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# FINANCE & RESOURCES

## Overview and Scrutiny Committee

<b>Report for:</b>	Finance and Resources Overview and Scrutiny Committee
<b>Title of report:</b>	Medium Term Financial Strategy 2023 – 2027/28
<b>Date:</b>	3 <sup>rd</sup> October 2023
<b>Report on behalf of:</b>	Councillor Sally Symington, Portfolio Holder for Corporate & Commercial Services
<b>Part:</b>	I
<b>If Part II, reason:</b>	N/A
<b>Appendices:</b>	Appendix A – Medium Term Financial Strategy 2023/24– 2027/28 Appendix B – General Fund Reserves Summary
<b>Background papers:</b>	Budget 2023/24; Cabinet, February 2023 MTFS 2022/23; Cabinet, October 2022 Transformation Strategy; Cabinet December 2022 (Appendices; People Strategy, Digital Strategy, Communication strategy) Town Centre Vision, Cabinet July 2023 Commercial Strategy, Cabinet September 2022
<b>Glossary of acronyms and any other abbreviations used in this report:</b>	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>	<p>A clean, safe and enjoyable environment</p> <p>Building strong and vibrant communities</p> <p>Ensuring economic growth and prosperity</p> <p>Providing good quality affordable homes, in</p>
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	<p>particular for those most in need</p> <p>Ensuring efficient, effective and modern service delivery</p> <p>Climate and ecological emergency</p>
<b>Wards affected</b>	All
<b>Purpose of the report:</b>	To present and seek the committee's feedback on the 2023 Medium Term Financial Strategy Proposals.
<b>Recommendation (s) to the decision maker (s):</b>	1. That committee considers the draft MTFS, and, if required provide comments for feedback to cabinet to consider.
<b>Period for post policy/project review:</b>	12 months

# MEDIUM TERM FINANCIAL STRATEGY 2023/24 – 2027/28

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## DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2023/24–27/28

October 2023

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- 1 Executive Summary:

- 1.1 The Medium-Term Financial Strategy (MTFS), is the Council's overarching financial planning document. The MTFS contains forecasts for the financial position of the Council's General Fund revenue budget over a five-year period from 2023/24 to 2027/28. It also provides a framework within which the Council undertakes financial planning for its key funds. It shows how the delivery of the Council's Corporate plan and the efficient and effective running of the Council goes hand in hand with organisational financial resilience.
- 1.2 This report recommends that Cabinet agrees to recommend to Council the General Fund's medium-term revenue budget forecast and associated strategy to deliver the setting of a balanced budget for 2024/25 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 current inflationary pressures and wider economic uncertainty. At this stage, the overall funding envelope for local government is not entirely clear, with 1 year budget settlements issued by Government since 2019.
- 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 2024/25, in the budget reports to Cabinet and Council in February 2024. 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 2024/25.
- 1.5 The General Fund medium-term revenue budget forecast, presented as part of the Budget report in February 2023, had a projected 4 year Medium Term Savings requirement of £3.6m, and a residual budget gap of £700k for 2024/25. The Council has reviewed the MTFS assumptions in 2023 and has taken into account the changing economic outlook and performance. The Medium Term Financial Strategy 2023 now has a revised savings requirement of £4.4m over the next 4 years.
- 1.6 The Total Savings Requirement for 2024/25 is £1.6m and at present there are assumptions that will deliver this savings requirement and balance the 2024/25 budget.
- 1.7 In response to the changing economic environment and the additional cost pressures the Council and the wider economy are facing, the 2023 MTFS outlines a change in financial strategy going forward. The Council is moving away from the previous drive to self-sufficiency to a strategy where the Council ensures every penny of government funding is utilised to support service delivery, and its residents and businesses, as and when they are received. This approach means that the Council is more reliant on government funding so, if current funding assumptions change, the Council will have fewer options to support non-delivery of efficiencies or income generation proposals, this is detailed in section 5 below.
- 1.8 This report also contains the proposed Capital and Investment Strategies to re-profile the General Fund capital programme for 2024/25 onwards, to support the key corporate objectives. As with the revenue budget, engagement and consultation on the detail will take place prior to final decision-making over the capital programme for 2024/25 to 2027/28, as part of the budget report to Overview and Scrutiny Committee and then Cabinet and Council in February 2023.

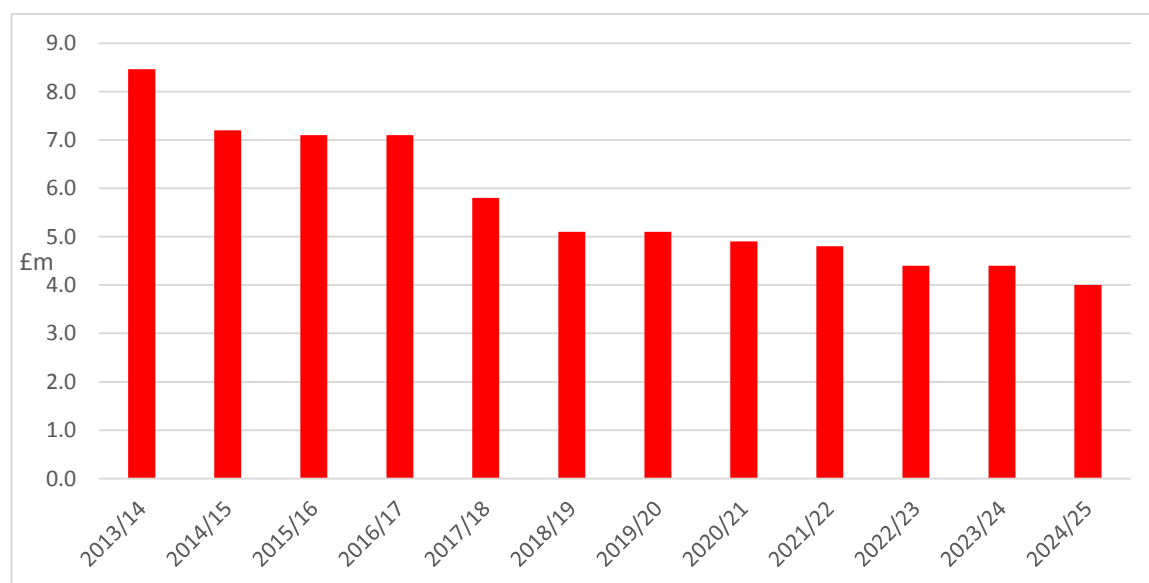
## **2 Introduction and Background**

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

This report sets the context for the future financial position for Dacorum Borough Council. The Medium Term Financial Strategy (MTFS) is a statement on the Council's approach to the management of its financial resources to meet its Corporate Priorities. The MTFS also considers the appropriate level of reserves that the Council holds to mitigate current and longer-term risks.

- 2.2 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 authorities “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, and the timeline for the revised funding review is still unclear.
- 2.3 The funding the Council receives from government has consistently reduced since public sector austerity was introduced in 2010-11. In 2013-14 local government funding changed and Local Authorities were allocated a share of business rates from their area as the biggest change in local authority funding. Since 2013-14, government grants have reduced by 53% in cash terms, as detailed in Chart 1 below. In 2013-14 the total core government grants totalled £8.5m, and in 2024-25 the Dacorum grant is projected to be circa £4m.

Chart 1: Dacorum Borough Council Core Government Grant funding 2013/14 – 2024/25



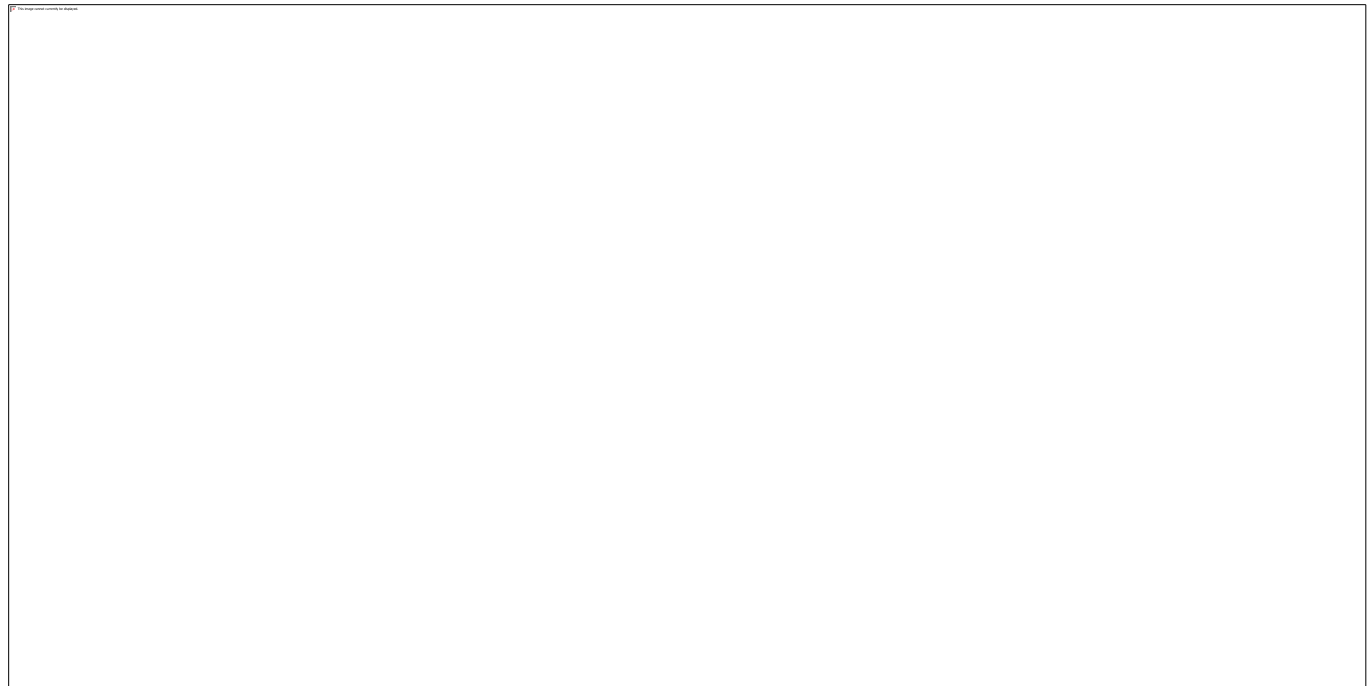
- 2.4 In this same period of time, inflation (Cumulative Consumer price index), has increased Council costs on average by 38% (ONS Annual data 2013-2023) providing additional expenditure pressures to the funding pressures detailed above. The combination of the government funding reduction and additional inflationary pressures meant the Council had to do something in order to be able to continue to provide services to residents and businesses. The primary focus of the Council has, therefore, been to increase the provision of housing, encourage economic growth through its place strategies and regeneration activities and to maximise income generation wherever possible.
- 2.5 The COVID-19 pandemic has had a profound and unprecedented impact on the activity and finances of the Council since March 2020. The financial scarring effects of the pandemic will continue to impact demand for services and income due to the Council for many years to come.
- 2.6 Whilst the Council is not alone in facing these challenges, this does not lessen the scale of the challenge and the impact on the residents and businesses within the borough.
- 2.7 In June 2022, DLUHC announced they would provide local authorities with a 2 year funding settlement for the period 2023- 2025, due to the delay in the more strategic funding reforms. This will provide more funding certainty than the Council received in the previous 3 years and increased funding is expected for 2023/24 and 24/25 as a result, but this is only a short term measure prior to the election of a new government in 2024.

- 2.8 The impact of these delays to funding reform on the Council is by no means clear. However, the MTFS brings together anticipated demands and pressures and sets out how the Council will ensure a balanced medium-term position.
- 2.9 Medium term financial planning must make assumptions about the future demand profile and cost pressures on expenditure and on factors that affect income sources. The MTFS represents a summary of these assumptions and their impact on the funding of the Council.
- 2.10 The MTFS sets the financial envelope within which the Council must fund its activities in order to set a balanced budget in each of the next 4 years. In order to begin the budget setting process for 2024-25 and beyond it is therefore prudent to revise the MTFS at the beginning of the budget setting process. In the spring, a Service planning review was undertaken, during the autumn these plans will be used to inform detailed service budgets in order to deliver a balanced budget for 2024-25. In addition, this process will allow the Council to identify where savings may be achieved in future years and begin planning their delivery.
- 2.11 The MTFS provides assurance on the intended use and the overall level of reserves and the extent of underpinning commercial and financial planning risk.

### **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 whether behaviours will or will not return to pre-pandemic patterns. This has had a significant impact on income streams such as parking and also key service areas such as waste services.
- 3.2 The wider economy is having to cope with increasing inflation resulting in a cost-of living crisis and this plays key role in the 2023 MTFS assumptions and pressures. The impact of this is uncertain apart from a high probability that costs will increase and income sources will be unlikely to keep up.
- 3.3 The cost-of-living crisis is driven by many factors that are primarily evidenced by increases in inflation (comparing current costs to how much they cost a year ago). There are a number of reasons for increasing inflation, which started to increase in 2021 in large part due to increased spending on goods during the Covid crisis. As economies around the world, including in the UK, opened up after Covid restrictions eased, some businesses struggled to meet this extra demand because of difficulties in getting the materials used in their production. Russia's continued invasion of Ukraine has led to sharp increases in the price of energy. The war in Ukraine has also caused an increase in the price of many agricultural commodities, such as grain, which are needed to produce food. There are also inflationary pressures from the UK economy including wage inflation; as in certain sectors there are more job vacancies than there are people to fill them, which means employers are having to offer higher wages to attract job applicants. The chart below shows key components of current inflationary pressures.

#### **Chart 2: Commodity CPI Inflation 2021- 2023 (ONS Date July 2023)**



- 3.4 In an effort to contain inflation and return it to the Government's 2% target, the Bank of England has increased interest rates in recent months reaching 5.25% in August 2023. The last time rates were at, or above, 5.0% was September 2008. There are multiple forecasts for the future economic outlook. Interest rates may continue to increase over coming months, with core inflationary growth pressures expected to remain high, and financial markets are anticipating rates could increase to 6% before slowly reducing towards 4% in 2027.
- 3.5 The impact on the Council is pronounced and creates significant financial pressure on its budgets. The direct impact on the Council is the requirement to make provisions for the growing inflationary cost pressures to deliver services, such as pay awards of circa 6% in 23/24, cost of supplies increases 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 the 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
- 3.6 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. The Council will continue to work closely with treasury advisers and wider sector experts to monitor the government's funding and monetary policy and the wider economic impact.

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

- 4.1 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. This financial year this has included the Commercial, Transformation, People, Investment, Digital and Place Strategies.
<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 2022/23 audited accounts are provisionally approved by the Audit Committee.
<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 Senior Leadership Team, the Budget Review Group and Cabinet prior to presentation to the Overview and Scrutiny Committee  Cabinet approves the revised Medium Term Financial Strategy.
<b>November - December</b>	Draft budget proposals presented to Joint Overview & Scrutiny Committee, for Members' scrutiny.
<b>December - January</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 December Joint OSC is considered by the Budget Review Group, and incorporated into final budget proposal presented to members at cabinet.
<b>February</b>	Final budget report is 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 24/25 budget.

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

### Core Baseline Funding

- 5.1 The current economic environment, as detailed in section 3, is very uncertain, the current cost of living pressures combined with government spending cuts, is likely in the medium term, to reduce Local Government funding in real terms year on year.
- 5.2 At present, forecasted levels of local authority funding for 2024/25 appear to be in line with 2023/24 and hence provide some short term certainty and respite but going forward in the medium term it is extremely uncertain, with no clear understanding of what efficiencies may be required or whether the 2023 Spending Review funding projections will be maintained.
- 5.2 The Core funding baseline for Dacorum is projected to be £4m in 24/25. This is the combination of the Minimum Funding Guarantee £1m, Retained business rates £2.9m and the services grant £0.1m. The Central Government Departmental funding envelopes for 2024/25, which finance these funding streams, are expected to be maintained for 2024/25 hence it is prudent to assume

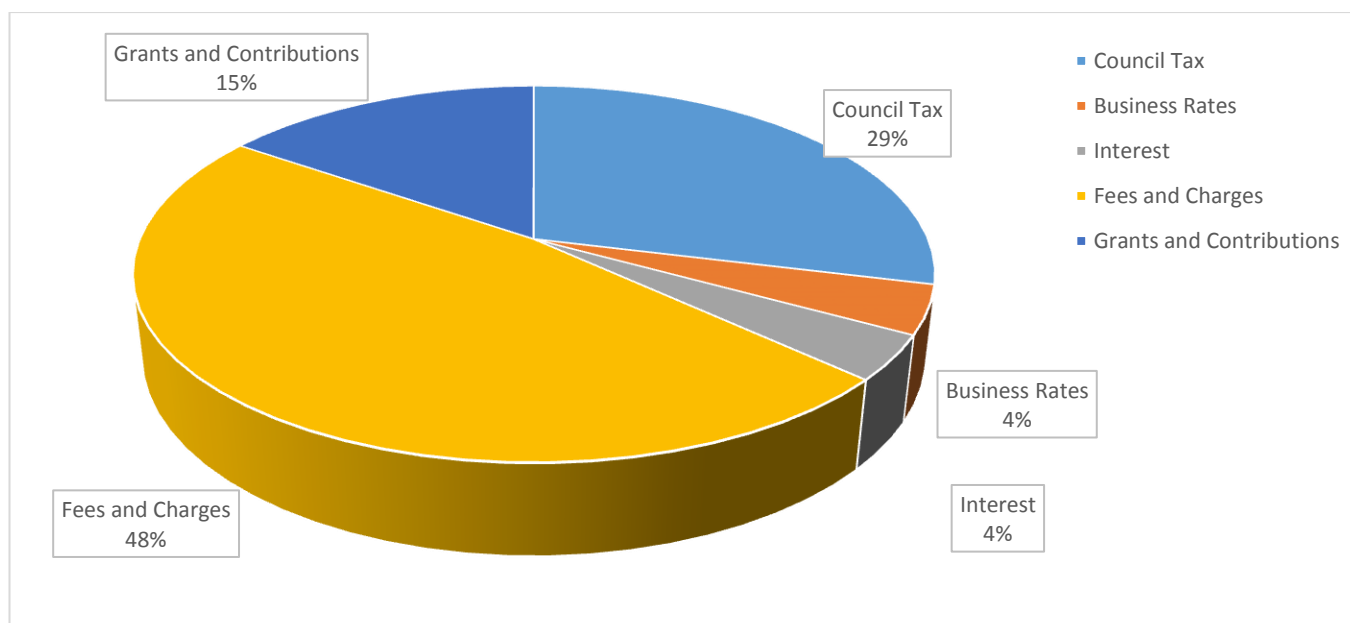


in this version of the MTFs that these base level funding streams will match the 2023/24 funding levels.

- 5.3 The significant cost pressures resulting from the impact of high inflation has led to a change in the approach to financial planning in 2023. The 2023 MTFs is not focussed on a medium term aspiration for the Council to achieve self-sufficiency and is more focused on ensuring all estimated funding is utilised to support the Council's core statutory services and the delivery of the Corporate Plan.
- 5.4 This approach means the Council is planning to be more reliant on central government funding in the medium term and will need to be more reactive to significant future government funding reductions or new burdens. The MTFs assumes a core funding level of £2.9m going forward which would appear prudent based on current funding levels and will be monitored. Confirmation of the funding allocation for 2024/25 is expected in December 2023. Any additional information given at that time regarding future years' funding will be reported to Members as part of the budget-setting process.

## Fees and Charges

- 5.5 The most significant of the Council's funding streams is the income collected through fees and charges and council tax. The Pie Chart below gives a summary of the overall 23/24 projected income streams. It is assumed in the MTFs that fees and charges will be protected and enhanced going forward.



## 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 2.99% per Band D without triggering a referendum. The current MTFs assumes an annual Council Tax increase of the maximum currently permissible of 2.99%.
- 5.8 In recent years, the Local Government Finance Settlement released in December has granted additional freedoms to increase Council Tax to higher levels, such as an increase in 2023 to 2.99%. As the additional freedom introduced in 2023 has been extended to 2024 it is not

expected that there will be any government changes to this in the 2023 LGFS in December. If the unexpected does occur, it is recommended that the Council revisits the current assumptions and takes steps to keep pace with Government policy as this approach underpins financial sustainability.

### Minimum Funding Guarantee (MFG)

5.9 In the 2023/24 Local government finance settlement, the government introduced a new Minimum Funding Guarantee grant to be awarded to Local Authorities as part of the 2023/24 and 2024/25 financial years. This grant was introduced as a response to the impact of the inflationary pressures being felt in the wider economy and public services. This grant aimed to ensure that overall Local Authority funding levels were not reducing year on year in cash terms. As part of the 2023/24 Local government settlement, Dacorum received circa £850k of MFG and is projected to receive circa £1m in 2024/25.

### New Homes Bonus

5.10 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 (Number of homes). 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.

5.11 Based on information provided in the 2023 Settlement, the NHB payment forecast for 2023/24 will be the final one received before Government brings the scheme to an end, hence the Council is not projecting the receipt of any NHB in 2024/25. The government has indicated that it will be replacing the NHB scheme with another government scheme to promote housing growth but to date no details have been released. Members will be updated on any information related to the possible future housing scheme as and when government announces details.

### 6.0 General Fund Medium Term assumptions

6.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2023/24, and model this budget going forward 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 will be undertaken as new information becomes available.

**Table 1: Budget Assumptions.**

	Note	2024/25	2025/26	2026/27
<b>Income</b>				
Council Tax	1	3.93%	3.99%	3.99%
Core Government Grant	2	£1.1m	£0.1m	£0.1m
Retained Business Rates Baseline Funding	3	£2.9m	£2.9m	£2.9m
Fees & Charges	4	5%	2%	2%
CT Collection Rate	5	98.5%	98.5%	98.5%
<b>Expenditure</b>				
Pay settlement	6	5%	4%	3%
Pay: contract increments	6	0.4%	0.4%	0.4%
Utilities	7	20%	5%	5%

Fuel	7	5%	5%	5%
Supplies & Services	7	5%	5%	5%

Notes:

1. Assumed the increase in Council Tax is set at the government maximum of 2.99% plus a 1% increase in tax base.
2. Core funding assumes, Minimum funding guarantee (MFG) of £1m and the services grant of £100k. It is assumed going forward that negative RSG will no longer be a government funding policy following 4 years of delaying its implementation.
- 3 It is projected that the retained business rate will be set at safety net levels for the next 3 years, as a result of the 2023/24 business rates revaluation uplift, hence the authority is at a high risk of a significant rates appeal that would reduce retained rates to the minimum safety net level.
4. The 2023 Fees and charges review is underway, with the assumption that on average fees and charges (Excluding commercial property, garages and parking) will achieve an average increase of 5%.
5. A reduction of 0.9% to the council tax collection rate has been assumed based on recent Dacorum trend analysis, with further details included in para 10.2 below.
6. The undecided 23/24 pay award is expected to be circa 6% for Dacorum and we have assumed a further 5% in 24/25, 4% in 25/26, based on current ONS projections for CPI pay inflation. Incremental cost increases are based on actual increments due and historical staff turnover rates.
7. 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 as a minimum 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 2024/25.
- 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 An Increase of 5% on average have been assumed in the MTFS as part of the annual review of fees and charges based on the approach of;

- Continuing full cost recovery policy for some services,
- Achieving income to offset the increase in service delivery costs due to inflationary pressures, or an
- Increase of circa 5% on average where applicable on discretionary fees and charges,

6.8 The full fees and charges review is at present underway and final fees and charges will be approved as part of the budget setting process.

## 7.0 Corporate Strategies

7.1 The Corporate Plan sets the priorities that the Council strives to achieve and the MTF5 is one of several key corporate strategies that supports the delivery of the Corporate Plan objectives. To ensure a sustainable MTF5 is achievable, it is essential that Corporate Strategies evolve and develop as an intrinsic part of the wider Council MTF5. During the last few years, the Council has been developing several core strategies that form the foundations of the 2023 MTF5, in particular the savings identified to date.

7.2 The key corporate strategies that are fundamental to the delivery of a sustainable Council are;

- Commercial Strategy
- Transformation Strategy
- Place Strategy
- Housing Strategy

## 7.3 Commercial Strategy

The Commercial Strategy was approved by Cabinet in September 2022. It supports the Council's ambition to create a financially sustainable organisation that can meet the evolving needs and expectations of residents. It is closely linked to the Place and Transformation strategies being taken forward, and aims to support the Council in the increasingly challenging financial environment within which local government operates.

7.4 In order to support the successful delivery of the Commercial Strategy, the Council is developing a Commercial Programme that enables the development, assessment and monitoring of all commercially related activity. A Commercial Board has been established that plays an integral strategic role in supporting commercial activity; providing corporate oversight of commercial performance, to help shape an agile, commercial culture across the Council.

7.5 The Commercial Strategy centres around the following areas of focus:

### **1) 'Maximising current income & commercial benefits'**

A commercial focus involves not just seeking new opportunities for income generation and efficiencies, but understanding how to maximise current opportunities.

The Council will seek to achieve maximum value through existing commercial work streams; looking to increase income streams where possible, and maximise returns from assets and services we provide. This includes ensuring we achieve maximum value from fees and charges for discretionary services, as well as strengthening effective commissioning, procurement, and contract management to achieve best value in all works, services and goods we procure, and improve spend efficiency. As part of this, 'health checks' on current activity will assess viability for growth, maintenance or redirection/termination as appropriate. This includes understanding the true cost of service delivery, to enable net benefits to the Council and financial impacts to be clearly understood.

### **2) 'Developing new opportunities'**

The Council will look to explore and develop new commercial opportunities; in line with corporate objectives, using data and insight to drive decisions. The Council will continue to ensure that our residents and customers are at the heart of our delivery plans, and success will be dependent on collaboration and partnerships.

As part of this activity the Council will explore shorter term opportunities for increased income or efficiencies, as well as longer term opportunities through strategic planning of how we make best use of our assets to support our financial sustainability. A strategic review currently underway of the Council's assets aims to support delivery of additional income streams for the Council in the longer term; while also supporting delivery of the wider vision for the Borough. This includes regeneration and improvements to town and neighbourhood centres, economic growth and opportunities for businesses and residents, and improvements to housing supply.

### **3) 'Getting the basics right'**

To deliver on both of the above work streams, it is essential that the council shapes and drives its fundamental commercial business operations that support the Council's overall financial sustainability. This includes, commissioning & procurement and contract management to ensure there is a solid foundation for both existing and new commercial activity. Contract management is a key factor in commercial success. Not only will it ensure the council achieves maximum value from its activity but also support risk mitigation, safeguard the council's interests and foster relationships - both internally and with external partners and suppliers.

- 7.6 An initial set of Business Cases were assessed during 2022-23 for potential opportunities. These led to certain beneficial outcomes, one of which saw the integration of property services across the Council, with a view to harnessing efficiencies, and achieving service and financial benefits from alignment of the property functions. Another Business Case led to a decision to build new business units within the borough on former garage sites. This will meet known market demand for such units for smaller businesses, will support local economic growth and employment, while also delivering a modest financial return for the Council. A pilot project is now underway and in its early stages of procurement to seek a contractor for design and build of the new units. If successful, this approach could be further developed to increase availability of units and additional income streams for the Council's General Fund.
- 7.7 Other opportunities were explored for services to maximise and grow income from existing products and services, as well as introduction of new services for additional income. As a result, a roadmap has been identified for certain services to deliver improvements that could position them to increase commercial activity and income in the future. This work aligns with the themes both of 'getting the basics right' and 'maximising current income'.
- 7.8 The nature of the Commercial Strategy's areas of focus means that much of the work that might deliver additional income is longer term in nature. However an area where shorter term contributions can and have been made is around maximising current income from services and assets. Work has included a Business Case to scrutinise additional income from fees and charges, that resulted in net additional income in the 23-24 budget; work ongoing to install electric vehicle charge points in the Council's car parks that should generate additional income for the Council, and a Business Case that has resulted in proposals currently being explored for revised parking tariffs and charging policy throughout the Borough. The parking tariff Business Case proposals could make an important annual contribution to the MTFs from 2024-25 onwards, if the set of proposals approved for public consultation by Cabinet in September 2023 were to be implemented as currently planned.

Further reviews of how the Council can continue to maximise income from assets and services will be undertaken as part of the Strategy's ongoing work programme, to contribute to the MTFs in the shorter and medium term.

## 7.9 Transformation Strategy

The Council's transformation strategy, Future Dacorum, is now in delivery phase. The strategy centres on the customer, with a clear ambition to be more efficient and effective across all Council activity. This will deliver better services for our residents and businesses and will also allow us to face the financial and economic challenges of the medium term in the best possible way. Much work has been completed to get our basics right. These are the foundations upon which we will launch an extensive programme of service re-design. This will allow us to digitise and automate our high-volume activity, freeing up resource to focus on complex work where most value can be added. In turn it will allow the strategic Leadership Team and members to make informed decisions about how and where best to use resources including savings and re-investment options.

## 7.10 Place Strategies

7.11 Dacorum Place Strategies are still under development and the programme includes;

- Hemel Place Strategy
- Hemel Hempstead Town Centre Vision
- Hemel Old Town Place Programme
- Berkhamsted Place Strategy
- Tring Place Strategy

The Place Strategies cover all aspects of what makes great places within Dacorum, and how they should be developed further, based on plans for their future, the key issues that exist in each, and local needs. They are informed by community participation and engagement and will guide the shape and content of projects and initiatives in each location.

Since 2021, considerable progress has been made. In Hemel Hempstead, a partnership Hemel Place Board has been formed, chaired by Bob Lane OBE, with membership from public agencies, major businesses and the voluntary and community sector. A draft Hemel Place Strategy is in preparation and completion is expected by the end of 2023/24. Extensive public engagement has taken place to help shape the Place Strategy and, in the summer of 2022, the Hemel Place Story was launched alongside new distinctive branding for Hemel Hempstead.

The Strategy recognises the ambitions of Hemel as a place of growth and investment and major expansion through Hemel Garden Communities, ambitious regeneration in the town centre and Apsley canalside, and a new strategy for Maylands Business Park through the new masterplan, for which work commenced in September 2023. A new town centre vision was approved by the Council in July 2023.

Hemel Old Town is the subject of a corporate Place working team to address current issues within this distinctive and historic part of the town, and has been running since 2021. There are two major community meetings each year where residents and businesses are engaged on progress within the Old Town and are a touchpoint for new and emerging issues and ideas.

Work has begun on Place Strategies for both Berkhamsted and Tring, with the Town Councils engaged to lead on these, with input and support from the Borough Council.

## 7.12 Housing Strategy 2024 - 2029

7.13 The housing strategy 2024 – 29 is currently being consulted upon, it is a key strategy for the Council. Ensuring we can deliver good homes is considered essential because housing is the key foundation for a good life. A stable and affordable home is a basic requirement for good health, education and employment.

- 7.14 This strategy supports corporate aims of the Council and its partners to do their utmost to make sure that everyone in Dacorum can access suitable warm, safe, secure housing, in an attractive, welcoming community where people from all backgrounds feel at home.
- 7.15 The aims of the strategy are to ensure we become a sector leading resident focused social landlord, who works with others to deliver much needed affordable new homes, to ensure current homes are of a decent standard, help tackle the climate crisis and to meet the diverse needs of local residents.
- 7.16 This strategy will be formally adopted by the Council in 2024 and the associated financial investment is planned for within the developing HRA business plan and the Council's wider medium term financial plan.

## **8.0 Emerging Risks and Opportunities**

- 8.1 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.
- 8.2 The nature of future financial planning means there is uncertainty in assumptions made, and the longer the time frame for assumptions the greater the risk/opportunity around the accuracy of those assumptions. In recent years, global economists, the investment sector and governments have made assumptions on interest rates, inflation and government funding that have all required frequent revisions.
- 8.3 The MTFS includes several key proposals/changes these include:

### **Income assumptions**

- 8.4 It is assumed that the Council's current income from discretionary services, for example commercial property, garage rentals and garden waste collection will be maintained in 2024/25. The current high borrowing and inflation rates, accompanied by the wider economic downturn is having a negative impact on the volume of planning applications received by the Council and the in-year forecast is showing a shortfall of circa £600k, hence the MTFS has assumed a reduction in future planning income of £600k.

### **Service Planning**

- 8.5 The annual service planning review and horizon scanning process was undertaken in the spring of 2023 and the MTFS has included circa £600k of growth across the Council to support ongoing service delivery and service improvements, with significant investment being made to support the Digital and People strategies.

### **Parking Review**

- 8.6 As part of work undertaken through the Council's Commercial Strategy, there is a car parking policy and tariff review underway and the MTFS assumes that the final approved approach will deliver circa £660k of additional annual car parking income, with circa £500k assumed in 24/25, which will offset some of the reductions in car parking income that have resulted since the pandemic.

### **Garden Waste Service**

- 8.7 The roll out of the new chargeable garden waste service in 2023 was hugely successful and achieved a subscription level of circa 70%, exceeding 23/24 budgeted projections by circa 30% and hence producing an additional income of circa £700k. It is assumed that the current subscription levels will be maintained in the medium term.

### **Treasury Management**

- 8.8 The 2023/24 treasury management function is delivering greater financial returns than budgeted for in 23/24.

8.9 The combination of higher interest rates and larger cash balances to invest have resulted in significant investment returns in 23/24. At present, the projected spend in the 23/24-24/25 capital programme will result in significantly lower cash balances to invest in future years and hence this trend is not expected to be maintained in 24/25. If current capital spend levels are not achieved and interest rates remain high, as projected by the financial markets, there is the potential for treasury to achieve a greater short term investment return than the budgeted £1m investment return in 24/25. At present the MTFs assumes current treasury returns of circa £1m will be achieved.

## 9.0 General Fund Medium-Term Savings

9.1 Based on the assumptions in the MTFs strategy, the total Savings Requirement in the period 2023-2028 is £4.4m, of which £1.7m has already been identified. This leaves a residual savings requirement of £2.7m.

9.2 The Council has a four-year savings plan which recognises 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 three 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.**

		2024/25	2025/26	2026/27	2027/28
	<b>Total Savings Requirement</b>	<b>£1,600k</b>	<b>£1,190k</b>	<b>£900k</b>	<b>£720k</b>
a.	Savings identified, and delivered.	£800k			
b.	Savings Identified, but still to be delivered	£800k	£110k	£30k	£0k
	<b>Total Savings Requirement</b>	<b>£0k</b>	<b>£1,080k</b>	<b>£870k</b>	<b>£720k</b>

a. **Savings Proposals Identified and delivered** – Planned savings projects already delivered for future years prior to the MTFs review. In this case, the additional savings created by the increased subscriptions of garden waste is the bulk of these savings.

b. **'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 £800k identified for 2024/25, 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 25/26 budget.

9.3 Plans for the delivery of future savings for 2025 onwards are being developed, as part of the development and delivery of the key corporate strategies (summarised in section 7) and a revised 2023 corporate plan. As outlined in section 4 above, there are 4 key corporate strategies which will contribute to delivery of future efficiencies and/or income generation.

## 10. Key Risks

10.1 In addition to the funding risks and emerging risks highlighted in earlier sections of this report, the following section outlines some of the key sector wide risks. These risks are monitored and members are kept updated on any potential implications.

### Discretionary Income Generating Services

10.2 The Council collects circa £19m from charges for services and almost all of this income is for discretionary services that residents could choose to not purchase. These services could well be impacted by a more difficult economic environment where residents are spending less. These

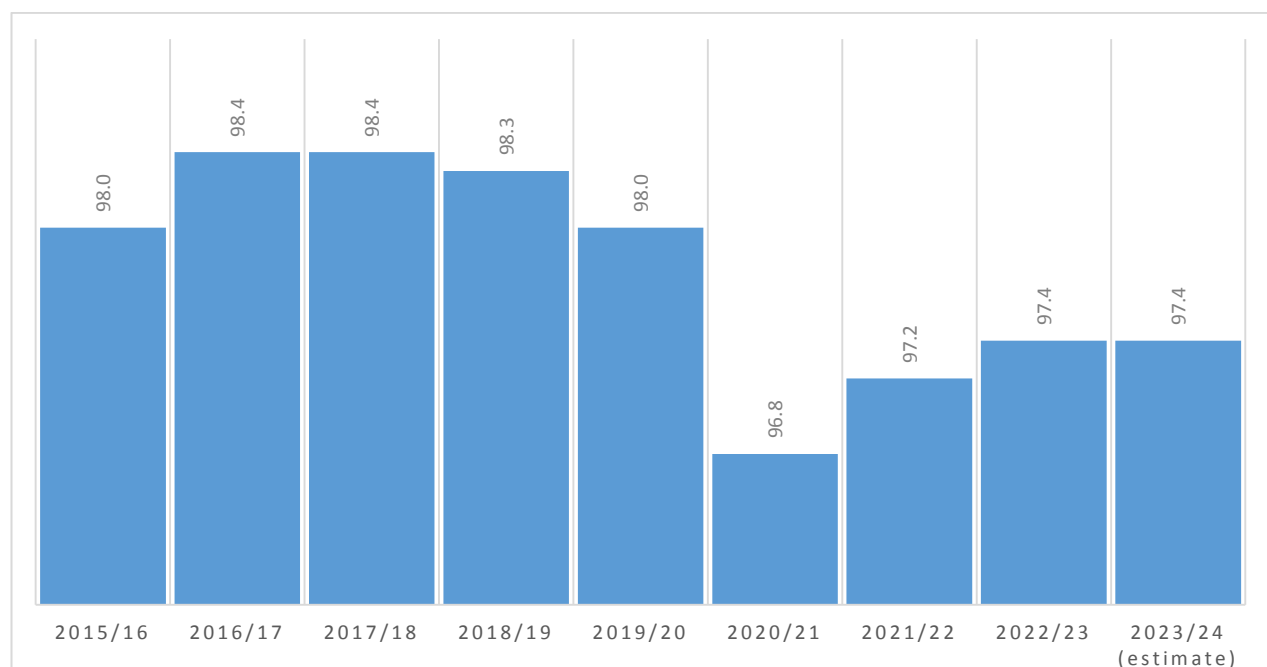


income streams include garage rental, car parking, planning services and other discretionary services.

## Council Tax Collection

- 10.3 The Council collects circa £126 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, the financially vulnerable 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 would lead to further future funding pressures.
- 10.4 The collection rate for Dacorum council tax has historically been set at 99.4%, but recent events and performance suggest that this should be revised. The reported collection rate of 99.4% assumes a year end collection rate of 98.4% and a 1% increase created from collection of arrears.

The following chart shows the impact of the pandemic and subsequent economic issues on the year-end collection rate. There was a significant drop in 2020/21 and it does not yet show signs of returning to the previously expected level.



- 10.5 In light of this, the MTFS assumes a collection rate in the tax base calculation is set at 98.5%, this would be made up of circa 97.5% in year collection rate and 1% collection of arrears. This is a reduction of 0.9% year on year.
- 10.6 The collection of council tax is monitored through the monthly performance monitoring framework and presented to members quarterly.

## Borrowing Costs

- 10.7 The MTFS at present has no General Fund requirement to externally borrow in 2023/24, with a small amount of borrowing potentially required in 24/25. These borrowing needs will be met by internal borrowing and monitored as part of the treasury management service.
- 10.8 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 6%, which is more than double the rate at the same time last year, and would mean for every £1m the Council borrows it will incur annual interest charges of £60k p.a.

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

- 11.1 The Council's Reserves Strategy is integral to the MTFSS 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 2023/24 Budget Report, in February 2023.
- 11.2 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 2023.
  - 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.
- 11.3 In accordance with best practice, the General Fund Working Balance is maintained at a level between 5% and 15% of Net Service Expenditure.
- 11.4 As part of the annual CFO statement in the budget report in February 2023 the Chief Finance Officer (S151) is required to report on the adequacy of the proposed financial reserves. At that point in time the CFO confirmed that the level of reserves and balances are adequate to mitigate the foreseeable risks to the organisation, and reaffirms at this point in time that position is unchanged.

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

- 12.1 The HRA Business Plan is the financial strategy for the delivery of the Council's housing objectives over a thirty year period. This long-term perspective is necessary to ensure sound investment decisions; both in terms of the Council's new build programme and in maintaining existing homes.
- 12.2 A revised HRA business plan is presently being developed and this will be presented to members early in the New Year with the HRA 24/25 budget proposed presented for formal approval alongside the General Fund budgets in February.

## **13. Capital Resources**

- 13.1 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.
- 13.2 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**

- 13.3 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 2023/24 to 2027/28

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

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
<b>Planned Capital Expenditure</b>	<b>11.8</b>	<b>35.6</b>	<b>19.8</b>	<b>3.6</b>	<b>3.1</b>

13.5 The Council's Capital Programme is currently fully funded until 2024, the only borrowing being the balance of a portfolio of loans taken in May 2015. The balance is structured over a portfolio of 16 remaining loans, valued in total at £6.4m, 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 3.04%.

13.6 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 2023, 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.

13.7 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.

13.8 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.

13.9 The approved General Fund Capital Programme is financed as follows:

**Table 3: General Fund Capital Funding.**

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Capital Receipts and Reserves	10.5	12.1	2.3	2.8	2.4
Borrowing	0	22.4	16.7	0.0	0.0
Grants and Contributions	1.3	1.1	0.8	0.7	0.7
<b>Total</b>	<b>11.8</b>	<b>35.6</b>	<b>19.8</b>	<b>3.5</b>	<b>3.1</b>

## 14. Conclusion

14.1 The committee are asked to review the proposed MTFs and feedback where appropriate prior to submission to October cabinet for approval.