



Report for:	Cabinet
Date of meeting:	11 February 2020
Part:	1
If Part II, reason:	

Title of report:	Budget 2020/21
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations)
Purpose of report:	To present to Cabinet budget proposals for recommendation to Council in relation to: <ul style="list-style-type: none"> • Revenue and Capital Expenditure together with the potential use of reserves • The setting of the Council Tax for 2020/21 • The Treasury Management Strategy 2020/21 • The Capital Strategy 2020/21 • The level of fees and charges for 2020/21 • 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	It is recommended that Cabinet recommend Council to: <p>General Fund Revenue Estimate</p> <p>a) set a Dacorum Borough Council General Fund Council Tax requirement of £12.086m, and a provisional amount of £13.058m for the combined Borough Council and Parish Councils' requirement for 2020/21;</p>

- b) approve a Band D Council Tax increase of £5 (2.48%) for Dacorum Borough Council;
- c) approve the base estimates for 2020/21, as shown in Appendix A1, and the indicative budget forecasts for 2020/21 – 2023/24, 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 2020/21 as set out in Appendices C3, D3, and E3;
- f) approve and adopt the Treasury Management Strategy for 2020/21, attached at Appendix K;
- g) approve and adopt the Capital Strategy for 2020/21, attached at Appendix L;
- h) note that this budget paper, if approved by Council, will form part of the Medium Term Financial Strategy.

Capital Programme

- i) approve the Capital Programme for 2020/21 to 2024/25, as detailed in Appendix I and Appendix M respectively;
- j) 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.

Housing Revenue Account (HRA)

- k) set dwelling rents according to the new MHCLG Rent Standard, which provides for a rent increase of CPI+1% (2.7% in total). The average dwelling rents is proposed to increase to £103.12 in 202/21, from its current level of £100.47(based on 52 weeks);
- l) approve the HRA estimate for 2020/21 as shown in Appendix F.

Employer Terms & Conditions

- m) note that the hourly rate of all Council employees continues to exceed the rate proposed by the rates of the Living Wage Foundation, for 2019/20 (to be reviewed annually thereafter).

Statement by Chief Finance Officer

	n) approve the statement by the Chief Finance Officer regarding the robustness of the budget estimates and level of reserves as set out in Appendix M.
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).
Community Impact Assessment	Where appropriate, Community Impact Assessments for proposed budgets amendments have been undertaken by relevant service areas.
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: 3 rd December 2019, and 4 th February 2020.
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 2020/21
- Appendix A2 – Draft General Fund MTFS update 2020/21 – 2024/25
- Appendix B1 – Budget Change Analysis 2019/20 – 2020/21
- Appendix B2 – Budget Summary by Overview & Scrutiny Committee

Finance & Resources

- Appendix C1 – Finance & Resources Budgets Summary 2020/21
- Appendix C2 – Finance & Resources Budgets Detail 2020/21
- Appendix C3 – Finance & Resources Fees and Charges 2020/21

Housing & Community

- Appendix D1 – Housing & Community Budgets Summary 2020/21
- Appendix D2 – Housing & Community GF Budgets Detail 2020/21
- Appendix D3 – Housing & Community Fees and Charges 2020/21

Strategic Planning & Environment

- Appendix E1 – Strategic Planning & Environment Budgets Summary 2020/21
- Appendix E2 – Strategic Planning & Environment Budgets Detail 2020/21
- Appendix E3 – Strategic Planning & Environment Fees and Charges 2020/21

Housing Revenue Account

- Appendix F – Housing Revenue Account Budget 2020/21
- Appendix G – Housing Revenue Account Movements 2020/21 -2020/21

Capital Programme

- Appendix H – Capital Programme Summary of new and amended projects
- Appendix I – Capital Programme 2020/21 - 2024/25, by OSC

Reserves

- Appendix J – Statement of Earmarked Reserves

Treasury Management

- Appendix K – Treasury Management Strategy Statement 2020/21

Capital Strategy

- Appendix L – Capital Strategy 2020/21

S151 Officer

- Appendix M – Statement by the Chief Finance Officer

1. The Budget-setting process

1.1 The 2020/21 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 2023/24. 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 Assistant Director (Finance & Resources) 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 2019 and February 2020, during which Members undertook detailed scrutiny of the budget proposals.

1.4 External stakeholders have also been consulted, with a residents' consultation event in January 2020, where residents from across the borough had the opportunity to feedback on the Council's proposals for 2020/21.

1.5 The Council commissioned Opinion Research Services (ORS) to arrange and facilitate a consultation with a representative sample of 29 Dacorum residents. The event took place on 18 January 2020, 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 28 of the 29 attendees (97%) declared themselves satisfied with the Council's financial performance and strategy, and 26 out of 29 (90%) were supportive of the Council's proposal to increase Band D Council Tax by £5 per year.

2. The 2020/21 Local Government Finance Settlement

2.1 On 20 December 2019, the Secretary of State for the Ministry of Housing, Communities and Local Government, Robert Jenrick MP, made a statement to Parliament on the provisional Local Government Finance Settlement 2020/21.

2.2 The largest source of central government funding is the Settlement Funding Assessment (SFA), which, nationally is set to increase by 1.6% in 2020/21, to £14.8bn. 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 30%, £6.5bn.

2.3 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.

Funding reforms arising from the review are planned for introduction from April 2021.

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 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, based on the original 4-year deal, was scheduled to pay negative RSG of £1m in 2019/20, and forecast to pay £1.64m in 2020/21. However, in both of these years Government has, as part of the annual Settlement, announced that planned negative RSG will not be payable by Councils.

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 2021 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 temporary relief, and not likely to be reflected in the funding methodology beyond 2021. On this basis, it is proposed to contribute the £1.64m to reserves to support spending on future one-off pressures relating to growth across the borough. This budget allocates the £1.64m to reserves as follows:

- £500k to the Technology reserve
- £400k to the Local Development Framework reserve
- £400k to the Training and Development reserve
- £300k to a new Climate Change and Sustainability reserve
- £40k to the Parking 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 2020/21 is £3.02m compared to £2.97m in 2019/20 (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 2020/21 plus £50k inflation and £550k 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 Hertfordshire Business Rates Pilot, approved for 2019/20 for 1 year only, will, as expected not continue into 20/21.

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

- 4.1 The provisional NHB allocation for Dacorum in 2020/21 has been announced as £1.78m, an increase of £49k on the projected income in the Medium Term Financial Strategy.
- 4.2 Since the introduction of NHB in 2011/12, the Council has recognised its vulnerability as a funding stream and, consequently, rather than become reliant on it to support the delivery of ongoing services, has used the vast majority to support one-off expenditure and capital projects.
- 4.3 In line with previous years' strategy, it is proposed that all NHB funding in 2020/21 be transferred to the Dacorum Development reserve to fund future growth projects across the borough.

5. Dacorum's Key Funding Streams – Council Tax

- 5.1 The Council's Council Tax requirement for 2020/21 is calculated as £13.1m (provisional, inclusive of provisional parish precepts) and £12.1m (exclusive of parish precepts). The approved tax base for 2020/21 is 58,567.4 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 A surplus position of £1,231,344.56 on the Collection Fund is forecast for 31 March 2020. 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 2020/21 is as follows:

Dacorum Borough Council	£150,737.13
Hertfordshire County Council	£949,197.42
Hertfordshire Police & Crime Commissioner	£131,410.00
Total Surplus	£1,231,344.56

- 5.5 Cabinet approved the Collection Fund surplus in December 2019.
- 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%. The proposed increase of £5.00 (2.48%) for Dacorum in 2020/21 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 2020/21 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 2019/20

7.1 Appendices C2, D2 and E2, which breakdown the proposed 2020/21 budget by Overview & Scrutiny Committee (OSC) remit, also show the forecast budget outturn for the current financial year, as at September 2019. This is included to provide Members with comparative context for the 2020/21 budget proposals.

7.2 As at January 2020, the outturn for financial year 2019/20 is a forecast variance to budget of less than 1%. If revenue underspends are identified as part of the year-end process, it is recommended that they be contributed to earmarked reserves in order to fund specified expenditure in future years. Formal approval for movements in reserves will be sought from Members as part of the year-end process. The Council's Reserves Strategy, including justifications for current balances and recommendations for future movements, can be found in section 10 of this report.

8. Budgetary assumptions 2020/21

8.1 The inflationary assumptions used to compile the 2020/21 estimates are set out below.

Inflation Factors	
Average salary Inflation (annual pay settlement) for 2020/21	2.9%
Business Rates	2.0%
Fuel	5.0%
Utility Cost increase assumptions: Gas	5.0%
Electricity	5.0%
Other Assumptions	
Return on investment	0.8%
Salary Vacancy Factor (excluding front-line Waste services)	5.0%
Growth in numbers of Band D equivalent properties	2.27%

8.2 The salary vacancy factor for the 2019/20 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 remains appropriate. It is therefore proposed to maintain the vacancy factor at 5% for 2020/21.

9. Revenue Income

- 9.1 In addition to the key funding streams explained in sections 3 - 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 – although interest rates have been low in recent years, increasing levels of cash balances have contributed towards investment income performing above target during 2019/20. Budgeted General Fund investment income for 2020/21 is £300k, and £192k within the HRA. This assumes an average interest rate of 0.8%.
- 9.4 Fees and Charges – Service managers have proposed changes to fees and charges for 2020/21 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 Section 10 of the Budget and Council Tax Setting Report (February 2019).
- 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 2020/21, which equates to just under 15% of the Net Cost of Services of £20.3m (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 2020/21, which equates to 5.1% of the £57m 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 £20.3m, as set out in Appendix A1. This includes a net contribution of £139k 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 2020/21 are as follows:

Earmarked Reserve	Net Movement to/(from) Reserves £000
Management of Change Reserve	32
Technology Reserve	500
Savings Efficiencies Reserve	(459)
On Street Car Parking Reserve	(5)
Local Development Framework Reserve	208
Dacorum Development Reserve	2,164
Climate Change and Sustainability Reserve	300
Invest to Save Reserve	94
Election Reserve	40
Training and Development Reserve	400
Housing Conditions Survey Reserve	15
Funding Equalisation Reserve	(1,000)
Pensions Reserve	(2,173)
Maylands Plus Reserve	23
Total Net Movement	139

10.7 Appendix J details the proposed movements on General Fund Earmarked Reserves. All reserves have been reviewed during the preparation of the Budget for 2020/21, and there will be a further review of the reserves position as part of the closure of accounts process for 2019/20.

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.
- **Capital Development Reserve**
This reserve was created in to assist with the funding of feasibility studies associated with the Council's future capital projects.
- **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.

- **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 funding streams, service transformation remains high on the Council's agenda. The following transactions comprise the net contribution of £32k to the Management of Change reserve in 2020/21:

- Contribution to the reserve of £350k;
- Year 2 of a fixed term contract for a web developer (£46k);
- The second year of the apprenticeship and graduate trainee recruitment programme (£188k);
- An intern within Innovation and Improvement (£24k).
- Payroll Implementation costs (£60k)

- **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. A contribution of £500k to the reserve is proposed to fund future years' investment, to be funded by the suspension of negative RSG in 2020.

- **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 detailed in previous versions of the MTFS.

A draw down of £745k is planned for 2020/21 to assist with the one-off upfront payment of £6m to the Pension Fund in relation to the Council's secondary pension contribution payment. This is in conjunction with a drawdown of £2.4m from the Council's Pension Reserve, which is detailed later in the section. Achievement of other savings initiatives planned for 2020/21 will result in a net draw down from this reserve of £459k that will be replenished in 21/22.

- **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 £45k be drawn down from this reserve in 2020/21 in order to fund work relating to Controlled Parking Zones. A contribution of £40k to the reserve is also proposed, to be funded by the suspension of negative RSG in 2020, resulting in a net draw down of £5k.

- **Local Development Framework Reserve**
 This reserve was created to support the development and ongoing work associated with the Council's local plan. In 2020/21, it is proposed to contribute £400k, to be funded by the suspension of negative RSG, and to draw down £192k to fund planned work on the development of Hemel Garden Communities.
- **Dacorum Development Reserve**
 This reserve was created to support regeneration and economic development initiatives across the Borough. The net contribution of £2.164m proposed for 2020/21 comprises:

 - A contribution of £1.779m from New Homes Bonus funding;
 - A contribution of £500k from the suspension of negative Revenue Support Grant;
 - Drawdown of £20k to support Armed Forces Day;
 - Drawdown of £30k to support VE day celebrations;
 - Drawdown of £65k to support feasibility studies for Berkhamsted leisure centre (previously approved).
- **Climate Change and Sustainability Reserve**
 It is recommended that this reserve is created for 20/21 to support initiatives associated with the Council's commitment to addressing climate change and sustainability issues across the borough. A contribution of £300k is proposed, to be funded through the suspension of negative RSG.
- **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.
- **Litigation Reserve**
 The funds within this reserve are held to support one-off costs associated with the defence against, or settlement of legal claims.
- **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 2020/21 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. A net contribution of £94k to the reserve is proposed for 2020/21:

 - A contribution of £184 to support set up costs of future initiatives that will generate revenue savings;
 - Drawdown of £20k to support training across the Council;

- Drawdown of £50k to support consultancy costs within planning with the objective of simplification of the planning process;
 - Drawdown of £20k to implement saving proposals associated with caravan storage.
- **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 contribution of £40k is proposed for 2020/21 to support the cost of elections in future years.
 - **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. A contribution of £400k to the reserve is proposed, to be funded by the suspension of negative RSG in 2020.
 - **Housing Conditions Survey Reserve**
This reserve was created to smooth the costs associated with periodic Council inspections of private dwellings. A top up of the reserve of £15k to support pressures relating to work on the private rented sector across the borough is proposed.
 - **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 2021. A draw down of £1m is proposed, to support the forecast business rates deficit in 2020/21.
 - **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 2019 triennial review announced that the payments the Council currently makes require a slight increase, based on present assumptions, to reduce the pensions deficit within the 20-year planning horizon employed by the actuary.

Based on continuation of the current arrangement of annual payments, the actuary has announced that the Council's aggregate secondary contribution over the next 3 years must increase from the current £6m to £6.3m. However, by paying the total amount in advance, instead of via 36 monthly instalments, the Council can avoid the increase of £300k. It is therefore proposed that the full balance of the Pension Reserve is drawn down and used in conjunction with the Savings Efficiency Reserve to make the upfront payment. Both reserves will be fully replenished by 22/23 through the future years' budgeted annual amounts that will now be diverted towards reserves instead of the Pension Fund.

It is still recommended that the Council make an annual contribution of £200k to this reserve, to be reviewed at the next actuarial valuation in 2022/23.

- **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. A contribution of £23k in 2020/21 is forecast.

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 Strategic Acquisition reserve is an HRA reserve held by the Council. The forecast balance at the end of 2019/20 is £4m. It is forecast that this balance will be drawn down in full in 2020/21 to support the new build capital programme within the HRA.

Capital Receipts Reserve

10.11 This reserve is utilised to finance the Capital Programme. General Fund capital balances have now been fully utilised on a range of capital projects, and the balance brought forward to 2020/21 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 £11.639m as at 1st April 2020, and £7.817m as at 31st March 2021.

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 is a 5-year programme encompassing £283m of capital investment across the borough. The Capital Programme in 2020/21 is £41m of which £29.7m is the HRA and £11.3m is the General Fund.

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

General Fund

- £8m investment in a 5-year programme of fleet replacement.
- £7.0m capital investment to the council's community facilities including Council-owned buildings, community infrastructure, car parks, leisure and sports premises.
- £3.8m Investment in facilitating affordable housing developments and production of additional temporary accommodation provision.
- £3.8m Capital grants and loans to voluntary organisations and Private Sector Housing grants (including Disabled Facility Grants and improvement grants). It should be noted that the Council has no discretion over the payment of Disabled Facility Grants, which are mandatory.

Housing Revenue Account

- £89m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens); and,
- £113m for the New Build programme.

Financing the Capital Programme

11.4 It is recommended that the Capital Programme for 2020/21 be financed as per the table below.

Proposed Financing for Capital Programme 2020/21	
	£m
Capital Receipts and Reserves	31.6
Grants and External Funding	1.1
Revenue Contribution	6.2
Borrowing – GF	0.0
Borrowing – HRA	2.1
Total Indicative Funding	41.0

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

- **Capital Receipts and Reserves**

In accordance with the Council's Medium Term Financial Strategy, estimates of the likely Capital Receipts to be generated during 2020/21 and subsequent years have been made based on the Council's Asset Management Plan and the current economic climate. The level of receipts anticipated to be utilised in 20/21 is £19.6m.

The level of reserves expected to be utilised is £12m, £8m from the Major Repairs Reserve which is funded from the depreciation on the Council's housing stock and £4m from the strategic acquisitions reserve that is created in prior years to fund the build of new HRA homes.

- **Grants and External Funding**

£0.7m of general fund capital expenditure will be funded from grants and £0.4m from S106 contributions.

- **Revenue Contribution to Capital**

This refers to charges on revenue budgets in order to finance capital projects in 2020/21 the budget assumes the GF will be contributing £0.4m and the HRA £5.8m.

- **Borrowing**

The HRA is budgeted to require £2.1m of additional funds to fund their capital programme, this will be drawn from the use of cash balances. Utilising cash balances is more economical than borrowing externally but will reduce the investment income achieved by the HRA.

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

11.6 To ensure the Council optimises its Capital Receipts and returns on existing assets, it is essential 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 2020/21

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 2020/21 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 2020/21

13.5 The HRA business plan incorporates the following key financial assumptions, based on the draft 2020/21 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	Rents for 2020/21 have been set according to the new MHCLG Rent Standard, which allows for an increase of CPI+1% (2.7% in total). New tenancies re-let at (social) formula rent.
RPI	2.4% (2020/21); 2.9% 2021/22; 3.2% (2022/23) 3.4% (subsequent years)
CPI	1.7% (2020/21); 1.9% 2021/22; 2.2% (2022/23) 2.4% (subsequent years)
New Build Programme	188 units built, 164 in progress currently, 280 in the pipeline.
Voids and Bad Debts	Voids: 0.8% of gross income Bad Debts: 1.8%
Right to Buy	Assumption of 24 for 2020/21.

13.6 An updated HRA Business Plan was approved by Council in January 2020.

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 2019 as £9.30 per hour, a 30 pence increase over the previous year. All DBC staff are paid in excess of the living wage for 2020/21.

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 M provides assurance regarding the robustness of the 2020/21 budget and the level of the Council's reserves.