



Report for:	Cabinet
Date of meeting:	9 February 2021
Part:	1
If Part II, reason:	

Title of report:	Budget 2021/22
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 2021/22 • The Treasury Management Strategy 2021/22 • The Capital Strategy 2021/22 • The level of fees and charges for 2021/22 • 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> <p>a) set a Dacorum Borough Council General Fund Council Tax requirement of £12.406m, and a provisional amount of £13.405m for the combined Borough Council and Parish Councils' requirement for 2021/22;</p>

	<p>b) approve a Band D Council Tax increase of £5 (2.42%) for Dacorum Borough Council;</p> <p>c) approve the base estimates for 2021/22, as shown in Appendix A1, and the indicative budget forecasts for 2021/22 – 2024/25, as shown in Appendix A2;</p> <p>d) approve the forecast balances of Revenue Reserves as shown in Appendix J, and approve section 11 of this report as the updated Reserves Strategy;</p> <p>e) approve increases in Fees and Charges for 2021/22 as set out in Appendices C3, D3, and E3;</p> <p>f) approve and adopt the Treasury Management Strategy for 2021/22, attached at Appendix K;</p> <p>g) approve and adopt the Capital Strategy for 2021/22, attached at Appendix L;</p> <p>h) note that this budget paper, if approved by Council, will form part of the Medium Term Financial Strategy.</p> <p>Capital Programme</p> <p>i) approve the Capital Programme for 2021/22 to 2025/26, as detailed in Appendix I;</p> <p>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.</p> <p>Housing Revenue Account (HRA)</p> <p>k) set dwelling rents according to the new MHCLG Rent Standard, which provides for a rent increase of CPI+1% (1.5% in total). The average dwelling rents is proposed to increase to £104.96 in 2021/22, from its current level of £103.43 (based on 52 weeks);</p> <p>l) approve the HRA estimate for 2021/22 as shown in Appendix F.</p> <p>Employer Terms and Conditions</p> <p>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 2021/22 (to be reviewed annually thereafter).</p> <p>Statement by Chief Finance Officer</p>
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	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 M of the report.</p>
Consultees:	<p>Overview and Scrutiny Committees</p> <p>Budget Review Group</p> <p>Corporate Leadership Team</p>
Background papers:	Joint Overview and Scrutiny Reports: 1 December 2020, and 1 February 2021.
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 2021/22
- Appendix A2 – Draft General Fund MTFS update 2021/22 – 2024/25
- Appendix B1 – Budget Change Analysis 2020/2021 – 2021/22
- Appendix B2 – Budget Summary by Overview & Scrutiny Committee

Finance and Resources

- Appendix C1 – Finance & Resources Budgets Summary 2021/22
- Appendix C2 – Finance & Resources Budgets Detail 2021/22
- Appendix C3 – Finance & Resources Fees and Charges 2021/22

Housing and Community

- Appendix D1 – Housing & Community Budgets Summary 2021/22
- Appendix D2 – Housing & Community GF Budgets Detail 2021/22
- Appendix D3 – Housing & Community Fees and Charges 2021/22

Strategic Planning and Environment

- Appendix E1 – Strategic Planning & Environment Budgets Summary 2021/22
- Appendix E2 – Strategic Planning & Environment Budgets Detail 2021/22
- Appendix E3 – Strategic Planning & Environment Fees and Charges 2021/22

Housing Revenue Account

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

Capital Programme

- Appendix H – Capital Programme Summary of new and amended projects
- Appendix I – Capital Programme 2021/22 - 2024/25, by OSC

Reserves

- Appendix J – Statement of Earmarked Reserves

Treasury Management

- Appendix K – Treasury Management Strategy Statement 2021/22

Capital Strategy

- Appendix L – Capital Strategy 2021/22

S151 Officer

- Appendix M – Statement by the Chief Finance Officer

1. The Budget-Setting Process

- 1.1 The 2021/22 budget proposal and the updated Medium Term Financial Strategy have been produced to ensure that the Council maintains a sustainable financial position over the planning period to 2024/25. 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 and 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 2020 and February 2021, during which Members undertook detailed scrutiny of the budget proposals.
- 1.4 Under normal circumstances, a residents' consultation event is held each January, providing residents from across the borough with the opportunity to feedback on the Council's proposals for following year's budget. The Covid-related restrictions in place throughout January 2021 meant that this event was unable to take place. Restrictions permitting, this event will be reinstated next year.

2. The 2021/22 Local Government Finance Settlement

- 2.1 On 17 December 2020, 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 2021/22.
- 2.2 By far the largest source of central government funding for local authorities is the Settlement Funding Assessment (SFA), which, in 2021/22 is set to remain at the prior year level of £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. It was announced early in 2020 that there would be further delays to the Review as Government grappled with Covid-related financial uncertainty on a national level. Subsequently, neither the Spending Review nor the Local Government Finance Settlement announced, or even alluded to, a new implementation date.

3. Dacorum's Key Funding Streams – Covid Support

- 3.1 The current MTFS, approved by Council in November 2020, provides a comprehensive outline of the Council's strategy for managing the financial pressures arising from Covid 19. The Covid-related pressure forecast within the

MTFS for 2021/22 is c£3m, primarily driven by the potential impact of an expected recession on the Council's key income streams.

- 3.2 Roughly half of this pressure will be met through Government funding in excess of the level forecast for 2021/22 within previous versions of the MTFS (see paragraphs 3.5 – 3.7). The remaining half will be funded through the Economic Recovery Reserve, established within the MTFS to protect the provision of Council services throughout the impact and recovery from the expected recession.
- 3.3 At the time of writing this report, uncertainty over next year's financial pressure remains as stark as it was when the MTFS was produced, four months ago – a recession is still expected, the duration and severity of which still remain unclear. On this basis, there are no material updates to the MTFS and the current forecasts and strategy remain extant.
- 3.4 The Settlement provided more detail of Dacorum's share of the national £2.2bn local government Covid support package first announced in the Spending Review. Dacorum will receive an additional £700k in 2021/22 to support additional Covid-related expenditure. This funding has been transferred to the Economic Recovery Reserve, which has in turn enabled an equivalent amount to be transferred back to the Dacorum Development Reserve from where it originally came.
- 3.5 In addition to this direct funding, the Council will continue to benefit from Government's Sales Fees and Charges Support Scheme, which has now been extended from the end of the current financial year until June 2021. Under this scheme, Government underwrites around 72% of lost, non-rental income. Further details are awaited on other Government schemes to support the expected impact on Council Tax and Business Rates revenues.
- 3.6 It should be noted that uncertainty around the nature of any future national and local Covid-related restrictions could impact the local economy, and therefore the Council's income streams to a greater extent than is currently forecast for 2021/22. This will be kept under review and the updated position will continue to be reported to Members throughout next year, as it has been in the current year.

4. Dacorum's Key Funding Streams – Settlement Funding Assessment

- 4.1 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)
- 4.2 **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 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.
- 4.3 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.

- 4.4 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. The Council's medium-term strategy over recent years has assumed that the trend of Government funding reductions would continue at the same rate, until the Council became self-sufficient in 2022/23.
- 4.5 However, in December 2020, Government announced that next year, for the third consecutive year, negative RSG will be suspended. Because, despite these suspensions, the Council has maintained its medium-term strategy of working towards self-sufficiency in 2022, it is now ahead of the funding curve – it has already found the efficiencies to deal with funding reductions that have not yet been implemented. This means that the Council will receive £2.2m more funding in 2021/22 than was forecast within the MTFS.
- 4.6 Due to the combination of further delays to the Fair Funding Review and the Covid pressure on councils, Government funding reductions are unlikely to happen as quickly. On this basis, the MTFS approved by Council in November 2020 assumed that DBC would continue to follow the same funding reduction trajectory, but two years later than originally anticipated – working towards self-sufficiency in 2024/25 rather than 2022/23.
- 4.7 This means that £1.3m of the additional £2.2m has been baselined within the 2021/22 budget. It is recommended that Council continue the strategy of previous years and contribute the other £900k of negative RSG to reserves – in this case, the Dacorum Development Reserve, to partially offset some of the funds transferred out to set up the Economic Recovery Reserve in response to Covid.
- 4.8 **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 2021/22 is £3.06m, inflated by £40k from 2020/21.
- 4.9 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.
- 4.10 In recent years, Dacorum has seen Business Rates growth which has resulted in c£300k additional funding per annum. As this income stream is vulnerable to fluctuations in the local economy, the majority of the income has been transferred to reserves each year, with only c£100k used to support the baseline budget.
- 4.11 This period of sustained growth means that Dacorum has now joined the group of Hertfordshire councils that can 'pool' together each year to retain as much funding as possible within the county. The additional funding comes to a 'pool' through Government surrendering part of its share of growth in order to incentivise joint working between councils within a given economic area.

- 4.12 Under the normal, non-pooling Business Rates Retention Scheme, each £1 of growth is shared as follows:

Government share	50p
Collecting district council	40p
Hertfordshire County Council	10p

The district council pays a 50% levy out of its share to Government, which reflects Government's assessment of their need. The levy receipts are then redistributed nationally to support those councils with a higher Government assessed need. Districts all pay a levy, and all counties all receive some of the redistributed funds through a 'top-up'.

So the actual shares after this technical adjustment are:

Government share	70p (50p + 20p levy from district share)
Collecting district council	20p
Hertfordshire County Council	10p

Under the pooling scheme, the 20p levy is not payable to Government. Instead, the levy payable by districts is offset against the top-up that would be payable to HCC and is retained within Hertfordshire. The pooling gain comes from the local retention of the growth above that required to fund the HCC top-up. Shares after pooling arrangement:

Government share	50p
Collecting district council	20p
Hertfordshire County Council	10p
Pool	20p (the Government levy now retained locally)

- 4.13 Since 2014 a pool has existed within Hertfordshire comprising the optimal grouping of districts alongside HCC. For 2021/22, DBC is within that optimal pool. Based on current modelling across the county, the benefit of being within the pool is that an additional £3m will be retained within Hertfordshire, of which £300k additional funding will come to DBC.
- 4.14 The main risk of being in a pool is that the Government 'safety-net' which currently caps DBC losses at 7.5% is removed. This risk is higher next year than would ordinarily be the case due to the uncertain impact of a Covid-recession on the Hertfordshire economy, and consequently on the amount of Business Rates received. However, there are a number of mitigations against this risk:
- a) External modelling has shown that Business Rates would need to contract by 5.9% across the pool area before the pool made a loss – this is a big reduction. To put it into context, Government put in place a Business Rates compensation when losses were less than 5% in the current year.
 - b) A compensation scheme has already been announced for next year (awaiting details), which would de-risk things for the pool – the element covered by Government would no longer be at risk.
 - c) A proportion of the pool's taxbase is not high risk, e.g supermarkets, public sector buildings, distribution centres, which means that the contraction outside of this low risk group would need to be significantly higher for the pool to hit an overall loss of 5.9%. Furthermore, the increased diversity of

businesses types and local economies across the pool is greater than within a single district – again, this dilutes the risk of such a significant contraction.

- d) The Council will increase its provision against increased risk of business failure within Dacorum over the next twelve months.
- e) Despite the opportunity presented by pooling, the 2021/22 Baseline Funding, which includes DBC's share of Business Rates growth, is budgeted at Safety-net level. This prudent approach ensures that while the expectation is for a higher amount of BR income, the balancing of next year's budget does not rely on it.

4.15 While the risk can never be eliminated, based on the above mitigations it is recommended that DBC enter the pool. The other five members of the pool (Hertfordshire County Council, Broxbourne, Hertsmere, North Hertfordshire, and Three Rivers) have been involved in previous years and have approval to progress next year.

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

- 5.1 The provisional NHB allocation for Dacorum in 2021/22 has been announced as £1.1m, an increase of £290k on the projected income in the Medium Term Financial Strategy. This increase is due to Government including an additional year's allocation for 2021/22, contrary to previous announcements stating that the final year's allocation for NHB was 2020/21.
- 5.2 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.
- 5.3 In line with previous years' strategy, it is proposed that all NHB funding in 2021/22 be transferred to the Dacorum Development reserve to fund future growth projects across the borough.

6. Dacorum's Key Funding Streams – Lower Tier Services Grant

- 6.1 The Settlement included a new one-off grant for district level councils, the Lower Tier Services Grant. DBC's share of the £111m funding pot is £170k, calculated by Government's assessment of needs model. As a one-off funding stream, it is proposed that this amount is transferred in its entirety to the Management of Change Reserve to maintain the balance in the reserve following planned draw downs in 2021/22.

7. Dacorum's Key Funding Streams – Council Tax

- 7.1 Dacorum's Council Tax requirement for 2021/22 is calculated as £13.405m (provisional, inclusive of provisional parish precepts) and £12.406m (exclusive of parish precepts). The approved tax base for 2021/22 is 58,693.7 based on a collection rate of 99.4%.
- 7.2 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.

- 7.3 A surplus position of £43,362.84 on the Collection Fund is forecast for 31 March 2021. 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.
- 7.4 The proportion of this surplus that each of the Major Preceptors will receive from the Collection Fund when calculating the Council Tax for 2021/22 is as follows:

Dacorum Borough Council	£5,268.18
Hertfordshire County Council	£33,416.13
Hertfordshire Police and Crime Commissioner	£4,678.53
Total Surplus	£43,362.84

- 7.5 Cabinet approved the Collection Fund surplus in December 2020.
- 7.6 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 2020 Settlement, Government confirmed the referendum threshold for district councils at the higher of £5 or 2%. The proposed increase of £5.00 (2.42%) for Dacorum in 2021/22 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.

8. Local Government Accounting Requirements

- 8.1 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

- 8.2 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.
- 8.3 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).
- 8.4 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

- 8.5 The Council complies with the Prudential Code for controlling Local Government Capital Finance, and the Budget for 2021/22 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.

9. Forecast Outturn 2020/2021

- 9.1 Appendices C2, D2 and E2, which breakdown the proposed 2021/22 budget by Overview and Scrutiny Committee (OSC) remit, also show the forecast budget outturn for the current financial year, as at December 2020. This is included to provide Members with comparative context for the 2021/22 budget proposals.
- 9.2 As at January 2020, the outturn for financial year 2020/2021, at £3.2m has been heavily impacted by the forecast impact of Covid. As per the MTFS, the plan is to fund this shortfall through the Economic Recovery Reserve. Where necessary, budget variances relating to underlying business-as-usual have been updated to ensure a more robust budget over the next 12 months.

10. Budgetary Assumptions 2021/22

- 10.1 The inflationary assumptions used to compile the 2021/22 estimates are set out below.

Inflation Factors	
Average salary Inflation (annual pay settlement) for 2021/22	1.75%
Business Rates	2.0%
Fuel	5.0%
Utility Cost increase assumptions: Gas Electricity	5.0%
	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%

- 10.2 The salary vacancy factor for the 2020/2021 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 2021/22.

11. Revenue Income

- 11.1 In addition to the key funding streams explained in sections 3 - 7 of this report, the Council receives income from a number of sources.
- 11.2 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 15 of this report.

11.3 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 2020/2021. Budgeted General Fund investment income for 2021/22 is £300k, and £192k within the HRA. This assumes an average interest rate of 0.8%.

11.4 Fees and Charges – Service managers have proposed changes to fees and charges for 2021/22 as detailed in Appendices **C3, D3 and E3.**

12. Reserves Strategy

12.1 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 2020).

12.2 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.

12.3 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 2021/22, which equates to just under 14% of the Net Cost of Services of £18.5m (as shown in Appendix A1).

12.4 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 2021/22, which equates to 5% of the £57m rental turnover (as shown in Appendix F).

12.5 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

12.6 The General Fund budget proposes a Net Cost of Service of £18.5m, as set out in Appendix A1. This includes a net contribution of £1.79m 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 2021/22 are as follows:

Earmarked Reserve	Net Movement to/(from) Reserves £000
Management of Change Reserve	(50)
Technology Reserve	(35)
Savings Efficiencies Reserve	720
Local Development Framework Reserve	(155)
Dacorum Development Reserve	2,400
Climate Change and Sustainability Reserve	(100)
Invest to Save Reserve	(20)
Election Reserve	40
Training and Development Reserve	(275)
Housing Conditions Survey Reserve	15
Funding Equalisation Reserve	(300)
Pensions Reserve	1,020
Maylands Plus Reserve	20
Economic Recovery Reserve	(1,490)
Total Net Movement	1,790

12.7 Appendix J details the proposed movements on General Fund Earmarked Reserves. All reserves have been reviewed during the preparation of the Budget for 2021/22, and there will be a further review of the reserves position as part of the closure of accounts process for 2020/2021.

12.8 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.
- 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 draw down of £50k from the Management of Change reserve in 2021/22:

- Contribution to the reserve of £400k (including £170k new Lower Tier Funding announced in LG Settlement);

- Part year costs of a fixed-term contract for a web developer (£40k);
- The third year of the apprenticeship and graduate trainee recruitment programme (£195k);
- Commercial Waste project officer fixed-term post (20k)
- Diversity and Inclusion Officer first year of 3-year fixed-term post (£55k)
- Review of Community Safety services (£150k)

- **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. There is a draw-down of £35k in 21/22 to fund the extension of a web developer post to continue improving the web based 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 is funded through savings achieved ahead of the 'pre-smoothed' savings targets detailed in previous versions of the MTFS.

A contribution of £830k is planned for 2021/22 to replenish this reserve following its use in 2020/21 to fund a one-off upfront payment of £6m to the Pension Fund in relation to the Council's secondary pension contribution payment. In addition, a contribution of £110k from the reserve is planned to fund staff resources in Planning in order to generate additional income from Planning Performance Agreements.

- **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.

- **Local Development Framework Reserve**

This reserve was created to support the development and ongoing work associated with the Council's local plan. In 2021/22, it is proposed to draw down £155k to fund Local Plan costs in the year of examination.

- **Dacorum Development Reserve**

This reserve was created to support regeneration and economic development initiatives across the Borough. The net contribution of £2.4m proposed for 2021/22 comprises:

- A contribution of £1.1m from New Homes Bonus funding;
- A contribution of £940k from the suspension of negative Revenue Support Grant;

- A contribution of £700k from the Economic Recovery Reserve to replenish the Dacorum Development reserve following the announcement of a further £700k Covid funding from Government as part of the LG Finance Settlement;
- Drawdown of £40k to fund a one-year fixed-term Enforcement officer within Planning;
- Drawdown of £300k to fund costs associated with the Hemel Garden Communities project to create new housing and infrastructure within the borough;
- **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 drawdown of £100k is planned in 2021/22 to fund a budget for technical studies, consultancy support and community initiatives.
- **Planning Enforcement and 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 2021/22 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 drawdown of £20k is planned in 2021/22 to support training across the Council.
- **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 2021/22 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.
- **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 draw down of £275k from the reserve is proposed, to fund the following.

- £70k to fund an enhanced Leadership training programme;
- £50k to fund project management support to develop and implement a new Corporate Governance framework;
- £50k to fund additional resources to support a full internal review of Service Planning;
- £75k to fund an extension of the National Graduate Development Programme

- **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. The surpluses in this reserve will be reviewed at the point Baseline Funding is reset, following the implementation of the Fair Funding Review. A draw down of £300k is proposed, to support the forecast business rates deficit in 2021/22.

- **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 reported 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 could avoid the increase of £300k. The full balance of the Pension Reserve was drawn down in 2020/21 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.

The £1m contribution in 2021/22 comprises £800k of these budgeted annual amounts, plus a further £200k scheduled annual top up of the reserve in preparation for potentially increased costs at the next triennial review.

It is recommended that the Council continue 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 2021/22 is forecast.

- **Economic Recovery Reserve**

This reserve was created in 2020/21 to support the continued provision of Council services throughout the impact of, and recovery from the expected Covid-driven recession. A drawdown from the reserve of £1.491m is planned for 2021/22.

Earmarked Reserves future priority areas

12.9 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.

Housing Revenue Account Earmarked Reserves

12.10 The Strategic Acquisition reserve is an HRA reserve held by the Council. The forecast balance at the end of 2020/2021 is £5.4m. It is forecast that this balance will be drawn down in full in 2021/22 to support the new build capital programme within the HRA.

Capital Receipts Reserve

12.11 This reserve is utilised to finance the Capital Programme. The balance brought forward to 2021/22 contains receipts from the sale of HRA properties under the Right-to-Buy scheme, along with the associated 1-4-1 receipts. It also contained General Fund capital balances arising from asset sales. It is estimated that the HRA capital balances will be £22.3m as at 1st April 2021, and £6.9m as at 31st March 2022. It is estimated that the GF capital balances will be £23.9m as at 1st April 2021, and £17.7m as at 31st March 2022

13. Capital Programme

13.1 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).

13.2 The recommended Capital Programme detailed in Appendix I is a 5-year programme encompassing £284m of capital investment across the borough. The

Capital Programme in 2021/22 is £53.5m of which £44.3m is the HRA and £9.2m is the General Fund.

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

General Fund

- £6.4m investment in a 5-year programme of fleet replacement.
- £9m capital investment to the council's community facilities including Council-owned buildings, community infrastructure, car parks, leisure and sports premises.
- £1.4m Investment in facilitating affordable housing developments and delivery 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,
- £135m for the New Build programme.

Financing the Capital Programme

13.4 It is recommended that the Capital Programme for 2021/22 be financed as per the table below.

Proposed Financing for Capital Programme 2021/22	
	£m
Capital Receipts and Reserves	39.4
Grants and External Funding	3.8
Revenue Contribution	7.7
Total Indicative Funding	50.9

13.5 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 2021/22 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 £26.4m.

The level of reserves expected to be utilised is £13m, £10.5m from the Major Repairs Reserve, which is funded from the depreciation on the Council's housing stock, and £2.5m from the Revenue Commitments reserve, a holding reserve created to preserve flexibility of revenue funds for as long as possible before transfer over to capital in future years.

- **Grants and External Funding**
£0.8m of general fund capital expenditure will be funded from grants and £3m from S106 contributions.
- **Revenue Contribution to Capital**
This refers to charges on revenue budgets in order to finance capital projects in 2021/22 the budget assumes the GF will be contributing £0.4m and the HRA £7.4m.

14. Treasury Management Strategy

14.1 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).

15. Housing Revenue Account 2021/22

15.1 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.

15.2 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 2021/22 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

15.3 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.

15.4 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 2021/22

15.5 The HRA business plan incorporates the following key financial assumptions, based on the draft 2021/22 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 2021/22 have been set according to the MHCLG Rent Standard, which allows for an increase of CPI+1% (1.5% in total based on October CPI rate published by ONS). New tenancies re-let at (social) formula rent.
RPI	1.3% 2021/22; 2.8% 2022/23; 3.0% (subsequent years)
CPI	0.5% 2021/22; 1.8% 2022/23; 2% (2023/24) 2% (subsequent years)
New Build Programme	264 units built, 46 currently in progress, 367 in the pipeline.
Voids and Bad Debts	Voids: 0.8% of gross income Bad Debts: 1.8%
Right to Buy	Assumption of 24 for 2021/22.

16. Staff Terms and Conditions

- 16.1 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.
- 16.2 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.
- 16.3 The current 'out of London' living wage, which would apply to the Council, is £9.50 per hour. All DBC staff are paid in excess of the living wage for 2021/22.

17. Summary and Conclusion

- 17.1 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.
- 17.2 The statement from the Chief Finance Officer at Appendix M provides assurance regarding the robustness of the 2021/22 budget and the level of the Council's reserves.