



AGENDA ITEM:

SUMMARY

Report for:	Joint Overview & Scrutiny Committee
Date of meeting:	4th February 2020
PART:	1
If Part II, reason:	

Title of report:	BUDGET PREPARATION 2020/21
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 for 2020/21 and provide the opportunity to scrutinise and provide feedback to Cabinet.
Recommendation	That Scrutiny Committees review and scrutinise the draft budget proposals, fees, and charges for 2020/21 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.
Community Impact Assessment	Where appropriate, Community Impact Assessments for proposed budgets amendments have been undertaken by relevant service areas.
Health And Safety Implications	None.
Consultees:	Overview & Scrutiny Committees; Budget Review Group; Portfolio Holders; Chief Officer Group; Corporate Management Team; Group Managers.

Background Papers:	Agenda item 6, Budget Preparations 2020/21, Joint Overview and Scrutiny Committee 3 rd December 2019 Agenda item 9, Medium Term Financial Strategy 2019/20 – 2023/24, Cabinet 30 th July 2019
Key Terms, Definitions & Acronyms	GF – General Fund HRA – Housing Revenue Account MTFS – Medium Term Financial Strategy OSC – Overview and Scrutiny Committee

Introduction

1. The purpose of this report is to present for scrutiny and review the final draft budget proposals for 2020/21. Members are asked in particular to review those changes since the proposals presented to Joint OSC in December 2019, which are highlighted from paragraph 5 onwards.
2. With the exception of the Finance & Resources Committee, which scrutinises all budgets, individual Overview and Scrutiny Committees (OSCs) should focus only on those appendices and that portion of the Capital Programme that relates directly to their remit.
3. A senior Finance Officer will be present in each of the committees to support the Chair.
4. The following appendices are relevant to the draft budget proposals for 2020/21:

Appendix	Title	Finance & Resources OSC	Housing & Community OSC	Strategic Planning & Environment OSC
A	General Fund Budget Summary 2020/21	x	x	x
Bi	Budget Change Analysis 2019/20 – 2020/21	x	x	x
Bii	Summary by Committee	x	x	x
Ci	Finance & Resources Budgets Summary 2020/21	x		
Cii	Finance & Resources Budgets Detail 2020/21	x		
Ciii	Finance & Resources Fees and Charges 2020/21	x		
Di	Housing and Community GF Budgets Summary 2020/21	x	x	
Dii	Housing and Community GF Budgets Detail 2020/21	x	x	
Diii	Housing and Community Fees and Charges 2020/21	x	x	
Ei	Strategic Planning & Environment Budgets Summary 2020/21	x		x
Eii	Strategic Planning & Environment Budgets Detail 2020/21	x		x
Eiii	Strategic Planning & Environment Fees and Charges 2020/21	x		x
F	Housing Revenue Account Budget 2020/21	x	x	
G	Housing Revenue Account Movements 2019/20 – 2020/21	x	x	
Hi	Capital Programme by OSC: Summary of new and amended projects	x		
Hii	Housing and Community Capital Programme: Summary of new and amended projects	x	x	x

Appendix	Title	Finance & Resources OSC	Housing & Community OSC	Strategic Planning & Environment OSC
Hiii	Strategic Planning and Environment Capital Programme: Summary of new and amended projects	x		
li	Capital Programme 2020/21 - 2024/25, by OSC	x		
lii	Housing and Community Capital Programme 2020/21 - 2024/25	x	x	
liii	Strategic Planning and Environment Capital Programme 2020/21 - 2024/25	x		x
J	Statement of Earmarked Reserves	x		

Changes to the 2020/21 budget proposals since December OSC meeting.

5. Changes to the draft budgets since the meeting of Joint OSC on 3rd December 2019 are summarised in the table, below, with more detail provided in subsequent paragraphs.

	£000	£000
Savings target as at Joint OSC, December 2019		0
Local Government Funding Changes		
Council Tax surplus 2019/20 and increase in projected 2020/21 tax base	-225	
Amended Savings target after Settlement changes		-225
Additional pressures since December OSC		
Apprenticeship Levy increase	15	
Members' expenses annual uplift	30	
New Payroll contract	20	
Amendment to investment Income	113	
Insurance premiums (vehicle and premises premium increase)	60	
Net contribution to earmarked reserves. See paragraph 20 for details.	226	
Minor Variations and Roundings	11	
Total new pressure		475
Amended savings target after additional pressures		250
Additional income/ reduction in expenditure since December OSC		
Reduction to Minimum Revenue Provision	-50	
1% additional primary pension contribution not required	-200	
Total favourable adjustments		-250
Savings target as at Joint OSC, February 2020		0

6. In order to assist Members, these changes have been separated into OSC area, and more detail provided in the following paragraphs. All the proposed changes to the General Fund are in the Finance and Resources division.

Finance and Resources

7. As reported to Cabinet in December, there is a £225k increase in Council Tax income. The Council is expecting a £150k surplus on Council Tax collection in 2019/20, together with £75k increased growth in the tax base projected for 2020/21 following approval of the tax base by Cabinet in December 2019.
8. The apprenticeship levy is calculated as 0.5% of the payroll and the calculation based on the updated 2020/21 payroll requires growth of £15k. This will in turn provide additional funds that the Council can utilise through the apprenticeship and training programme.
9. The 2016 Independent Remuneration report on Members' allowances proposed annual uplifts of Consumer Price Index (CPI) + 1% until 2020/21, to bring these allowances in line with the Hertfordshire average, this requires a budget uplift of £30k.
10. There is a budget uplift of £20k required for the new integrated HR and payroll system, replacing the existing arrangements that expire in September 2020. This contract will provide an integrated HR and payroll system for improved usability, and additional functionality.
11. The investment income projection for 2020/21 has been revised for updated cash flow and interest rate forecasts, reducing the estimated income by £113k. Revised income for 2020/21 is £300k, which is an increase of £110k year on year, but a reduction on earlier 2020/21 budget estimates.
12. An enhanced insurance specification for The Forum and an increased premium on the new vehicles at Cupid Green is expected, which will increase insurance premiums by £60k, around 6%, in 2020/21.
13. A reduction in the Minimum Revenue Provision (MRP). The MRP is set out in statute, the underlying principle being that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. Local authorities need to align revenue cost to the capital investment they make over the period which their capital expenditure provides benefits. The requirement for 2020/21 is £50k lower than projected due to capital slippage in 2019/20.
14. The draft triennial actuarial report on the DBC pension scheme was published in December 2019, and stated there was no requirement to increase employer contribution rates over the next 3 years. This results in a reduction of £200k relating to the projected 1% increase in contributions.
15. The Council has a responsibility to make annual lump sum payments to the pension fund to cover secondary employer rate contributions that cover the cost of benefits accrued by scheme members relating to past service. These annual payments have been assessed by the actuary and would require the Council to pay £6.3m, over the next 3 years.

The Council investigated the opportunity with the pension fund of changing the current process to make single one-off payment in advance in 2020/21, rather than three separate annual payments.

The Pension Fund confirmed this approach would result in a £340k reduction in the total fee, down to £6m from an aggregate total of £6.4m if paid in annual instalments. The Fund is able to offer this 'discount' because it will gain the benefit of investing the full balance of £6m for a longer period of time, and the resultant increase in their return on investment (£340k) would be reduced from the Council's payment.

The MTFS at present shows strong cash balances in 2020/21 – 2022/23 enabling this option to be funded, without impacting on council strategies. At present the investment of cash balances is delivering a return on investment of 0.83%, if this rate were to continue, as is currently forecast, the Council's investment return over the 3 year period would be £287k lower than the rate of return by making the secondary contribution pre-payment for DBC.

To make this payment, the residual pension costs not already budgeted for in 2020/21 would require an additional one off contribution from reserves of £1.618m in 2020/21, which would be fully replenished by 2022/23.

Housing and Community- Housing Revenue Account

16. The draft HRA Budget for 2020/21 is attached at Appendix F, with explanations of major movements between the Original Budget 201/20 and Draft Budget 2020/21 shown in Appendix G. This includes changes from December 2019 Joint OSC budget proposals.
17. Notable changes incorporated into HRA budgets since December 2019 Joint OSC proposals include:
 - £100k reduction in dwelling rent income following finalisation of projections for 2020/21.
 - £112k reduction in Revenue Contribution to Capital – the net reduction in revenue position, arising primarily from the above change in dwelling rent income, will lead to a lower surplus being available to contribute to capital projects.

Capital Programme

18. The draft Capital Programme is set out at Appendices li- liii.
19. There are no new capital schemes since the position reported at December OSC. There has been one increase to the verge hardening capital project to increase the budget from £350k to £450k, to fund additional verge hardening where applicable. For 2019/20 schemes, the programme reflects the expected 2019/20 forecast position, with any slippage being reflected in subsequent years of the capital programme.

Reserves

20. The proposed movements in General Fund reserves are set out in Appendix J. The reserve movements proposed since the December 2019 OSC of £2.1m are detailed in Table 2 below for inclusion within the 2020/21 budget.

- Management of Change reserve – a drawdown of £60k to support implementation costs associated with the Council’s new payroll contract.
- Local Development Framework reserve – a drawdown of £192k to fund direct employee costs for staff working on the Hemel Garden Communities. This allocation is aligned with approved expenditure plans.
- Dacorum Development reserve – a net drawdown of £46k. A £30k draw down is proposed to support 2020 VE day celebrations. A contribution to reserve of £49k following confirmation of the New Homes Bonus income for 2020/21 is also proposed. A previously approved drawdown from reserves of £65k to support the feasibility studies for Berkhamsted Leisure Centre is also included within the budget proposals.
- On-Street Car Parking reserve – a drawdown of £45k to support the programme of CPZ’s to be undertaken in 2020/21 requires a one off funding source to cover the projected costs in 2020/21.
- Vehicle Replacement reserve - draw down of £350k to support the Council’s vehicle replacement programme. It is proposed that £350k is drawn down from the reserve on an annual basis between 2020/21 and 2023/24 inclusive, replacing the current larger approved drawdown that takes place every four years.
- Invest to Save reserve - contribution of £184k to the reserve to fund the set up costs of future initiatives that will generate revenue savings.
- Pensions reserve – draw down of £2.4m to support the Council’s secondary contribution lump sum payment for 2020-22/23, as detailed in paragraph 15. An increase on the current approved draw down of £873k
- Savings Efficiencies reserve- a drawdown of £745k to support the Council’s secondary lump sum payment for 2020-22/23, as detailed in paragraph 15.
- Pensions savings reserve- Contribution to reserve of £42k, to capture the year one saving arising from the upfront payment of the Council’s contribution to the Pension Fund relating to past service obligations.

Recommendation

21. Members are asked to review and scrutinise the draft budget proposals, fees, and charges for 2020/21 and provide feedback, to be considered by Cabinet, for each Committee’s specific area of responsibility.

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 (e.g. 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 (e.g. the sale of recyclables and waste sacks)
- Fees and charges (e.g. 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 (e.g. recovery of legal costs)
- Other contributions (e.g. recycling credits from Hertfordshire 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.