



<b>Report for:</b>	<b>Cabinet</b>
<b>Date of meeting:</b>	<b>15<sup>th</sup> February 2022</b>
<b>Part:</b>	<b>1</b>
<b>If Part II, reason:</b>	

<b>Title of report:</b>	<b>Budget 2022/23</b>
<b>Contact:</b>	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources Nigel Howcutt, Chief Finance Officer
<b>Purpose of report:</b>	To present to Cabinet budget proposals for recommendation to Council in relation to: <ul style="list-style-type: none"> <li>• Revenue and Capital Expenditure for 2022/23 together with the potential use of reserves</li> <li>• The setting of the Council Tax for 2022/23</li> <li>• The Treasury Management Strategy 2022/23</li> <li>• The Capital Strategy 2022/23</li> <li>• The level of fees and charges for 2022/23</li> <li>• Advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003.</li> </ul>
<b>Recommendations</b>	It is recommended that Cabinet recommends Council to: <p><b>General Fund Revenue Estimate</b></p> <p>a) set a Dacorum Borough Council General Fund Council Tax requirement of £12.836m, and a provisional amount of £13.851m for the combined Borough Council and Parish Councils' requirement for 2022/23;</p>

- b) approve a Band D Council Tax increase of £5 (2.4%) for Dacorum Borough Council;
- c) approve the base estimates for 2022/23, as shown in Appendix A1, and the indicative budget forecasts for 2022/23 – 2025/26, as shown in Appendix A2;
- 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;
- e) approve increases in Fees and Charges for 2022/23 as set out in Appendices C3, D3, and E3;
- f) approve and adopt the Treasury Management Strategy for 2022/23, attached at Appendix K;
- g) approve and adopt the Capital Strategy for 2022/23, attached at Appendix L;
- h) note that this budget paper, if approved by Council, will form part of the Medium Term Financial Strategy.

#### **Capital Programme**

- i) approve the Capital Programme for 2022/23 to 2026/27, as detailed in Appendix I;
- j) approve the financing proposals in Appendix I subject to an annual review of the financing options by the Chief Finance Officer, in consultation with the Portfolio Holder for Finance and Resources, during the preparation of the Statement of Accounts.

#### **Housing Revenue Account (HRA)**

- k) set dwelling rents according to the new MHCLG Rent Standard, which provides for a rent increase of CPI+1% (4.1% in total). The average dwelling rents is proposed to be £111.23 in 2022/23 (based on 52 weeks);
- l) approve the HRA estimate for 2022/23 as shown in Appendix F.

#### **Employer Terms and Conditions**

- m) note that the hourly rate of all Council employees continues to exceed the rate proposed by the rates of the Living Wage Foundation, for 2022/23 (to be reviewed annually thereafter).

#### **Statement by Chief Finance Officer**

	n) approve the statement by the Chief Finance Officer regarding the robustness of the budget estimates and level of reserves as set out in Appendix M.
Corporate objectives:	All of the Council's corporate objectives are reflected in the Budget proposals.
'Value For Money Implications'	Contained within the body of the report.
Risk Implications	Budget Risk Assessment completed within report (Appendix N).
Community Impact Assessment	Where appropriate, Community Impact Assessments for proposed budgets amendments have been undertaken by relevant service areas.
Health And Safety Implications	None arising directly from this report.
Monitoring Officer/S.151 Officer Comments	<p><b>Monitoring Officer:</b></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><b>S.151 Officer:</b></p> <p>Comments contained in body of report. Chief Finance Officer Statement contained in Appendix M of the report.</p>
Consultees:	Overview and Scrutiny Committees Budget Review Group Senior Leadership Team
Background papers:	Joint Overview and Scrutiny Reports: 1 <sup>st</sup> December 2021, and 2 <sup>nd</sup> February 2022.
Abbreviations	GF – General Fund Revenue Account HRA – Housing Revenue Account MHCLG – Ministry of Housing, Communities & Local Govt. MTFS – Medium Term Financial Strategy NHB – New Homes Bonus OSC – Overview and Scrutiny Committee PWLB – Public Works Loan Board RSG – Revenue Support Grant SFA – Settlement Funding Assessment

Appendices to this report are as follows:

**Corporate view**

- Appendix A1 – General Fund Budget Summary 2022/23
- Appendix A2 – General Fund MTFS update 2022/23 – 2025/26
- Appendix B1 – Budget Change Analysis 2021/2022 – 2022/23
- Appendix B2 – Budget Summary by Overview & Scrutiny Committee

**Finance and Resources**

- Appendix C1 – Finance & Resources Budgets Summary 2022/23
- Appendix C2 – Finance & Resources Budget Detail 2022/23
- Appendix C3 – Finance & Resources Fees and Charges 2022/23

**Housing and Community**

- Appendix D1 – Housing & Community Budget Summary 2022/23
- Appendix D2 – Housing & Community GF Budget Detail 2022/23
- Appendix D3a – Housing & Community Fees and Charges 2022/23
- Appendix D3b – Housing & Community Fees and Charges (Licensing) 2022/23

**Strategic Planning and Environment**

- Appendix E1 – Strategic Planning & Environment Budget Summary 2022/23
- Appendix E2 – Strategic Planning & Environment Budget Detail 2022/23
- Appendix E3 – Strategic Planning & Environment Fees and Charges 2022/23

**Housing Revenue Account**

- Appendix F – Housing Revenue Account Budget 2022/23
- Appendix G – Housing Revenue Account Movements 2022/23 -2022/23

**Capital Programme**

- Appendix H – Capital Programme Summary of new and amended projects
- Appendix I – Capital Programme 2022/23 - 2026/27, by OSC

**Reserves**

- Appendix J – Statement of Earmarked Reserves

**Treasury Management**

- Appendix K – Treasury Management Strategy Statement 2022/23

**Capital Strategy**

- Appendix L – Capital Strategy 2022/23

**S151 Officer**

- Appendix M – Statement by the Chief Finance Officer

## **1. The Budget-Setting Process**

- 1.1 The 2022/23 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 2025/26. 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 Executive and the Chief Finance Officer has met to review and monitor emerging budget proposals throughout the budget preparation period.
- 1.3 There have 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 2022, during which Members undertook detailed scrutiny of the budget proposals.

## **2. The 2022/23 Local Government Finance Settlement**

- 2.1 On 16<sup>th</sup> December 2021, the Secretary of State for Levelling Up, Housing and Communities, Michael Gove MP, announced the provisional Local Government Finance Settlement 2022/23.
- 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. In addition to the SFA the 2022/23 provisional settlement for Dacorum announced a number of one off additional funding elements such as a new services grant, to fund NI increases, and an additional New Homes bonus payment. These grants have increased the funding received by government for 22/23 but are one off in nature.
- 2.3 Future levels of local authority funding are uncertain as Government continues its Local Government Funding reform in 22/23. The outcome of this review is expected to change both the total amount of funding available and the method by which it is allocated between local authorities. The government's flag ship policy for Levelling up is expected to use this new methodology to direct funding to those areas perceived to have received less proportional funding historically, and away from the greater South East area. Although the Local Government Finance Settlement did not confirm an implementation date, it is expected that this will provide a multi-year settlement for 2023/24 onwards.

### 3. Dacorum's Key Funding Streams – Covid Support

- 3.1 The current MTFS, approved by Council in October 2021, 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 2022/23 is c£1.7m, this pressure is to be offset by the use of the Economic Recovery Reserve, set up in 2020, to respond to the changing economic climate. These funds are being utilised to support key income streams that have been impacted by the changing trading environment as a result of the pandemic.
- 3.2 At the time of writing this report, uncertainty over next year's financial pressure remains, as it did when the MTFS was produced. The Covid cost/economic recovery and changing behaviours of residents, combined with the current cost of living concerns for 2022, remain challenging. On this basis, there are no material updates to the MTFS and the current forecasts.
- 3.3 As part of the government's Covid support for local businesses and to support the Business Rates revenue stream in 2022/23, a 50% rates relief will be applied to the Retail, Leisure and Hospitality sector. In addition to this the government has announced a freeze on the business rates multiplier, effectively removing annual inflationary increases on business rates.
- 3.4 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 2022/23. 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 The Council ceased to receive RSG in 2018/19, and, based on the original 4-year deal, was scheduled to pay negative RSG of £940k in 2022/23.
- 4.5 However, in December 2021, Government announced that next year, for the third consecutive year, negative RSG will be suspended. This means that the Council will receive £940k more funding in 2022/23 than was forecast within the MTFS.
- 4.7 It is recommended that Council continues the strategy of previous years and contributes the other £940k of negative RSG to reserves – in this case, the Dacorum Development Reserve, to partially offset some of the funds transferred out to support 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 2022/23 is £3.0m, in line with the MTFS expectations and the same as 2021/22.
- 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 prior to Covid, Dacorum has seen Business Rates growth which has resulted in additional funding to the baseline budget. During covid a combination of a reduction in demand for business properties and a reduced business rates baseline, after the application of business rate reliefs, business rates growth has been static. As this income stream is vulnerable to fluctuations in the local economy, the majority of the income historically has been transferred to reserves each year, so this impact has been minimal on the finances of the council.
- 4.11 The historic period of sustained growth resulted in Dacorum being included in the Hertfordshire councils' 'business rates pool in 21/22. This system is designed to 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.
- 4.13 Since 2014, a pool has existed within Hertfordshire comprising the optimal grouping of districts alongside HCC. For 2021/22, the Council was within that optimal pool, for 2022/23 Dacorum is no longer in the optimal grouping. This period in the pool is projected to provide an additional £300k to the Council in 21/22, as detailed in the 21/22 budget setting process.

- 4.14 The main risk of being in a pool is that the Government 'safety-net' which currently caps the Council's losses at 7.5% is removed. This risk is greater than usual at present given the uncertain economic impact of Covid on the Hertfordshire economy, and consequently on the amount of Business Rates received.
- 4.15 Due to this uncertainty, and the prudent assumptions made by the Council, being excluded in 22/23 will have no impact on the medium term financial strategy.
- 4.16 The present MTFs models Dacorum's baseline funding to grow in a straight line from a safety net position in 21/22 back to baseline by 2023/24. 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.

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

- 5.1 The provisional NHB allocation for Dacorum in 2022/23 has been announced as £1.6m, a decrease of £330k year on year but an increase on the projected income in the Medium Term Financial Strategy of £750k. This increase is due to Government including an additional one off allocation for 2022/23, contrary to previous announcements.
- 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. NHB is expected to cease from 2023/24 onwards.

## **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. The Council's share of the £111m funding pot is £135k, 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 Reserves to maintain the balance in the reserves following planned draw downs in 2021/22.

## **7. Dacorum's Key Funding Streams – Council Tax**

- 7.1 Dacorum's Council Tax requirement for 2022/23 is calculated as £13.868m (provisional, inclusive of provisional parish precepts) and £12.833m (exclusive of parish precepts). The approved tax base for 2022/23 is 59,328.30 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 deficit position of £962,542.04 on the Collection Fund is forecast for 31 March 2022. 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 2022/23 is as follows:

Dacorum Borough Council	£115,000.26
Hertfordshire County Council	£740,351.84
Hertfordshire Police and Crime Commissioner	£107,189.94
<b>Total Surplus</b>	<b>£962,542.04</b>

7.5 Cabinet approved the Collection Fund surplus in December 2021.

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 (2.4%) for Dacorum in 2022/23 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 2022/23 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 2021/2022

9.1 Appendices C2, D2 and E2, which breakdown the proposed 2022/23 budget by Overview and Scrutiny Committee (OSC) remit, also show the forecast budget outturn for the current financial year, as at December 2021. This is included to provide Members with comparative context for the 2022/23 budget proposals.

9.2 As at January 2022, the outturn for financial year 2021/2022, is reporting a £130k budget pressure that represents less than 1% of the net cost of services, and mitigation plans are in place to try to address this projection by year end. Where necessary, 21/22 budget variances relating to underlying business-as-usual have been updated to ensure a more robust budget over the 2022/23 financial year.

## 10. Budgetary Assumptions 2022/23

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

<b>Inflation Factors</b>	
Average salary Inflation (annual pay settlement) for 2022/23	2.5%
Business Rates (Multiplier frozen and funded through S31 grant)	2.0%
Fuel	5.0%
Utility Cost increase assumptions: Gas	5.0%
Electricity	5.0%
<b>Other Assumptions</b>	
Return on investment	0.5%
Salary Vacancy Factor (excluding front-line Waste services)	5.0%
Growth in numbers of Band D equivalent properties	1.1%

10.2 The salary vacancy factor for the 2021/2022 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 2022/23.

## 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 – Interest rates have been at historic lows in recent years, and even increasing levels of cash balances have not been able to reduce the impact on investment returns. In 21/22 the investment income performance is projected to create a financial pressure of circa £250k and hence the budgeted income for 2022/23 has been reduced by £250k, this assumes an average rate of return of 0.5%.

11.4 Fees and Charges – Service managers have proposed changes to fees and charges for 2022/23 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 2021).

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 2022/23, which equates to just under 11% of the Net Cost of Services of £21.4m (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 £2.8m by the end of 2022/23, which equates to 5% of the £60.2m turnover (as shown in Appendix F).
- 12.5 It is recommended that Council approves 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 £21.4m, as set out in Appendix A1. This includes a net contribution of £1.39m from 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 2022/23 are as follows:

<b>Earmarked Reserve</b>	<b>Net Movement to/(from) Reserves £000</b>
Capital Development Reserve	(300)
Management of Change Reserve	768
Technology Reserve	(45)
Savings Efficiencies Reserve	(175)
On Street Car Parking Reserve	40
Local Development Framework Reserve	(150)
Dacorum Development Reserve	717
Vehicle Replacement Reserve	350
Invest to Save Reserve	(20)
Election Reserve	40
Training and Development Reserve	(75)
Housing Conditions Survey Reserve	15
Dacorum Rent Aid	(15)
Rent Guarantee Scheme	(15)
	<b>Net Movement to/(from) Reserves £000</b>
<b>Earmarked Reserve (cont.)</b>	
Funding Equalisation Reserve	(1,023)
Pensions Reserve	200
Maylands Plus Reserve	23
Economic Recovery Reserve	(1,725)
<b>Total Net Movement</b>	<b>1,390</b>

- 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 2022/23, 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, this reserve is being closed and the £300k is allocated to the Management of Change Reserve.
- **Earmarked Grants Reserve**  
This reserve has been set up for unutilised grants from current and prior years. Local authorities are free to use all of this non-ring fenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.
- **Management of Change Reserve**  
To finance any one off costs of projects required to make improvements or significant changes to services for which no budgetary provision exists, including redundancy and pension strain payments.

With continually increasing pressure on funding streams, service transformation remains high on the Council's agenda. The following transactions comprise the net contribution to this reserve of £768k in 2022/23:

- Contribution to the reserve of £845k (including £135k new Lower Tier Funding announced in LG Settlement, a proportion of other one of settlement allocations £500k and a strategic contribution to this reserve £210k);
- Transfer of funds from the Capital Development, Rent Aid and Rent Guarantee reserves £330k;
- Drawn down from the reserve to support:
  - Transformation Change projects including Waste Service and other service reviews (£165k);
  - A further year of the Council's apprenticeship scheme £139k
  - A further year of the fixed term Diversity and Inclusion Officer (£53k)
  - A fixed term Communications Officer post (£50k)
- **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 £45k in 22/23 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. There is a net draw down from reserves of £175k planned in 22/23. This figure includes a contribution to reserves of £130k, arising from a one-off saving from the upfront payment of pension contributions. It also includes funding the delay in savings delivery by the CCTV commercial drive (£85k), the restructure of the Revenues and Benefits Service (£110k), both delayed due to the impact of the pandemic. £110k of the net draw down is to support income generation within Planning.

- **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. A one-off contribution of £40k is being applied to this reserve to ensure it has capacity to support the additional parking reviews expected in 22/23.

- **Local Development Framework Reserve**

This reserve was created to support the development and ongoing work associated with the Council's local plan. A net transfer to this reserve of £150k is proposed. This includes a transfer of £70k from the Dacorum Development Reserve plus a draw down £220k 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 £717k proposed for 2022/23 comprises:

- A contribution of £1.294m from New Homes Bonus funding;
- A contribution of £342k from the additional funds provided by the Local government finance settlement;
- A draw down of £99k towards additional short term posts in planning enforcement, planning and economic development.
- A £160k draw down to conduct a one off assessment of the Energy Performance of the commercial assets portfolio prior to new government legislation in April 2023.
- Drawdown of £40k to fund a Resident survey in 2022/23;

- Drawdown of £300k to fund costs associated with the Hemel Garden Communities project to create new housing, jobs and infrastructure within the borough;
- Drawdown of £250k to support the costs associated with the Hemel Place Strategy.
- Transfer of £70k to the Local Development Framework reserve
- **Climate Change and Sustainability Reserve**  
This reserve was set up in 20/21 to support initiatives associated with the Council's commitment to addressing climate change and sustainability issues across the borough.
- **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.
- **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 draw down of £20k is planned in 2022/23 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 2022/23 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 £75k from the reserve is proposed to continue the second year of the Graduate 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 were originally set up to provide assistance to clients to obtain/retain accommodation, these services are maintained by the private sector housing service and hence it is proposed to close these reserves and move those funds to the Management of Change Reserve.
- **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 £1.02m is proposed, to support the forecast business rates deficit in 2022/23.
- **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.

It is recommended that the Council continues 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 2022/23 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 £1.73m is planned for 2022/23, in line with previous recommendations.

## **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 Commercial Strategy, Digital agenda, and People Strategy.

#### **Capital Receipts Reserve**

12.10 This reserve is utilised to finance the Capital Programme. The balance brought forward to 2022/23 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 £27.2m as at 1<sup>st</sup> April 2022, and £4.5m as at 31<sup>st</sup> March 2023. It is estimated that the GF capital balances will be £16.5m as at 1<sup>st</sup> April 2022, and £1.7m as at 31<sup>st</sup> March 2023

### **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 £342m of capital investment across the borough. The Capital Programme in 2022/23 is £90.8m of which £67.9m is the HRA and £22.9m is the General Fund.

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

#### **General Fund**

- £6.6m investment in a 5-year programme of fleet replacement.
- £4.2m capital investment to the council's community facilities including Council-owned buildings, community infrastructure, car parks, leisure and sports premises.
- £0.3m Investment in facilitating affordable housing developments.
- £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**

- £90.7m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens); and,
- £174m for the New Build programme.

### Financing the Capital Programme

- 13.4 It is recommended that the Capital Programme for 2022/23 be financed as per the table below.

<b>Proposed Financing for Capital Programme 2022/23</b>	
	<b>£m</b>
Capital Receipts and Reserves	70.9
Grants and External Funding	5.0
Revenue Contribution	4.7
Borrowing	10.2
<b>Total Indicative Funding</b>	<b>90.8</b>

- 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 2022/23 and subsequent years have been made based on the Council's Asset Management Plan and the current economic climate. The level of receipts and anticipated to be utilised in 22/23 is £49.6m.  
  
The level of reserves expected to be utilised is £21.4m, £18.8m from the Major Repairs Reserve, which is funded from the depreciation on the Council's housing stock, and £2.6m 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**  
£5.0m of capital expenditure will be funded from grants and s106 contributions.
- **Revenue Contribution to Capital**  
This refers to charges on revenue budgets in order to finance capital projects. In 2022/23 the budget assumes the HRA will be contributing £4.7m.

## 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 2022/23 equates to £3m. 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 2022/23

- 15.5 The HRA business plan incorporates the following key financial assumptions, based on the draft 2022/23 HRA budget:

<b>Budget</b>	<b>Assumptions</b>
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 2022/23 have been set according to the DLUHC Rent Standard, which allows for an increase of CPI+1% (4.1% in total based on October CPI rate published by ONS). New tenancies re-let at (social) formula rent.
RPI	Year 2 4.9%, Year 3 4.5%, Year 4 3.25% and 3% for subsequent years.
CPI	3.1% 2022/23; 2% (2023/24) 2% (subsequent years)

New Build Programme	274 units built, 255 currently in progress, 206 in the pipeline.
Voids and Bad Debts	Voids: 1.07% of gross income Bad Debts: 1.29%
Right to Buy	Assumption of 30 per year.

## **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 £9.90 per hour. All Council staff are paid in excess of the living wage for 2022/23.

## **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 2022/23 budget and the level of the Council's reserves.