve an increase of 2.99% in Council Tax for Dacorum Borough Council; c) approve the base estimates for 2019/20, as shown in Appendix A1, and the indicative budget forecasts for 2019/20 – 2022/23, as shown in Appendix A2; d) approve the forecast balances of Revenue Reserves as shown in Appendix J, and approve section 10 of this report as the updated Reserves Strategy; e) approve increases in Fees and Charges for 2019/20 as set out in Appendices C3, D3, and E3;

	<p>f) approve and adopt the Treasury Management Strategy for 2019/20, attached at Appendix K;</p> <p>g) approve and adopt the Treasury Management Principles and Practices for 2019/20, attached at Appendix L;</p> <p>h) approve and adopt the Capital Strategy for 2019/20, attached at Appendix M;</p> <p>i) note that this budget paper, if approved by Council, will form part of the Medium Term Financial Strategy.</p> <p>Capital Programme</p> <p>j) approve the revised Capital Programme and Capital Strategy for 2018/19, and for 2019/20 to 2022/23, as detailed in Appendix I and Appendix M respectively;</p> <p>k) approve the financing proposals in Appendix I subject to an annual review of the financing options by the Corporate Director (Finance & Operations), in consultation with the Portfolio Holder for Finance and Resources, during the preparation of the Statement of Accounts.</p> <p>Housing Revenue Account (HRA)</p> <p>l) reduce dwelling rents by 1% in accordance with government legislation, resulting in an average rent of £100.08 per week (based on 52 weeks);</p> <p>m) approve the HRA estimate for 2019/20 as shown in Appendix F.</p> <p>Employer Terms & Conditions</p> <p>n) approve the continued application of a living wage supplement for all affected employees, in accordance with the rates of the Living Wage Foundation, for 2019/20 (to be reviewed annually thereafter).</p> <p>Statement by Chief Finance Officer</p> <p>o) approve the statement by the Chief Finance Officer regarding the robustness of the budget estimates and level of reserves as set out in Appendix N.</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 N).
Equalities Implications	Group Managers are responsible for carrying out Equality Impact Assessments for individual budget proposals contained within the overall budget. Group Managers will 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>Monitoring Officer:</p> <p>Under the Council's Constitution it is the responsibility of Cabinet to draw up firm proposals for the Budget, having regard to the responses to the consultation, and to present those proposals to full Council for approval. Once full Council has approved the Budget it is the responsibility of Cabinet to implement it.</p> <p>S.151 Officer:</p> <p>Comments contained in body of report. Chief Finance Officer Statement contained in Appendix N 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: 4 December 2018, and 5 February 2019.
Abbreviations	<p>GF – General Fund Revenue Account</p> <p>HRA – Housing Revenue Account</p> <p>MHCLG – Ministry of Housing, Communities & Local Govt</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 2019/20
- Appendix A2 – Draft General Fund MTFs update 2018/19 – 2022/23
- Appendix B1 – Budget Change Analysis 2018/19 – 2019/20
- Appendix B2 – Budget Summary by Overview & Scrutiny Committee

Finance & Resources

- Appendix C1 – Finance & Resources Budgets Summary 2019/20
- Appendix C2 – Finance & Resources Budgets Detail 2019/20
- Appendix C3 – Finance & Resources Fees and Charges 2019/20

Housing & Community

- Appendix D1 – Housing & Community Budgets Summary 2019/20
- Appendix D2 – Housing & Community GF Budgets Detail 2019/20
- Appendix D3 – Housing & Community Fees and Charges 2019/20

Strategic Planning & Environment

- Appendix E1 – Strategic Planning & Environment Budgets Summary 2019/20
- Appendix E2 – Strategic Planning & Environment Budgets Detail 2019/20
- Appendix E3 – Strategic Planning & Environment Fees and Charges 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 - 2022/23, by OSC

Reserves

- Appendix J – Statement of Earmarked Reserves

Treasury Management

- Appendix K – Treasury Management Strategy Statement 2019/20
- Appendix L – Treasury Management Principles & Practices 2019/20

Capital Strategy

- Appendix M – Capital Strategy 2019/20

S151 Officer

- Appendix N – Statement by the Chief Finance Officer

1. The Budget-setting process

- 1.1 The 2019/20 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 2022/23. 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 2018 and February 2019, 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 2018 followed in January 2019 by a residents' consultation event, where residents from across the borough had the opportunity to feedback on the Council's proposals for 2019/20.
- 1.5 The Council commissioned Opinion Research Services (ORS) to arrange and facilitate a consultation with a representative sample of 27 Dacorum residents. The event took place on 19 January 2019, 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 27 attendees (96%) declared themselves satisfied with the Council's financial performance and strategy, with 26 of the 27 (96%) 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 confirmed flexibility in the setting of its Council Tax and increase it by 2.99%, which equates to £5.85 per year for a Band D.)

2. The 2019 Local Government Finance Settlement

- 2.1 On 13 December 2018, the Secretary of State for the Ministry of Housing, Communities and Local Government, James Brokenshire MP, made a statement to Parliament on the provisional Local Government Finance Settlement 2019/20.
- 2.2 The 2019/20 financial settlement is the final year of the four-year funding agreement announced in 2015 for those local authorities (including Dacorum)

that 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, nationally is set to reduce by 6.5% in 2019/20, down to £14.6bn. Since 2016/17, when the 4-year funding deal began, the total amount of annual SFA paid by government to local authorities has reduced by 31%, £6.7bn.
- 2.4 Future levels of local authority funding are uncertain as government continues its Fair Funding Review, which will change both the total amount of funding available and the method by which it is allocated between local authorities. However, based on Government's stated intention to divert increased resource to those authorities with social care responsibilities, it is likely that the total amount of funding available to district councils will reduce. Consultation on the new allocation model is expected in late 2019.

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 to support the 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.
- 3.3 The concept of 'negative RSG' was also introduced to enable Government to continue reducing 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.
- 3.4 DBC ceased to receive RSG in 2018/19, and, under the original 4-year deal, was scheduled to pay negative RSG of £990k in 2019/20. However, within the December 2018 Settlement the Secretary of State announced that planned negative RSG payments would not be implemented, resulting in additional funding of £990k for DBC.
- 3.5 It is important to note that Government only ever intended negative RSG to be a transitional tool until each authority's needs-level funding could be captured and baselined within the new 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.

- 3.6 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. On this basis, it is proposed to contribute the £990k to reserves to support spending on future one-off pressures relating to growth across the borough. This budget allocates £500k to the Dacorum Development Reserve and £400k to the Local Development Framework reserve. There is more detail on these reserves in section 10 of this report.
- 3.7 **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 2019/20 is £2.97m compared to £2.9m in 2018/19 (an inflationary increase).
- 3.8 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.
- 3.9 There is currently a significant backlog of Business Rates valuation appeals that have been submitted by businesses across the country, including within Hertfordshire and 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.
- 3.10 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 budget for the full amount of Baseline Funding in 2019/20 plus £70k inflation and £370k of sustained economic growth across the borough over the last three years. The surplus growth from previous years has been allocated to 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.
- 3.11 The December Settlement contained confirmation that a joint piece of work between all councils in Hertfordshire had been successful and that Hertfordshire Business Rates Pilot had been approved for 2019/20.
- 3.12 In September 2018, the Hertfordshire region responded to the MHCLG invitation for authorities to submit a 1-year proposal for 2019/20 to be a business rates pilot region with the ability to retain 75% of growth in business rates across the county rather than the standard 50%. (The remainder of the growth is surrendered to central government.)
- 3.13 Based on current growth forecasts the pooling arrangement could result in c£11m of additional funding for Hertfordshire, to be shared among the member councils based on a previously agreed allocation model (see report to Cabinet in September 2018 for more details). The DBC share is likely to be around £1m.

- 3.14 The final amount of additional funding cannot be confirmed until the end of 2019/20 when final business rates growth figures can be calculated across all member councils. On this basis, the budget recognises only half of the likely benefit for DBC in 2019/20, with the remainder, subject to the final growth position, to be received as a balancing payment in 2020/21.
- 3.15 All two-tier pilot schemes across the country are set to be subsumed by Government's new local authority funding mechanism for 2020 and beyond, following the completion of the Fair Funding Review. As a result, any benefits from the pilot scheme are effectively one-off funding and it would be imprudent for the Council to allocate them to support the provision of ongoing services. This budget recommends that the £500k forecast to be received in 2019/20 is contributed to the Dacorum Development reserve where it can be utilised for future one-off expenditure in support of initiatives to grow the borough.

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

- 4.1 The provisional NHB allocation for Dacorum in 2019/20 has been announced as £2.18M, an increase of £0.32M on the projected income in the Medium Term financial strategy, this is as a result of the greater numbers of new builds being developed.
- 4.2 Dacorum borough council has invested significantly in their own new build programme and this has delivered 175 units since 2015/16 and has an additional 341 units in the pipeline to be completed by 2023/24.
- 4.3 The funding allocation for New Homes Bonus was changed in 2017 and the basis of the allocation model is now to provide 4 years of funding per new home built in excess of the national growth baseline of 0.4% – 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 Since the introduction of New Homes Bonus in 2011/12, the Council has recognised its vulnerability as a funding stream (borne out by Government's significant changes to the allocation methodology in 2017), and has contributed the vast majority to support one-off capital expenditure.
- 4.5 The capital programme within this budget is currently fully funded for 2019/20, and therefore this budget proposes that the £2.18m NHB used for one-off expenditure is contributed to the Dacorum Development Reserve to support future growth projects across the borough.
- 4.6 A benefit of contributing to a revenue reserve is that the Council continues to earmark NHB funding to support borough-wide growth projects, but retains greater flexibility of funds by 'storing' them as revenue rather than capital. This provides an additional layer of protection for the Council as we head into the uncertainty of future funding stemming from the Fair Funding Review, and the potential impact of Brexit.

5. Dacorum's Key Funding Streams – Council Tax

- 5.1 The Council's Council Tax requirement for 2019/20 is calculated as £12.3m (inclusive of provisional parish precepts) and £11.5m (exclusive of parish precepts). The approved tax base for 2019/20 is 57,270.2 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 2018/19 a surplus position is forecast on the Collection Fund as at 31 March 2019 of £642,933.54. 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 2019/20 is as follows:

Dacorum Borough Council	£79,228.80
Hertfordshire County Council	£501,594.06
Hertfordshire Police & Crime Commissioner	£62,110.68
Total Surplus	£642,933.54

- 5.5 Cabinet approved the Collection Fund surplus in December 2018.
- 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 2019 Settlement, Government confirmed the referendum threshold for district councils at the higher of £5 or 2.99%. The proposed increase of £5.85 (2.99%) for Dacorum in 2019/20 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 2019/20 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 2018/19

7.1 Appendices C2, D2 and E2, which breakdown the proposed 2019/20 budget by Overview & Scrutiny Committee (OSC) remit, also show the forecast budget outturn for the current financial year, as at December 2018. This is included to provide Members with comparative context for the 2019/20 budget proposals.

7.2 As at January 2019, the outturn for financial year 2018/19 is forecast to be broadly on budget, with a variance to budget of less than 1%. 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 paragraphs 10.1 – 10.12 of this report.

8. Budgetary assumptions 2019/20

8.1 The inflationary assumptions used to compile the 2019/20 estimates are set out below.

Inflation Factors	
Average salary Inflation (annual pay settlement) for 2019/20	2.45%
Business Rates	2.3%
Fuel	5%
Utility Cost increase assumptions: Gas	5%
Electricity	5%
Other Assumptions	
Return on investment	0.5%
Salary Vacancy Factor (excluding front-line Waste services)	5.0%
Growth in numbers of Band D equivalent properties	0.93%

8.2 The salary vacancy factor for the 2018/19 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 2019/20.

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 13 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 2019/20 is £188k, and £435k within the HRA. This assumes an average interest rate of 0.5%.
- 9.4 Fees and Charges – Service managers have proposed changes to fees and charges for 2019/20 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 2018).
- 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 N.
 - **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 Full Council approval, and subsequent transfers to and from those reserves require Full Council approval.
- 10.3 In line with the Council's approach in previous years, it is recommended that the **General Fund Working Balance** be 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 2019/20, which equates to 15% of the Net Cost of Services of £17.194m (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 2019/20, which equates to 5.2% of the £56m turnover (as shown in Appendix F).

- 10.5 It is recommended that Council approve 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 £17.2m, 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 £4.5m 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 2019/20 are as follows:

Earmarked Reserve	Net Movement to/(from) Reserves £000
Earmarked Grants Reserve	(10)
Management of Change Reserve	34
Savings Efficiencies Reserve	317
On Street Car Parking Reserve	(56)
Local Development Framework Reserve	250
Dacorum Development Reserve	3,134
Litigation Reserve	200
Vehicle Replacement Reserve	350
Invest to Save Reserve	170
Election Reserve	(90)
Training and Development Reserve	(23)
Housing Conditions Survey Reserve	(35)
Pensions Reserve	200
Maylands Plus Reserve	23
Total Net Movement	4,464

- 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 2019/20, and there will be a further review of the reserves position as part of the closure of accounts process for 2018/19.

- 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.
- **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-ring fenced 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 2018/19) 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.

- **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 net draw down from this reserve of £34k in 2019/20, to fund various initiatives highlighted below;

- Revenue contribution to the reserve of £350k;
- Year 2 of a fixed term contract for a web developer (£46k);
- The new apprenticeship and graduate trainee recruitment programme implementation of (£185k)
- An intern within Innovation and Improvement (£24k);
- The roll out of food waste collection from flats (£61k).

- **Technology Reserve**

This reserve was set up to be utilised with the Management of Change reserve to invest in technology improvements that will help improve efficiency and resilience.

- **Savings Efficiencies 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 2019/20 will result in a contribution to this reserve of £317k.

- **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 £56k be drawn down from this reserve in 2019/20 in order to fund one-off costs associated with consultations on Controlled Parking Zones.

- **Local Development Framework Reserve**

This reserve is created to support the development of the local plan. This reserve as at the end of 2018/19 is fully depleted as a direct impact of the feasibility work undertaken in 2018/19 towards the development of the 2020 to 2036 Local Plan. In 2019/20, it is proposed to contribute £400k of revenue from the negative RSG and to draw down £146k to fund additional fixed term posts required to support the delivery of the local plan in 2019/20.

- **Dacorum Development Reserve**

This reserve was created to support regeneration and economic development initiatives across the Borough. The net contribution of

£3.134m proposed for 2019/20 includes a contribution of £500k from the suspension of negative Revenue Support Grant, £2.179m of New Homes Bonus and £0.5m of additional business rates income arising from the 75% retained business rates pilot for 2019/20. Drawdowns from the reserve include £20k to fund events planned to commemorate Armed Forces Day and, £25k to support revenue costs as part of the Planned Access and Movement project.

- **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.
- **Litigation Reserve**
The funds within this reserve are held to support one-off costs associated with the defence against, or settlement of legal claims. A contribution to the reserve of £200k is proposed in 2019/20.
- **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 2019/20 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. A contribution of £170k to the reserve is proposed for 2019/20.
- **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.
- **Youth Provision Reserve**
To assist with repairs expenditure and the provision of youth provision.
- **Election Reserve**
This reserve was created to smooth the cost of Borough Elections over a four-year period. A draw down of £90k is proposed for 19/20 to support the cost of elections during the financial year.
- **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 2018, 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 £23k planned for 2019/20 to fund one-off costs associated with management training.
- **Housing Conditions Survey Reserve**
This reserve was created to smooth the costs associated with periodic Council inspections of private dwellings. The new draw down of £35k from the reserve represents £50k to support a housing conditions survey plus a top up of the reserve of £15k to support pressures relating to work on the private rented sector across the borough.
- **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. It also contains previous years' growth in Business Rates in order to fund potential shortfalls in future years' funding. This surpluses in this reserve will be reviewed at point Baseline Funding is reset, following the implementation of the Fair Funding Review from 2020.
- **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 make an annual contribution of £200k to this reserve, to be reviewed at the next valuation in 2019/20.
- **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 Efficiencies 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 2019/20.

10.11 The New Build and Capital Investments Reserve holds funds that before 2018/19 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.

10.12 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

10.13 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 2019/20 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 £34.7m as at 1st April 2019, and £22.5 as at 31st March 2020.

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, and the detailed capital strategy is attached in appendix M. 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 2019/20, together with a proposed 5-year programme

encompassing £255m of capital investment across the Borough. The capital programme in 2019/20 is £59m of which £42.3m is the HRA and £16.7m is the general fund.

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

General Fund

- £11m investment in a 5-year programme of fleet replacement and other plant and equipment.
- £11.1m capital investment to the council's community facilities including Council-owned buildings, community infrastructure, car parks, public conveniences, cemeteries and leisure and sports premises
- £4.1m Investment in facilitating affordable housing developments and production of additional temporary accommodation provision.
- £3.7m 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

- £90m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens); and,
- £79.6m for the New Build programme.

Financing the Capital Programme

11.4 It is recommended that the Capital Programme for 2019/20 be financed as per the table below.

Proposed Financing for Capital Programme 2019/20	
	£m
Grants and External Funding	1.4
Capital Receipts and Reserves	31.7
Revenue Contribution	5.5
Borrowing – GF	6.7
Borrowing – HRA	13.7
Total Indicative Funding	59.0

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 2019/20 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 2019/20 is £8.5m (of which £4.5m will relate to General Fund and £4.0m will relate to the HRA).

- **Revenue Contribution to Capital**

This refers to charges on revenue budgets in order to finance capital projects in 2019/20 the budget assumes the HRA will be contributing £5.5m.

- **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 be 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. Treasury Management Strategy

12.1 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).

13. Housing Revenue Account 2019/20

13.1 The HRA 'Self-Financing' regime was introduced under the Localism Act in April 2012. It replaced the previous HRA subsidy arrangements and required the Council to make a settlement payment to the Government of £354.015 million.

13.2 The Council has a duty to budget under Section 76 of the Local Government and Housing Act 1989 'to prevent a debit balance on the HRA'. The Council sets its own target balance at a minimum of 5% of total income, which for 2019/20 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

13.3 The HRA Business Plan is a thirty-year plan, which encompasses both the financial and service related objectives. The long-term perspective is crucial to ensure that the service and its primary asset, the housing stock, is projected to be 'fit for purpose' throughout the whole period.

13.4 As the business plan projects forward thirty years, there will inevitably be opportunities and pressures that are difficult to predict. However, as it forms the basis of service delivery and asset management strategy, it will be regularly updated to take account of changed circumstances, tenant and Member priorities.

HRA Financial assumptions for 2019/20

13.5 The HRA business plan incorporates the following key financial assumptions, based on the draft 2019/20 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	In 2019/20 -1%, from 2020 onwards CPI (2.2%) + 1% (3.2% total) throughout plan. New tenancies re-let at (social) formula rent.
RPI	3.3% as per historic RPI (since 2001).
CPI	2.2% as per historic CPI (since 2001).
New Build Programme	175 units built, 118 in progress currently, 223 in the pipeline.
Void and Bad Debts	Void: 0.8% of gross income Bad Debts: 1.32% rising to 1.86% to provide for the impact of Welfare Reform.
Right to Buy	Assumption of 20 for 2019/20.

13.6 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.

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

13.8 An updated HRA Business Plan will be brought to Cabinet in the spring of 2019.

14. Staff Terms and Conditions

14.1 Within the 2015/16 Budget, 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.

14.2 The Living Wage is announced each year by the Living Wage Foundation based on a calculation by the Centre for Research in Social Policy at Loughborough University. It reflects the costs of those items identified by the University's consultation groups as necessary for a minimum acceptable standard of living.

14.3 The current 'out of London' living wage, which would apply to the Council, was announced in November 2018 as £9.00 per hour, a 25 pence increase over the previous year. The total cost to ensure all Council employees are the Living Wage for 2019/20 is approximately £30k. This increase has been included within the Budget proposals.

15. Summary and Conclusion

15.1 This report sets out how the Council will provide the financial resources required to achieve its priorities during the next financial year. It assumes that planned savings will be achieved and that the Capital Programme will be delivered on time and to budget.

15.2 The statement from the Chief Finance Officer at Appendix N provides assurance regarding the robustness of the 2019/20 budget and the level of the Council's reserves.