



<b>Report for:</b>	<b>Finance and Resources Overview and Scrutiny Committee</b>
<b>Date of meeting:</b>	<b>1<sup>st</sup> December 2021</b>
<b>PART:</b>	<b>1</b>
If Part II, reason:	

<b>Title of report:</b>	<b>BUDGET PREPARATION 2022/23</b>
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources Nigel Howcutt, Chief Finance Officer Fiona Jump, Group Manager, Financial Services
Purpose of report:	To provide Members with an overview of the draft budget strategy and proposals in order to provide Members the opportunity to scrutinise them and provide feedback to Cabinet.
Recommendations	That the Scrutiny Committee reviews and scrutinises the draft budget proposals for 2022/23 and provides 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; Senior Leadership Team Group Managers.
Background Papers:	Agenda item 9 September 2021 Cabinet - Medium Term Financial Strategy 2021/22 – 2025/26.

Key Terms, Definitions & Acronyms	GF – General Fund HRA – Housing Revenue Account MTFS – Medium Term Financial Strategy OSC – Overview and Scrutiny Committee RSG – Revenue Support Grant MHCLG- Ministry for Housing, Communities and Local Government DLUHC- Department for Levelling Up, Housing and Communities
-----------------------------------	---

## Introduction

This report includes information in relation to the corporate service planning process which has been undertaken by all services for 22/23 and the draft General Fund and HRA budget proposals which have been developed following this exercise. It also sets out the key assumptions which have been used to develop the budget and highlights the position in relation to reserves and the management of risk.

The report provides information on the development of the Council's Commercial Strategy and Programme as this represents a significant change in approach which is designed to support the Council to identify income generation options in order to provide longer-term financial resilience.

## Background

This report presents the draft budget proposals for 2022/23 and the outline plan for the development of a commercial strategy for scrutiny and review.

1. Budget detail at a strategic level has been provided for every area of the Council and this has been made available to all Members. A glossary of budget categories, and specific budget section groupings, is set out in Annexe A.
2. With the exception of the Finance & Resources Committee, which scrutinises all budgets, individual Overview and Scrutiny Committees (OSCs) will focus only on those budget changes and Capital Programme elements which relate directly to their remit.
3. A senior Finance Officer will be present at each of the committees to support the Chair.
4. The following appendices are relevant to the draft budget proposals for 2022/23:

### General Fund

- Appendix A – General Fund Budget Summary 2022/23
- Appendix B – Budget Change Analysis 2021/22 – 2022/23
- Appendix B(i) – Budget Change Analysis Finance and Resources 2021/22 – 2022/23
- Appendix B(ii) – Budget Change Analysis Strategic Planning and Environment 2021/22 – 2022/23
- Appendix B(iii) – Budget Change Analysis Housing and Community 2021/22 – 2022/23
- Appendix C – General Fund Budget Change Summary by Committee

### Housing Revenue Account

- Appendix D – Housing Revenue Account Budget 2022/23
- Appendix E – Housing Revenue Account Movements 2021/22 – 2022/23

### **Capital Programme**

- Appendix F – Capital Programme by OSC: Summary of new and amended projects 2022/23 - 2026/27
- Appendix F(i) – Strategic Planning and Environment Capital Programme by OSC: Summary of new and amended projects 2022/23 - 2026/27
- Appendix F(ii) – Housing and Community Capital Programme by OSC: Summary of new and amended projects 2022/23 - 2026/27
- Appendix G – Capital Programme 2022/23 - 2026/27

### **Reserves**

- Appendix H – Statement of Earmarked Reserves

## **Service Planning & Commercial Strategy development**

### **Corporate Service Planning**

5. As outlined in the MTFFS, which was approved by Council in October 2021, there are significant medium term financial pressures which need to be addressed in order to deliver a sustainable medium term financial strategy for the Council. It is clear that the Council will not be able to find the level of savings required from 2023/24 onwards, without a detrimental impact on service delivery. For this reason, essential work has begun to develop a Commercial Strategy and Programme which will increase revenue income into the Council.
6. Earlier in the year, a corporate service planning process was undertaken to develop specific priorities and opportunities for service areas over a 3-year period. This process was then used to inform savings and commercial opportunities for the budget planning process.
7. The resulting service plans identified a number of consistent themes across service areas, including: Climate change action; Improving customer focus; Improving processes through digitisation and the development of a Digital Strategy; Developing positive leadership and culture and the need for a new People Strategy; Community Safety; Economic Recovery and a refreshed focus on the Council's place shaping programme.
8. During the year, the Council's Climate Change Action Plan was also developed and the investment requirements for this continue to be assessed.
9. The corporate service planning cycle will run on an annual basis from now on so that the Council's financial strategy can be closely aligned to support the delivery of the Council's service priorities.

### **Housing Services Review**

10. In addition to the service planning process, a specific and detailed external Service Review was undertaken of the housing service. During the review, an action plan was developed which the Housing Services Management Team has used to prioritise service development activities. Key activities include:

- Making use of a 100% stock condition survey currently underway to advise and refine the HRA Asset Management Plan regrading improvements, component replacements and to advise on the fabric first requirements of the stock, as a key element of meeting the target to be net zero carbon by 2050. This “fabric first” work can be undertaken whilst national non-fossil fuel heating solutions and supply chains are further developed. Anticipating, and meeting, the requirements of the Social Housing Regulator and the impact of the Building Safety Bill with a major focus on both the skills required within the service and the increased priority of fire safety measures.
- Delivering major improvements to IT systems to bring all data together to provide efficiencies in use and also service improvements to tenants. A key priority will be to provide the technology for more remote and estate based working, as part of the drive for staff to visit every home at least once in a three year period.
- Establishing a cross-Council Housing Development Corporate Group which will provide oversight to the Council’s own housing development programme and will also provide focus to the broader strategic activities the Council is undertaking to meet housing need in the borough.
- Preparing for and commencing, the procurement process for the significant contracts for the repair, maintenance and improvement of the Council’s housing stock.
- Improving partnership working with key agencies to develop strong multi-agency working practices which support the Council’s most vulnerable households. There will also be a focus on improving the joint working between the Community Safety and Housing Teams to help tackle Domestic Abuse, ASB and more challenging issues, such as cuckooing.
- Continuing to provide an excellent Homelessness prevention service and support to those families that become homeless and ensuring a sufficient supply of good quality Temporary Accommodation.

11. This Housing Services review has supported the development of the Housing Service Plan and has informed budgeting requirements over the next two years. There are detailed 22/23 budget proposals included in this report.

### **Commercial Strategy and Programme**

12. In September, Cabinet approved £400k of resources to support the delivery of a comprehensive and deliverable commercial strategy and programme. This approach to finding the Council’s commercial programme development is considered more prudent than baselining historic revenue costs, given the embryonic and emerging position of the Council’s commercial approach.

13. The Council has now appointed an interim Strategic Director for Corporate and Commercial Services to lead this work and additional external expertise and

resources, to develop the strategy and initial business cases by the end of the financial year, are also being procured.

14. The Senior Leadership Team will engage closely with Portfolio Holders as this work develops and will return to Cabinet in the spring with a proposed commercial strategy, programme and approach.
15. It is expected that a multi-year programme will then be implemented which will deliver a range of commercial opportunities to generate income which will support ongoing service delivery and help to provide financial resilience for the Council. This process is likely to culminate in a revised MTFS being presented to Members in spring 2022.
16. Commercial opportunities will be overseen by a Commercial Board, chaired by the Chief Executive, to bring both pace and assurance to the development of the commercial programme.
17. An effective commercial strategy will need to evaluate and develop a portfolio of opportunities and outline business cases across the following areas:
  - Effective Procurement, driving maximum value from the Council's external spend;
  - Strong Contract Management, ensuring that our suppliers deliver all their commitments to residents;
  - New Commissioning Models, making sure that services are designed in a way which delivers best value, long-term flexibility and resident focus;
  - Traded Services, where the Council has additional skills and capability which can be offered to residents, businesses or other councils;
  - Trading Companies, where commercial opportunities require different legal models or governance to succeed; and
  - Assets and Investments, where carefully appraised capital investment provides opportunities to generate long-term returns.
18. The commercial strategy work will commence in mid-December, with focused and rapid progress expected during January.

### **2022/23 Budget Setting and Medium Term Financial Strategy (MTFS)**

19. The Development of the Commercial Strategy and the Implementation of a Continuous Service Planning Cycle will be supported by a refreshed MTFS next year. The current MTFS was approved by Council in October 2021 and contained the following key decisions which have informed the budget-setting process for 2022/23:
  - A General Fund savings target of £685k for 2022/23
  - A General Fund savings target of £1.92m 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
20. 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.

21. Following the budgetary outlook announced in the Autumn statement, the projected Dacorum 22/23 government funding level has been set at the same level as 2021/22. This is a change to the October 21 MTFS projections, resulting in a proposed funding level increase of £785k p.a. until 25/26.
22. The Council's MTFS is now forecast to become financially self-sustainable in 2025/26, which is a delay of 1 year). This approach is in line with the majority of the Local government sector.
23. 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. Members receive regular financial monitoring updates throughout the financial year. These will be supplemented by MTFS updates to Cabinet, as considered appropriate by the S151 Officer. The plan is to provide a refreshed MTFS to Cabinet in the spring following the development of the Council's Commercial Strategy and Programme.

#### **Key Assumptions included in draft General Fund Budget**

24. 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 between safety net and baseline (See para 27)
  - Negative Revenue Support Grant (RSG) (See paragraphs 29 - 33)
  - New Homes Bonus reduced by just over 70% (£1.42m). (See para 34-35)

#### **Government funding – Business Rates**

25. Due to the global pandemic, the Local Government Fair Funding Review has been further delayed and the sector awaits confirmation as to when this will be conducted. The Autumn Statement 2021 initially raised expectations of local authorities receiving a multi- year financial settlement in the Local Government Finance Settlement, expected in December 2021. This remains uncertain. The Autumn Statement provided no clear statement or understanding of whether Local Government funding mechanisms are to be reviewed or what the future of business rate retention as a process of funding Local Government.
26. In the absence of specific detail, this budget makes a series of funding assumptions, outlined in subsequent paragraphs. Confirmation of 2022/23 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 2022.
27. Uncertainty over the level of funding the Council will receive from Government next year continues. This proposed budget has therefore taken a prudent approach. Retained Business Rates funding has been set between the 'safety net' level, (the Government-guaranteed minimum level of funding under the current system) and the baseline funding level for DBC set by central

government, (the threshold over which the Council pays a proportion of business rates growth to the Government).

28. The approved MTFs continues to compartmentalise Covid- related pressures and provides for this shortfall to be supported through the use of the Economic Recovery Reserve. 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 (RSG)**

29. The Local Government Finance Settlement 2021/22, issued by the former MHCLG (now DLUHC) in December 2020, suspended ‘**negative RSG**’ payments for 21/22. The Government has given no subsequent indication that there will be a further suspension in 2022/23.
30. 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.
31. 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.
32. 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 £940k in 22/23.
33. Any decision by Government to suspend negative RSG again in 22/23, 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. The growing opinion across local authority sector advisers is that negative RSG will be suspended again in 22/23.

### **Government funding – New Homes Bonus**

34. 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 after 22/23.
35. 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**

36. Detailed budget changes between 2021/22 and 2022/23 are shown in Appendix B. Key items include:

- £210k total staff efficiency savings driven by service reviews, including Revenues and Benefits and the Central Administration and Elections teams.
- £834k increase in income. This is related to a series of items including grant funding, income generated from Planning-related fees and increased commercial activity associated with the recovery from the pandemic.
- £81k reduction in Supplies and Services costs following a review of requirements within Revenues and Benefits, Central Administration and Human Resources.

### **Key General Fund budget growth since last year**

37. 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:

- £1.56m secondary pension contribution lump sum payment- a technical accounting adjustment
- £1.62m other staffing growth, the estimated pay award and social care national insurance levy
- £200k expected increase in insurance costs
- £260k Income reduction arising from the forecast impact of Covid (see para 41) on rental income relating to the Forum.

38. The Council's strategy for managing the Covid-related impact on its income streams was detailed within the MTFs approved in November. The £260k income reduction highlighted above will be managed through the Economic Recovery Reserve. For more detail, see the Reserves section later in this report.

### **22/23 Budget Risks**

39. As part of the budget setting process, several areas of risk have been assessed and the inherent and potential Service delivery financial risks are assessed and mitigations applied to the budget where required. These risks do require ongoing monitoring and reporting.

40. The most significant risk to Dacorum's budget setting would be if approved government funding did not meet the budgeted expectations. This risk is considered low following the Autumn Spending review announcements. The Councils projected government funding levels for 22/23 are prudent when compared to the Local Authority Sector.

41. At present, the Council faces uncertain times and hence projections are more open to challenge and change than in previous years. As a result, there are a number of service risks where financial performance and service development processes remain under careful scrutiny and monitoring and will be reported back to Members if performance differs from expectations. The high risk areas include;

- The continued impact of the Covid recovery on service delivery and general income generating services.

- Car parking income. Income projections, as at period 7 21/22, are 20% down on pre-Covid levels and, although performance is improving, this continues to be monitored.
- Refuse Service. There are a multitude of pressures in the refuse service including increased demand for waste routes, increased volumes of waste collection/disposal and additional complications in service delivery in a post Covid landscape.
- Impact of increasing utility costs. The budget proposals include above inflation budget increases, but prices will continue to be monitored.

### **Housing Revenue Account**

42. The draft HRA Budget for 2022/3 is attached at Appendix D, with explanations of major movements between the Original Budget 2021/22 and Draft Budget 2022/23 shown in Appendix E.
43. Key assumptions have been incorporated into the draft budget. These reflect assumptions in the HRA 30 year Business Plan which is reviewed annually by Cabinet;
- Annual rent increase of CPI + 1% on all properties, totalling 4.1% (£1.8m)
  - Continuation of the Stock Condition Survey, £375k
  - Supervision and Management budget to support service delivery (£1.8m), including:
    - a technical accounting adjustment for secondary pensions contributions (£440k)
    - the estimated pay award and social care national insurance levy (£290k)
    - growth arising from the Housing Service Review (£500k).
  - Reduction in the revenue contribution to capital (£2.8m)
  - Increase in depreciation (£2.7m)

### **Capital Programme**

44. The draft Capital Programme is set out in Appendix G.
45. 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 F and total £2.8m in 22/23 and in totality £8.4m over the life of the Capital Programme, 2022/23 - 2026/27.
46. In summary the majority of this capital spend is to provide;
- £2.5m for the provision of a new DEN's One stop shop and foodbank.
  - £2.9m included for the addition of the financial year 26/27.
  - £1.1m for continued investment in the Commercial property portfolio.
  - £0.5m investment into local play areas.

### **Reserves**

47. The draft 22/23 budget includes a net contribution from reserves of £3.1m for 2022/23. The majority, £2.7m, of this contribution is related to short term pressures as a result of the impact of Covid. This has been forecast as part of the 21/22 budget setting and 2021 MTFS.

48. The detailed proposed movements in General Fund reserves are set out in Appendix H. The significant reserve movements within the 2022/23 budget are detailed below:

- **Economic Recovery Reserve** – This reserve was created in 2020/21 to fund the forecast financial implications of Covid over the medium-term.

The reserve has a balance of £5.14m at the start of 21/22. The current forecasts are that around £2.86m will be drawn down to cover Covid implications in 21/22, with a further £1.73m in 22/23.

- **Capital Development Reserve** – a transfer of £300k from the Capital Development Reserve to the Management of Change reserve is proposed to support investment in service change.
- **Management of Change Reserve** – This reserve was created to support the significant investment required when preparing and implementing service redesign and changes. A net contribution of £133k is required in 22/23. This includes the transfer of £330k from other reserves, plus funding for fixed-term officer posts such as apprentices, the Diversity & Inclusion officer and a Communications officer. This net contribution also includes the draw-down of funding to support the Transformation programme service review and the Waste Transformation programme.
- **Technology Reserve** – Draw down of £45k to fund a Junior Web Developer post. This reserve was set up to be utilised with the Management of Change Reserve to invest in technology improvements to improve efficiency and resilience across the Council.
- **Savings Efficiency Reserve** – net drawdown of £175k. 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 figure includes a £130k contribution achieved on the cost of pensions by making an upfront contribution payment to the pension fund.
- **Local Development Framework** – net drawdown of £150k. This reserve was created to support the significant research and consultancy costs associated with the development of the Council's Local Plan. Included here is a proposed transfer from the Dacorum Development reserve.
- **Dacorum Development Reserve** – net drawdown of £335k. 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 22/23 comprise an £544k contribution of New Homes Bonus offset by:

- a £300k draw down to fund costs associated with the Hemel Garden Communities Programme
- a £250k draw down to support the Hemel Place Strategy
- a £160k draw down to support the Energy Performance Certificates programme

- a draw down of £99k to fund the following fixed term posts: an additional Planning enforcement officer, an additional Planning Officer and an additional Economic Development Officer (filming).
  - a transfer to the Local Development Framework reserve of £70k.
- **Vehicle Replacement Reserve**- net contribution of £350k. This reserve helps fund the replacement of the Council's fleet.
  - **Funding Equalisation Reserve** - £1.02m forecast draw down from reserve to support the estimated deficit on the Collection Fund payable in 2022/23. 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.
  - **Pension Reserve** – Contribution of £200k. This reserve is used to support one-off pension contribution payments following triennial pension fund valuation, to smooth out these costs. The next payment is due in 2023/24.
  - **Training and Development reserve**- draw down of £75k to support the second year of the Council's participation in the National Graduate Development programme.
49. The HRA retains a working balance of at least 5% of turnover as part of the Council's reserves strategy. A transfer of £104k to the HRA earmarked reserves in 21/22 is proposed in order to maintain the working balance at this level.
50. The budget presented in draft in this document is robust in its formulation and the level of reserves set for 2022/23 adequate to mitigate the foreseeable risks to the organisation at this point in the process.

### **Governance Statement**

51. The DBC Annual Governance Statement (AGS) was reviewed as part of the 20/21 external audit of the financial processes and statements, and presented to the Audit Committee in September. The external Auditor raised no issues with the content or processes included. The external auditor confirmed the AGS was prepared in line with CIPFA Code and supporting guidance and were consistent with the financial statements.

### **Next Steps**

52. Members of the individual OSCs are asked to review and scrutinise the draft budget proposal for 2022/23, and to provide feedback for Cabinet to consider ahead of the next Joint OSC, in February 2022.
53. Additional granular level budget appendices will be made available for all Members, and any queries can be raised with officers, officers will feedback any significant issues to Scrutiny Chairs.

## **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 Councils asset. An example is Cupid Depot, for which a charge is made to Waste Services, for as long as the service uses the asset. These charges are reversed out centrally and do not impact on Council Tax.

### **Transfer Payments**

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

### **Income**

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

- Rental income
- Sales of goods or services (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.