



Report for:	Finance and Resources Overview and Scrutiny Committee
Date of meeting:	1st December 2020
PART:	1
If Part II, reason:	

Title of report:	BUDGET PREPARATION 2021/22
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations) Nigel Howcutt, Assistant Director (Finance & Resources)
Purpose of report:	To provide Members with an overview of the draft budget and provide the opportunity to scrutinise and provide feedback to Cabinet.
Recommendations	That the Scrutiny Committee review and scrutinise the draft budget proposals for 2021/22 and provide feedback, to be considered by Cabinet, for each Committee's specific area of responsibility.
Corporate Objectives:	All. Setting a balanced budget supports all of 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 Assessments	Where appropriate, Community Impact Assessments for proposed budgets amendments have been undertaken by relevant service areas.
Health And Safety Implications	None.
Consultees:	Budget Review Group; Portfolio Holders; Chief Officer Group; Corporate Management Team; Group Managers.
Background Papers:	Agenda item 7 October 2020 Cabinet - Medium Term Financial Strategy 2020/21 – 2024/25.
Key Terms,	GF – General Fund

Definitions & Acronyms	HRA – Housing Revenue Account MTFS – Medium Term Financial Strategy OSC – Overview and Scrutiny Committee RSG – Revenue Support Grant
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Introduction

1. The purpose of this report is to present for scrutiny and review the draft budget proposals for 2021/22.
2. Budget detail for every area of the Council has been made available to all Members. A glossary of budget categories and which specific budget sections are grouped under, is set out in Annexe A.
3. With the exception of the Finance & Resources committee, which scrutinises all budgets, individual Overview and Scrutiny Committees (OSCs) will focus only on those appendices and that portion of the Capital Programme that relate directly to their remit.
4. A senior Finance Officer will be present in each of the committees to support the Chair.
5. The following appendices are relevant to the draft budget proposals for 2021/22:

Corporate view

- Appendix A – General Fund Budget Summary 2021/22
- Appendix Bi – Budget Change Analysis 2020/21 – 2021/22
- Appendix Bii – General Fund Budget Summary by Committee

Finance & Resources

- Appendix Ci – Finance & Resources Budgets Summary 2021/22
- Appendix Cii – Finance & Resources Budgets Detail 2021/22

Housing & Community

- Appendix Di – Housing and Community GF Budgets Summary 2021/22
- Appendix Dii – Housing and Community GF Budgets Detail 2021/22

Strategic Planning & Environment

- Appendix Ei – Strategic Planning & Environment Budgets Summary 2021/22
- Appendix Eii – Strategic Planning & Environment Budgets Detail 2021/22

Housing Revenue Account

- Appendix F – Housing Revenue Account Budget 2021/22
- Appendix G – Housing Revenue Account Movements 2020/21 – 2021/22

Capital Programme

- Appendix Hi – Capital Programme by OSC: Summary of new and amended projects 2021/22 - 2025/26
- Appendix Ii – Capital Programme 2021/22 - 2025/26

Reserves

- Appendix J – Statement of Earmarked Reserves

Medium Term Financial Strategy (MTFS)

6. The current MTFS was approved by Council in October 2020 and contained the following key decisions which have informed the budget-setting process for 2021/22:
 - A General Fund savings target of £590k for 2021/22
 - A General Fund savings target of £1.8m over the duration of the MTFS period
 - A General Fund balance of between 5% and 15% of Net Cost of Services
 - A minimum HRA working balance of at least 5% of turnover
7. The draft budget presented in Appendix A has a balanced position. At this stage, this remains subject to a number of budgetary assumptions. Work continues on these assumptions, and the finalised position will be reported to Members at the Joint OSC in February.
8. Council has delegated authority to the S151 Officer to revise the MTFS if material changes to forecasts are required as a result of future government announcements. In light of the current Covid pandemic and the constantly changing financial environment, the S151 Officer is providing Cabinet with regular MTFS and financial updates.

Key Assumptions included in draft General Fund Budget

9. The following assumptions are incorporated within the draft budget:
 - £5 increase in Council Tax and 1% increase in taxbase
 - An average 2.5% pay settlement
 - Vacancy factor of 5% for non-front-line services
 - Business Rates funding levels set at safety net levels (See para 13)
 - Negative Revenue Support Grant (RSG) (See paragraphs 14 - 18)
 - New Homes Bonus reduced by 55% (£970k). (See para 19-20)
 - Inflation freeze on Supplies and Services

Government funding – Business Rates

10. Due to the global pandemic the Local Government Fair Funding Review, most recently planned for rollout in 21/22, has been further delayed and Government has stated that Local Authorities will receive a one-year settlement for 2021/22.
11. In the absence of specific detail, this budget makes a series of funding assumptions, outlined in subsequent paragraphs. Confirmation of 2021/22 Government funding levels will be announced within the Local Government Finance Settlement, expected in December, and incorporated within the second draft budget brought for Members' scrutiny in February 2021.
12. The expected economic downturn in future months together with an as yet unclear Government Business Rates policy for 21/22 have combined to create significant uncertainty over the level of funding the Council will receive from Government next year.
13. This proposed budget has therefore taken a prudent approach and set retained Business Rates funding at the 'safety net' level, i.e. the Government-guaranteed

minimum level of funding under the current system. The approved MTFS compartmentalises Covid pressures and provides for this shortfall to be supported through the use of reserves. This ensures that the Council can take a prudent approach to likely funding levels and control the impact through use of reserves without making unnecessary and potentially damaging short-term changes to its underlying business model.

Government funding – Revenue Support Grant

14. The Local Government Finance Settlement 2020/21, issued by MHCLG in December 2019, suspended '**negative RSG**' payments for 20/21. At that point Government indicated this was a one-off arrangement and has given no subsequent indication that there will be a further suspension in 2021/22.
15. The concept of 'negative RSG' was introduced to enable Government to reduce the level of funding paid to an authority when there was no further RSG left to reduce. The idea was that the negative RSG would net off against the Business Rates funding to bring total authority funding down to a level, which, in Government's opinion, reflected its level of need.
16. In this respect 'negative RSG' was only ever a transitional tool until each authority's needs-level funding is captured and baselined within the Business Rates future funding methodology. Government has previously stated that RSG will cease to exist as a funding stream once the new funding model is rolled out.
17. It is prudent to assume that Government has not fundamentally changed its medium-term assessment of Dacorum's level of need, and that the suspension of negative RSG last year was a temporary relief, and not guaranteed to be reflected in the funding methodology beyond the current year. Consequently, this budget assumes that negative RSG will reduce the Council's funding by £970k in 21/22.
18. Any decision by Government to suspend negative RSG again in 21/22, in whole or in part, will lead to a financial gain for Dacorum. Unless explicitly announced otherwise by Government, this benefit should be seen as a one-off and accordingly used by the Council to fund one-off expenditure. Final confirmation of Government's decision around negative RSG is expected in December as part of the Local Government Finance Settlement, and any implications will be reported back to Members in February.

Government funding – New Homes Bonus

19. New Homes Bonus (NHB) was also planned for review under the now-delayed Fair Funding Review. In the absence of any further updates, this budget assumes no change to Government's previous commitments on future years' payments, i.e. that NHB will cease in 22/23.
20. In line with the approved MTFS, this budget assumes a continuation of the Council's current strategy, i.e. due to its time-limited nature NHB funding is not used to support ongoing service provision, but is instead contributed to the Dacorum Development Reserve for future one-off spending.

Key General Fund budget savings since last year

21. Detailed budget changes between 2020/21 and 2021/22 are shown in Appendix B. Key items include:

- £4.7m removal of the one-off pensions payment arising from triennial review
- £150k total staff efficiency savings
- £450k increase in income generated
- £80k reduction in Supplies and Services costs

Key General Fund budget growth since last year

22. Detailed ongoing growth areas (i.e. not one-off items of expenditure to be funded from reserves or additional grants) are shown in Appendix B. Key items include:

- £186k to Employees budgets
- £101k to support new Premises costs
- £2.2m Income reduction arising from the forecast impact of Covid (see para 24)

23. In order to assist Members in their scrutiny, the draft budget is set out at a detailed Service level in appendices C - E.

24. The Council's strategy for managing the Covid-related impact on its income streams was detailed within the MTFs approved in November. The £2.2m income reduction highlighted above will be managed through the creation of an Economic Recovery Reserve. For more detail, see the Reserves section later in this report.

Housing Revenue Account

25. The draft HRA Budget for 2021/22 is attached at Appendix F, with explanations of major movements between the Original Budget 2020/21 and Draft Budget 2021/22 shown in Appendix G.

26. Key assumptions incorporated into the draft budget, reflecting assumptions in the HRA 30 year Business Plan that is reviewed annually by cabinet;

- Annual rent increase of CPI + 1% on all properties (£919k)
- An increase in Supervision and Management budget to support service delivery and enhanced Property maintenance management (£408k)
- Removal of the 20/21 one off secondary pension contribution (£1.32m)
- Increase in the revenue contribution to capital (£1.55m)

Capital Programme

27. The draft Capital Programme is set out in Appendix Ii.

28. There have been a number of bids for new capital projects from across the Council's services. The financial implications of the new bids and amendments are summarised in Appendix Hi and total £1.7m in 21/22 and in totality £5.4m over the life of the Capital Programme, 2021/22 - 2025/26.

Reserves

29. The proposed movements in General Fund reserves are set out in Appendix J. The significant reserve movements within the 2020/21 budget are detailed below:

- **Economic Recovery Reserve** – In line with the strategy approved within the MTFS, this is a new reserve created in 2020/21 to fund the forecast financial implications of Covid over the medium-term.

The reserve has a starting amount of £7.5m in the current financial year, comprising a £4.5m transfer from the Dacorum Development Reserve and £3m from the Funding Equalisation Reserve. The current forecasts are that around £3.5m will be drawn down to cover Covid implications in 20/21, with a further £1.5m in 21/22. As the actual impact of Covid begins to crystallise over coming months, the movements in this reserve will be amended to reflect the most up-to-date position.

- **Technology Reserve** – Draw down of £72k, £24k to fund the continuation of the IT intern position and £48k to support the continuation of an additional web developer. 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 across the Council.
- **Management of Change Reserve** – This reserve was created to support the significant investment required when preparing and implementing Service redesign and changes. A net draw down of £32k is required in 21/22. This will fund additional fixed-term officer posts such as apprentices, Diversity & Inclusion officer and commercial waste officer post, as well as supporting the short term delay of the CCTV commercial venture.
- **Savings Efficiency Reserve** - Contribution of £721k. This reserve was created from the achievement of savings made by the Council in advance of need, and is retained to offset the risk of delays to initiatives planned to generate future savings. This contribution is the repayment of the one-off pension contribution made in 20/21 to deliver medium term financial efficiencies on the cost of pension by making an upfront payment.
- **Local Development Framework** – Drawdown of £155k. This reserve was created to support the significant research and consultancy costs associated with the development of the Council's Local Plan.
- **Dacorum Development Reserve** - Contribution of £468k. This reserve was created to support regeneration and economic development initiatives across the borough and in recent years has been funded primarily through one-off, growth-related funding streams.

The planned movements in 20/21 comprise an £808k contribution of New Homes Bonus offset by a £300k draw down to fund costs associated with the Hemel Garden Communities Programme and a one-off draw down of £40k to fund an additional Planning enforcement officer for a period of one year.

- **Climate Change and Sustainability Reserve** – Draw down of £100k to fund one off climate change projects during 21/22. This reserve was created to

support one-off costs associated with the Council's future climate change initiatives.

- **Invest to Save Reserve** – Draw down £20k to support additional training requirements. This reserve was created to support initiatives that are aimed at reducing future council service costs or providing additional net income to the council's resources.
- **Pension Reserve** – Contribution of £1.02m. This reserve is used to provide a provision to support one-off payments of secondary contributions following triennial pension's valuation to smooth out the cost of these one off triennial payments. The next payment is due in 2022/23
- **Funding Equalisation Reserve** - £300k forecast draw down from reserve to support the estimated deficit on the Collection Fund payable in 2020/21. This deficit arises from the annual timing differences in the receipt of Collection Fund income to the Council. Balances on this reserve are held in part to support these deficits when they arise, funded by any prior year surpluses on the Collection Fund. The actual projected deficit is £1m but due to government rule changes, brought about by the financial impact of Covid, councils are permitted to spread this burden out over the next 3 years, which is represented in the approved MTFS.

Next Steps

30. Members of the individual OSCs are asked to review and scrutinise the draft budget proposal for 2021/22, and to provide feedback for Cabinet to consider ahead of the next Joint OSC, in February 2021.

Annexe A
Explanation of expenditure categories used in appendices
Budget Categories Glossary

Employees

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

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

Premises

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

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

Transport

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

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

Third Party Payments

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

Supplies & Services

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

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

Capital Charges

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

Transfer Payments

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

Income

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

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

Grants and Contributions

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

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

Recharges

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