



# Cabinet

<b>Report for:</b>	Cabinet
<b>Title of report:</b>	Medium Term Financial Strategy 2022/23 – 2026/27
<b>Date:</b>	18 <sup>th</sup> October 2022
<b>Report on behalf of:</b>	Cllr Graeme Elliot, Portfolio Holder for Corporate Services
<b>Part:</b>	I
<b>If Part II, reason:</b>	N/A
<b>Appendices:</b>	Appendix A – Medium Term Financial Strategy 2022/23 – 2026/27 Appendix B – General Fund Reserves Summary
<b>Background papers:</b>	Budget 2022/23; Cabinet, February 2022 MTFS 2021/22; Cabinet, September 2021 Commercial Strategy update; Cabinet, March 2022, July 2022, September 2022 Customer Services Transformation; Cabinet February 2022
<b>Glossary of acronyms and any other abbreviations used in this report:</b>	DLUHC – Department of Levelling Up Housing and Communities GF – General Fund NHB – New Homes Bonus MTFS – Medium Term Financial Strategy RSG – Revenue Support Grant SFA - Settlement Funding Assessment

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<b>Corporate Priorities</b>	A clean, safe and enjoyable environment Building strong and vibrant communities Ensuring economic growth and prosperity Providing good quality affordable homes, in particular for those most in need Ensuring efficient, effective and modern service delivery Climate and ecological emergency

<b>Wards affected</b>	All
<b>Purpose of the report:</b>	To present to Cabinet the revised Medium Term Financial Strategy for ca approval.
<b>Recommendation (s) to the decision maker (s):</b>	<p>It is recommended that Cabinet recommend to Council the approval of the revised Medium Term Financial Strategy for the period 2022/23 – 2026/27, including recommendations;</p> <ol style="list-style-type: none"> <li>1. To note the financial projections within the 5-year Medium Term Financial Strategy and to approve the Strategy,</li> <li>2. A General Fund savings target of £1,799k be approved for the 2023/24 budget-setting process;</li> <li>3. A four-year General Fund savings target of £3.6m be approved for the duration of this Medium Term Financial Strategy;</li> <li>4. The Chief Finance Officer will work with the Council's Senior Leadership Team and Portfolio Holders to deliver options that will achieve the saving targets identified within the strategy;</li> <li>5. The Financial Planning Framework is approved to support the budget-setting process for 2023/24;</li> <li>6. The Chief Finance Officer be requested to revise the Medium Term Financial Strategy and re-present to Cabinet and Council for approval if material changes to forecasts are required following future Government announcements.</li> </ol>
<b>Period for post policy/project review:</b>	The Council's financial Medium Term Financial Strategy is reviewed annually.

# MEDIUM TERM FINANCIAL STRATEGY

**2022/23 – 2026/27**

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<b>Associated documents:</b> MTFS 2021/22; Cabinet, September 2021			

DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2022/23–26/27

September 2022

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Appendix A – General Fund Budget 2022/23 – 2026/27

## **Appendix B – General Fund Reserves Summary 2022/23 – 2026/27**

### **1 Executive Summary:**

- 1.1 This report renews the Council’s Medium-Term Financial Strategy (MTFS), which is the Council’s overarching financial planning document. The MTFS will contain forecasts for the financial position of the Council’s General Fund revenue budget over a five-year period from 2022/23 to 2026/27. It also provides a framework within which the Council undertakes financial planning for its key funds.
- 1.2 This report recommends that Cabinet agree for recommendation to Council the General Fund medium-term revenue budget forecast and the associated strategy to deliver the setting of a balanced budget for 2023/24 and subsequent years, as the basis for consultation on the Council’s budget plans with residents, businesses and other stakeholders.
- 1.3 There continues to be a high level of uncertainty over the medium-term outlook due to the Government’s short-term funding settlements, delays in local government funding reforms, the post pandemic period and the potential impacts of the current cost of living crisis. At this stage, the overall funding envelope for local government is not entirely clear, with 1 year budget settlements by Government being issued since 2019. Some redistribution of central Government funding as part of the Levelling Up agenda is anticipated, and this is likely to have a negative impact on Dacorum and district councils’ funding.
- 1.4 The General Fund budget forecasts will be used to inform final decision-making in setting the revenue budget, capital programme and Council Tax for 2023/24 in the budget report to Cabinet and Council in February 2023. They will also be used as the basis for engagement and consultation with Members, officers, residents, businesses and other stakeholders in reaching budget setting decisions for 2023/24.
- 1.5 The General Fund medium-term revenue budget forecast presented as part of the Budget report in February 2022 had a projected 4 year Medium Term Savings requirement of £2.6m, and a residual budget gap of £1m for 2023/24. The Council has reviewed MTFS assumptions over the first two quarters of 2022-23, and the current Medium Term Financial Strategy now has a savings requirement of £3.6m over the next 4 years.
- 1.6 The Total Savings Requirement for 2023/24 is £1.8m and, at present, there is no residual budget gap for 2023/24. Although there is no residual budget gap for 2023/24, the volume of savings identified and yet to be delivered - £1.8m - exceeds the levels achieved by the Council in any previous year, and the implementation and delivery of strategies to achieve these savings over the next 18 months is paramount.
- 1.7 This report also contains the proposed Capital and Investment Strategy and proposals to re-profile the General Fund capital programme for 2023/24 onwards. As with the revenue budget, engagement and consultation will take place prior to final decision-making over the capital programme for 2023/24 to 2026/27, in the budget report to Overview and Scrutiny Committee and then Cabinet and Council in February 2023.

### **2 Context of the Medium-Term Financial Strategy**

#### **Local Authority Funding.**

- 2.1 The last local government medium-term funding settlement provided by government ended in 2019. Since 2019, Local Authorities have been provided with annual settlements, awaiting a government “Fair Funding Review” that would reassess a local authority’s “funding need” and develop a mechanism to fund this requirement on an ongoing sustainable method. This period of uncertainty has made medium term planning extremely difficult.

- 2.2 In February 2022, the government released the white paper on the “Levelling up agenda”, that would form the basis for local government funding, which would replace the Fair Funding Review and would set out the criteria and methodology for apportioning Local Government funding across the country. This paper did not detail the specific mechanics but started a process to develop a methodology for a medium-term Local Authority funding mechanism. The Levelling Up mission aims to challenge perceived issues around over-concentration of economic growth in specific areas, particularly the South East of England, and to spread opportunities and improve public services more equitably.
- 2.3 The Levelling Up agenda is expected to re-allocate funds to Authorities that provide social care, education and public health services in geographical areas with higher levels of deprivation. Dacorum Borough Council does not provide these services directly, and is considered by central government as an area of affluence with pockets of deprivation, a high tax base, and a significant ability to achieve additional income streams. On this basis it is considered unlikely to benefit through the Levelling-Up agenda
- 2.4 In June 2022, DLUHC announced that, although the details of the local authority funding mechanism are still being developed, local authorities would be provided with a 2 year funding settlement for the period 2023- 2025. This will provide more certainty than the Council has had in the last 3 years but this settlement is unlikely to be announced prior to December 2022.
- 2.5 The new prime minister presented a mini budget in September 2022 that outlined support for energy bills, and tax reductions that are expected to require the government to make savings efficiency across government departments. Although the details are pending, this could lead to cuts to Local Authority funding.

### **3 Economic Climate**

- 3.1 In addition to the uncertainty of government funding, the wider economic environment remains very challenging, as it has done since the start of the pandemic in 2019. In a post-Covid environment, the Council’s services are returning to a “new normal” way of working that brings new challenges and opportunities. The behaviours of residents and business changed over the pandemic period and, at present, it is still uncertain how much behaviours may, or may not, return to pre-pandemic habits. This has had a significant impact on income streams such as parking and also key service areas such as waste services.
- 3.2 In addition to this, the current global cost of living crisis, exacerbated as a result of Russia’s invasion of Ukraine, is having a significant impact. The direct impact on the Council is the requirement to financially support the growing inflationary cost pressures to deliver our services, such as employee supplies and utility cost growth, as well as capital investment growth. Indirectly the impact on residents and businesses is likely to;
  - Increase the demand for Council support services,
  - Decrease the demand for Council’s discretionary fees based services,
  - Reduce the collection rates on Council Tax and Business Rates
  - Increase the need to support those that are financially vulnerable
- 3.3 At present the national debt levels are projected to be the highest seen in peace time and it is not anticipated that central government will provide additional funding to Local Authorities to support them through the cost of living crisis. DLUHC officials have stated on many occasions that local authorities should not be reliant on additional central government funding announcements to balance the books.

### **4. Financial Planning Framework**

The Financial Planning Framework, shown below, demonstrates the process by which the Council ensures that revenue and investment plans are developed in tandem, and that the annual budgets

approved by Council each February are developed within the context of longer-term sustainability. It also demonstrates the consultation the Council undertakes with major stakeholders as part of the budgeting process.

<b>January – June</b>	All key corporate strategies are reviewed or refreshed. This financial year this has included the Commercial Strategy, Transformation Strategy, People Strategy, Investment Strategy, Digital Strategy and Place Strategy.
<b>April – June</b>	Service Leads/Budget Holders develop Service Plans that are in line with the key corporate priorities and strategies, in consultation with SLT and Portfolio Holders, for the following 2 years. These plans include revenue and capital bids and highlight new savings proposals and budgetary pressures.
<b>July</b>	The new financial year financial monitoring begins, and the approved budget is then assessed at Quarter 1 under the in-year budget performance monitoring process.
<b>September</b>	The final 2021/22 audited accounts are provisionally approved by the Audit Committee.  Proposed MTFS communicated.
<b>September – October</b>	The revised MTFS position is communicated widely and the finalised savings/growth proposals and budget changes are scrutinised and challenged by the Strategic Leadership Team and the Budget Review Group and presented to Scrutiny.  Cabinet approves the revised Medium Term Financial Strategy.
<b>November</b>	Draft budget proposals presented to Joint Overview & Scrutiny Committee, for Members' scrutiny.
<b>November – December</b>	Provisional Local Government Finance Settlement announced by Government, which sets the level of grant the Council will receive over the next year(s).  Consultation events held with Town and Parish Clerks and Members, and with members of the public.
<b>January</b>	Feedback from November Joint OSC is considered by the Budget Review Group, and incorporated into final budget proposal presented to members.
<b>February</b>	Final budget report presented to Cabinet for recommendation to Council. Council considers the recommendations of Cabinet for approval.  An updated MTFS fiscal plan will be presented alongside the 2023/24 budget.

## 5. Review of the Council's Primary Funding Streams

### Core Baseline Funding

- 5.1 The Council's previous last multi-year funding assessment was issued for the 4 year period 2016 - 2019/20. The government ascertained, at the time, that Dacorum's assessed Level of Need was £2m per annum of government funding.
- 5.2 The Council's Medium Term Financial Strategy modelled that the level of government funding would reduce year on year from that point onwards in line with recent government funding policy. The political changes occurred in 2019, and the pandemic followed, resulting in a series of one year Covid-impacted settlements that the Council utilised to support the pandemic response.

- 5.3 The current economic environment, as set out in section 3, is uncertain. The current cost of living pressures, combined with the expectation that the Government will need to reduce spending, is likely to reduce Local Government funding from Government in real terms year on year. At present, the levels of local authority funding for 2023/24 onwards are extremely uncertain, with no clear understanding of what efficiencies may be required or whether 2021 Spending Review funding projections will be maintained.
- 5.4 As yet, there has been no formal confirmation of government funding arrangements for 2023/24 and beyond. It is prudent to assume, in this version of the MTFS, that base level of funding will match the most recent government assessed Level of Need, with gradual annual reductions in subsequent years to achieve self-sufficiency by 2025/26. If future reductions are not as significant in the medium term then the Council will have a one-off benefit that can be used to fund future one-off expenditure.
- 5.5 Confirmation of the funding allocation for 2023/24 is expected in December 2022. Any additional information given at that time regarding future years' funding will be reported to Members as part of the budget-setting process.

### **Council Tax**

- 5.6 The current government funding model and assessment of need assumes that each authority maximises the revenue it can raise locally each year, and that any grant funding awarded will reflect this assumption. In other words, any Authority that does not increase Council Tax by the maximum permissible amount is likely to be operating below the overall level of funding that Government deems necessary to remain sustainable.
- 5.7 Under current legislation, district councils are permitted to increase Council Tax by the higher of £5 or 1.99% per Band D without triggering a referendum. The current MTFS assumes an annual Council Tax increase of the maximum currently permissible, i.e. £5 per Band D.
- 5.8 In recent years, and given recent changes to the tax system, the Local Government Finance Settlement may grant additional freedoms to increase Council Tax to higher levels, e.g. 2.99%. If additional options were to be offered again, it is recommended that the Council revisits the current assumptions and takes steps to keep pace with Government's underlying assumptions on financial sustainability.

### **New Homes Bonus**

- 5.9 New Homes Bonus (NHB) is an historic scheme paid to Local Authorities as an incentive to stimulate local housing growth, and takes the form of a grant payable to the Council linked to year-on-year growth in the tax base. The first 0.4% of growth attracts no NHB, but for growth above this point, each Band D equivalent attracts an annual payment of £1,671 per annum for a 3-year period. Affordable Housing units attract an additional £350 per unit bonus payment.
- 5.10 Based on information provided in the 2022/23 Settlement, the NHB payment forecast in 2023/24 will be the final one received before Government brings the scheme to an end. The assumed amount is based on housing numbers already delivered in previous years and is not therefore expected to be subject to material amendment. Members will be updated on any information related to the possible future of the NHB scheme following the December Settlement.
- 5.11 The MTFS recommends a continuation of the Council's previous strategy regarding NHB, i.e. that it is allocated to reserves for future one-off expenditure, rather than being built into the baseline budgets and the Council becoming reliant on it for the ongoing delivery of its services. This means that if the NHB scheme is withdrawn or dramatically restricted at short notice, the Council will not immediately face additional revenue savings pressures.

## 6. Review of MTFS assumptions

### Update of General Fund budget assumptions

6.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2022/23, over the next four years. The extrapolation process incorporates assumptions on government grant, inflation, changes in demand for services, changing legislation, and probable risks and opportunities.

### Update of MTFS assumptions based on other information

6.2 A range of information sources have been used to inform the updated assumptions shown within the following table. The rationale behind estimates is shown in the notes below. Further sensitivity modelling will be undertaken as new information becomes available.

**Table 1: Budget Assumptions.**

	Note	2023/24	2024/25	2025/26
<b>Income</b>				
Council Tax	1	3.33%	3.28%	3.28%
Baseline Govt Funding	2	£2m	£0.8m	£0m
Business Rates Growth retained	2	0%	2%	2%
New Homes Bonus	3	£450k		
Fees & Charges	4	5%	2%	2%
CT Collection Rate		99.4%	99.4%	99.4%
<b>Expenditure</b>				
Pay settlement	5a	4%	3%	3%
Pay: contract increments	5b	0.5%	0.5%	0.5%
Pension contributions	6	-1%	0%	0%
Utilities	7	20%	20%	5%
Fuel	8	20%	20%	5%
Supplies & Services	9	5%	5%	5%

Notes:

1. Increase by £5 per Band D plus a 1% increase in tax base
2. Based on the last Government assessment of DBC need set at £2m. Funding reducing going forward as a combination of the reintroduction of a form of negative RSG/LU allocation and the ongoing strategy to achieve self-sufficiency by 2025/26. Government Business Rates Rebase expected in 2023/24.
3. New Homes Bonus not included in the baseline funding and is allocated to reserves.
4. Fees and charges Full Business Case review underway, to be completed by the end of October 22. The present assumption assumes an average increase in fees and charges of circa 4%.
- 5a. An increase to the 22/23 baseline budget of 5.92%. This is 3.42% greater than expected, is in line with the current pay award, and is included in the MTFS. Future 2023/24 projections have been increased given current inflation and wage growth assumptions.
- 5b. Based on actual increments due and historical staff turnover rates.

6. A decrease to the annual pension fund contribution is projected as part of the 2022 triennial review. Any one off contributions uncertain at this point, assumption is that this will be funded through reserves if required.
- 7-9 Increases to the projected costs of fuel, utilities and Supplies and Services have been made in line with assessment of the current contractual arrangements and the impact of current high inflation levels.

### **Fees and Charges Policy**

- 6.3 The fees and charges set by the Council are subject to annual review as part of the budget-setting process. Changes made between years are included within the annual Budget Report, and are subject to Council approval. The key principles behind charging are that:
  - discretionary charges should recover costs unless the strategy is to provide a particular service at a subsidy;
  - discretionary income should be optimised through appropriate commercial charges; and,
  - robust systems of discounts or concessions should be in place for those who would otherwise find that they could not access services, where deemed appropriate.
- 6.4 Provision of many Council services is a statutory requirement and charges for access to these are determined as part of that requirement. The Council therefore has no discretion in setting these fees, although there is an expectation that statutory fees setting will see significant increases in 2023/24.
- 6.5 A thorough review of the true cost and effectiveness of providing statutory services must be undertaken on a regular basis to ensure that the fees charged meet the cost of service provision wherever possible. Where any review indicates an under- recovery of cost, alternative methods of service provision and comparison with other comparable authorities must be undertaken to identify opportunities for minimising the liability to the Council.
- 6.6 The Local Government Act 2003 includes a general power for Councils to charge for discretionary services i.e. services that an authority has the power, but no obligation, to provide. Some discretionary charges are governed by alternative legislation, in which case this general power does not then apply.
- 6.7 Increases for the annual review of fees and charges have been included in the MTFS projections based on the approach of;
  - Continuing full cost recovery policy for services,
  - Achieving income to offset the increase in service delivery costs due to inflationary pressures, or an
  - Increase of circa 5% or more where applicable on discretionary fees and charges,
- 6.8 The full business case review is at present underway and final fees and charges will be approved as part of the budget setting process.

### **General Fund Working Balances and Earmarked Reserves**

- 6.9 The Council's Reserves Strategy is integral to the MTFS because it demonstrates how the Council augments its annual ongoing running costs with plans to finance specific items of one-off expenditure over the medium-term. The Strategy is reviewed annually, and was most recently approved by Council within the 2022/23 Budget Report, in February 2022.
- 6.10 The Council holds two types of reserve. These are:

- a. **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 S151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year. This requirement was met within Appendix N of the Budget Report to Cabinet in February 2022.
- b. **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 by Member approval, and that all subsequent transfers to and from those reserves also require Member approval.

6.11 In accordance with best practice, the General Fund Working Balance is maintained at a level between 5% and 15% of Net Service Expenditure.

## 7. Emerging Risks and Opportunities

- 7.1 The MTFS assumptions are kept under constant review by officers and Members and will be kept up-to-date on an ongoing basis. The robustness of the assumptions in a constantly changing economic environment requires careful scrutiny to ensure that the MTFS remains sustainable.
- 7.2 At this point in the annual update this scrutiny process has raised several other areas of change that are proposed in this MTFS. These include:

### Car Park Income Pressure

- 7.3 The car parking income was consistent in a pre-Covid environment but, since 2020, demand for car parking has dropped significantly. While usage is showing signs of recovery in 2022, following the relaxing of COVID restrictions, footfall remains down and there may be a longer lasting impact on income as a result of behavioural changes to work and shopping patterns. In the first quarter of 2022/23, the service is reporting a shortfall in demand and income of circa 15% - £450k. As a result of this reduction in demand, it is assumed that there will be an income shortfall of £450k in 2023/24.

### Service Planning

- 7.4 The annual Service planning process was undertaken by officers in the spring of 2022 and as a result a £200k growth has been applied across the Council to ensure service delivery standards can be maintained.

### Treasury Management

- 7.5 The impact of increasing interest rates and the independent projections for further future increases, will result in a greater return on our treasury management activities, and the Council is already benefitting in the first half of 2022/23. During 2023/24, Link (Dacorum's Independent Treasury Advisers) project the Bank of England (BoE) base rate to increase to 5%, an increase of 4% on the 2021 projections. It is projected that the BoE interest rates will, in part, be reflected in the investment markets and the Council will be able to achieve an additional £250k of investment returns in 2023/24.

## 8. Corporate Strategy

- 8.1 The Corporate Plan is the driving mandate that the Council strives to achieve and, in order to do that, the MTFS is one of several key corporate strategies that support the delivery the Corporate Plan objectives. To ensure a sustainable MTFS is achievable, it is essential that Corporate Strategies evolve and develop as an intrinsic part of the wider Council MTFS. During the last year, the Council has been developing several core strategies that form the foundations of the 2022-23 MTFS, in particular the savings identified to date.

- 8.2 There are 3 developing strategies that are fundamental to the delivery of a sustainable MTFS and these are;
- Commercial Strategy
  - Transformation Strategy
  - Place Strategy
- These three strategies are currently at different development stages and either have, or will be, presented to Members in detail, but their role in the MTFS assumptions at this stage is significant.

### **Commercial Strategy**

- 8.3 The Commercial Strategy was approved by Cabinet in September 2022 and is a wide ranging strategy to deliver a change in culture and approach to ensure that the Council embeds a more agile and commercially aware operating model that will leverage maximum value from the Council's assets and resources, to create a financially sustainable organisation that meets the needs and expectations of residents.
- 8.4 At present officers are developing Business Cases for 10 opportunities identified during the initiation of the Commercial Strategy. The Business Cases will be completed over the autumn/ winter of 2022-23 and will form part of an ongoing commercial programme of work to explore opportunities to improve services and their cost effectiveness, whilst also identifying ways of generating additional financial income.
- 8.5 Until the Business Cases are completed, the potential for efficiencies and income generation cannot be confirmed, so the MTFS has assumptions built in that will be reviewed over the coming months, as part of the budget-setting process. The MTFS projects that this programme of work will develop and expand from a savings delivery of £385k in 2023/24 to deliver £1m by 2026/27.

### **Transformation/Change Strategy**

- 8.6 The Council is also developing a wide ranging Transformation/Change agenda to develop and modernise current service delivery. This programme has a strong focus on the customer and the workforce, as outlined in the recent Customer and People strategies.
- 8.7 The newly established Corporate Programme Management Office is supporting Change and Development projects across the Council, and resources are being provided to support this programme.
- 8.8 The 2 largest Change projects included in the current 2022/23 MTFS are;
- Customer Services Strategy. A new focused approach on customer contact and interaction across the council, putting the customer first. In addition to improving customer satisfaction, this project is expected to achieve efficiency savings of circa £200k in 2023/24.
  - Waste Transformation strategy. The Waste service is the largest front line service in the Council and hence has the largest regular customer contact and the largest use of Council resources. This service has been under significant service pressures throughout the pandemic and this transformation project aims to transform the service processes and operational activities. The project is aiming to reduce Council Waste Service costs by over £1.4m over the next 2 years with a budgeted saving of circa £600k in 2023/24 and a further £200k in 2024/25. As part of this process, the project is reviewing all elements of the Waste collection service to achieve operational process improvements; including in areas of route optimisation, asset maximisation, discretionary services and the use of temporary resources.

### **Place Strategy**

- 8.9 The Place Strategy is still under development, with both officers and members involved in the Strategy development. The overall Place Strategy will include large projects such as;
- Hemel Garden communities programme,
  - Hemel Place Strategy, and the
  - Town Centre Strategy and Old Town Place approach

The revised MTFS contains the assumption that, any direct investment required to deliver the Place Strategy, will make a return that covers the costs of that investment. As this Strategy evolves, the financial impact and sustainability of proposals will be assessed and reported to Members.

## 9. General Fund Medium-Term Savings

- 9.1 Based on the assumptions detailed throughout this strategy, and the need to maintain the desired level of General Fund working balances, the total Savings Requirements over the MTFS is £3.6m.
- 9.2 The Council has a four-year savings plan in recognition that the delivery of savings opportunities has grown increasingly complex in recent years and these opportunities require a longer lead-in time to ensure successful delivery. As a result of this, the Total Savings Requirement comprises two elements which reflect the fact that the Council has a number of initiatives already underway to deliver savings in future years. The table below provides a breakdown of the savings requirement, and is followed by a brief explanation of each element.

**Table 2: Medium Term Financial Savings Requirement.**

		2023/24	2024/25	2025/26	2026/27
a.	Savings identified, but still to be delivered	£1,800	£840k	£110k	£30
b.	Savings still to be identified	£0k	£700k	£0k	£130k
	<b>Total Savings Requirement</b>	<b>£1,800k</b>	<b>£1,540k</b>	<b>£110k</b>	<b>£160k</b>

- a. **‘Savings identified but still to be delivered’** – refers to those savings initiatives already identified by budget holders as deliverable in future years. These savings, particularly the £1,790k identified for 2023/24, is considered a risk as the size of the savings are significant and the timeline for delivery is limited. Any slippage in delivery for these projects impacts the 23/24 budget.

To mitigate the risk of delayed delivery, the delivery projects are scrutinised as part of the corporate governance boards and budget holders’ progress against these initiatives is tracked. As part of the quarterly financial performance reports, all approved savings efficiencies are scrutinised by Finance and reported to SLT in regards to their delivery. Updates are reported to Members of Overview & Scrutiny Committees and Cabinet as part of the quarterly Budget Monitoring reports.

- b. **‘Savings still to be identified’** – refers to additional initiatives that must be put in place prior to the subsequent budget setting process for the following year, in order to meet the Total Savings Requirement. These initiatives will be identified through the annual service plan and budget-setting process detailed within the Financial Planning Framework.

## 10. Key Risks

- 10.1 In addition to the funding risks highlighted in earlier sections of this report, the following section outlines some of the emerging risks that have not been incorporated within the MTFS. These risks will be monitored and members will be kept updated on any potential implications.

## **Discretionary Income Generating Services**

- 10.2 The Council collects circa £17m from charges for services and circa 50% of this income is for services that residents impacted by the cost of living crisis could choose to not purchase or purchase less of. This would include garage rental, car parking, planning services and other discretionary services.

## **Council Tax Collection**

- 10.3 The council collects circa £110 million of council tax on behalf of its preceptors, of which we retain circa £14m to fund the baseline budget to fund essential core Council services. As household budgets become more challenging, financially vulnerable residents in Dacorum may need to choose which bills to pay. Council Tax could be perceived as less essential than utilities, food and clothing. If the Council Tax collection rates fall, this will impact the ongoing funding to the Council in the medium term and lead to further future funding pressures.

At present, collection rates are in line with expectations and this will be closely monitored over the autumn and winter periods.

## **Borrowing Costs**

- 10.4 The MTFS, at present, has no requirement to externally borrow in 2023/24. If a need arises to borrow for investment, or to support the strategic objectives, the current interest rate increases have had a significant impact on the current cost of borrowing. At present PWLB 50 year loans have an interest rate of 4.8%, which is more than double the same time last year, and would mean for every £1m the Council borrows it will incur annual interest charges of £48k p.a.

## **Refuse Service**

- 10.5 The Refuse Service is creating a financial pressure of circa £600k in 2022/23 and as detailed in section 8, the transformation project relating to this service is significant. A failure or delay to this project would lead to additional financial pressures in 2023/24.

## **Recruitment and Retention Issues**

- 10.6 In common with other local authorities within Hertfordshire, the Council has, in recent years, faced challenges in the recruitment of staff with professional qualifications e.g. within Finance, Legal, Surveyors, Planning, and Environmental Health. In the short-term, this can cause a revenue pressure as the Council is forced to increase its use of (more costly) agency staff in order to maintain service provision. Council officers continue to work with neighbouring authorities to identify a strategic solution to future recruitment needs.
- 10.7 Any increase in pay levels greater than the inflationary assumptions assumed in this MTFS would result in additional financial pressure on the council. An additional increase of 1% in pay would result in an annual budgetary pressure of c£200k.

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

- 11.1 The HRA Business Plan plans to deliver the Council's housing objectives over a thirty year period. The long-term perspective is necessary to ensure sound investment decisions; both in terms of the Council's new build programme and in maintaining existing stock.
- 11.2 A revised HRA business plan is presently being developed and this will be presented to Members alongside the HRA 2023/24 budget for formal approval.

## **12. Capital Resources**

- 12.1 Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services for a period in excess of one year; such as houses, vehicles, public buildings, play areas, ICT, etc.
- 12.2 Capital grants and borrowing can only be spent on capital items and cannot be used to support revenue budgets. However, it should be noted that revenue funds can be used to support capital expenditure. Under the Local Government Act 2003, each council can determine how much it can borrow within prudential limits. All borrowings must be financed from the total available resources of the Council.

### Flexible use of capital receipts

- 12.3 Within the 2016 Settlement, Government provided new flexibility for Local Authorities to use capital receipts from the sale of property, plant and equipment to support upfront revenue expenditure on transformational projects that will deliver ongoing efficiency savings. Councils can only use capital receipts from sales made since the date of this announcement, and cannot use existing capital balances for revenue spending. The Council retains the ability to make use of this facility in future. On completion of the transformation programme, depending on the details, there is likely to be the option to support this programme through flexible use of capital receipts.

### Capital Spending Plans 2022/23 to 2026/27

- 12.4 The Council's approved General Fund Capital Programme for the current, and future, years is summarised below:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
<b>Planned Capital Expenditure</b>	<b>9.0</b>	<b>30.3</b>	<b>29.2</b>	<b>8.1</b>	<b>2.9</b>

- 12.5 The Council's Capital Programme is currently fully funded until 2024, the only borrowing being a loan of £19.4m taken in May 2015. The loan is structured over a portfolio of 23 remaining loans, with one maturing each year. The loan was taken from the Public Works Loan Board (PWLB), at favourable rates, around 60 basis points above gilts, and resulted in an average initial interest rate of 2.98%.
- 12.6 The Council is required to pay off an element of borrowing each year through a revenue charge, the Minimum Revenue Provision (MRP). The Council's Treasury Management Strategy, approved by Cabinet in February 2022, sets out the Council's policy to, at a minimum, pay off the debt over the life of the asset associated with the borrowing. This policy has been applied to the MTFS forecasts.
- 12.7 The full impact of borrowing costs of the current Capital Programme on the Council's revenue budgets is reflected in the forecasts included in this strategy. However, the Council continues to examine the potential for further investment in a number of capital projects. The costs associated with these projects have yet to be finalised, and thus, at this stage, there is no provision for their funding within the MTFS. The implications of further borrowing will be considered as part of any decision to progress with these initiatives.
- 12.8 The financing of the Capital Programme will continue to be supported through the following prioritisation of funds: firstly, appropriate application of grant funding; secondly, use of contributions and capital receipts generated from the sale of Council assets; and, thirdly, through undertaking prudential borrowing.
- 12.9 The approved General Fund Capital Programme is financed as follows:

### Table 3: General Fund Capital Funding.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
Capital Receipts and Reserves	7.0	29.6	0.1	0	0
Capital 141 Receipts	0.8	0	0	0	0
Borrowing	0	0	28.3	7.4	2.2
Grants and Contributions	1.2	0.7	0.8	0.7	0.7
<b>Total</b>	<b>9.0</b>	<b>30.3</b>	<b>29.2</b>	<b>8.1</b>	<b>2.9</b>

### 13 Financial and Value for Money implications

Contained within the body of the report

### 14 Legal Implications

The Council has a statutory responsibility to make arrangements for the proper administration of its financial affairs. This report forms part of these arrangements.

### 15 Equalities, Community Impact and Human Rights

15.1 Community Impact Assessments on Council activities are carried out by relevant services with responsibility for those activities. A separate Community Impact Assessment has not been carried out in respect of this report.

15.2 There are no Human Rights Implications arising from this report.

### 16 Sustainability implications

The projects summarised in this strategic report will be required to undertake any relevant sustainability assessment and ensure that sustainability implications are assessed accordingly.

### 17 Council infrastructure

The content of this report sets out the implications of the Council's activities on its medium term financial outlook and sets out the financial strategy for the use of resources.

### 18 Statutory Comments

#### Monitoring Officer

The MTFS is an essential strategy to ensure that the Council has appropriate governance and oversight of its financial position and this report provides that overview and financial planning for the medium term.

#### S151 Officer Comments

This is a S151 Officer report.