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Finance and Resources Overview and Scrutiny Committee

Report for:	Finance and Resources Overview and Scrutiny Committee
Title of report:	Medium Term Financial Strategy 2024/25 – 2028/29
Date:	8th October 2024
Report on behalf of:	Cllr Adrian England, Leader of the Council
Part:	I
If Part II, reason:	N/A
Appendices:	Appendix A – Medium Term Financial Strategy 2024/25 - 2028/29 Appendix B – General Fund Reserves Summary Appendix C/D/E/F – Proposed Fees and Charges for 2025/26
Background papers:	Budget 2024/25; Cabinet, February 2024 MTFS 2023/24; Cabinet, October 2023 Transformation; People & Digital Strategy – Cabinet December 2022, Customer Charter Sept 2024. Town Centre Vision, Cabinet July 2023 Commercial Strategy, Cabinet March 2023 SAR Programme, Cabinet June 2023 Housing Strategy, Cabinet Jan 2024, Housing Asset Strategy, Cabinet February 2024
Glossary of acronyms and any other abbreviations:	GF – General Fund NHB – New Homes Bonus MTFS – Medium Term Financial Strategy RSG – Revenue Support Grant SFA - Settlement Funding Assessment

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<p>Corporate Priorities</p>	<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 particular for those most in need</p> <p>Ensuring efficient, effective and modern service delivery</p> <p>Climate and ecological emergency</p>
<p>Wards affected</p>	<p>All</p>
<p>Purpose of the report:</p>	<p>To present to Cabinet the 2024 Medium Term Financial Strategy for approval to Council.</p> <p>The setting of a robust and balanced Medium Term Financial Strategy will enable the Council to provide and deliver services within its overall corporate and financial planning framework.</p> <p>The Medium-Term Financial Strategy underpins the delivery of the Council's Core Strategic aims and priorities within available resources.</p>
<p>Recommendation (s) to the decision maker (s):</p>	<ol style="list-style-type: none"> 1. Approve the Medium-Term Financial Strategy 2024/25 to 2028/29 as set out in Appendix A to the report. 2. To note a four-year General Fund savings requirement of £2.5m between 2025 – 2029. 3. To note that the Chief Finance Officer will work with the Council's Strategic Leadership Team and Cabinet to deliver options that will achieve the medium-term saving targets identified within the strategy. 4. Endorse the Financial Planning Framework to support the budget-setting process for 2025/26. 5. 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.
<p>Period for post policy/project review:</p>	<p>The Council's financial Medium Term Financial Strategy is constantly monitored to ensure it remains robust and sustainable and is formally reviewed annually.</p>

MEDIUM TERM FINANCIAL STRATEGY 2024/25 – 2028/29

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Dacorum Borough Council Medium Term Financial Strategy 2024/25 – 2028/29

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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 2024/25 to 2028/29. It also provides a framework within which the Council undertakes financial planning and key financial decision-making processes. It shows how the delivery of the corporate strategy and a well-run organisation goes hand in hand with organisational financial resilience.
- 1.2 This report requests for Cabinet to recommend to Council the General Fund medium-term revenue budget forecast and the associated strategy to deliver the setting of a balanced budget for 2025/26 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 with a new Government due to deliver its first budget plan on October the 30th, followed by a local government settlement in December 2024. The government have indicated that they will strive to deliver a medium-term funding settlement from the spring of 2025.
- 1.4 Hence at this point in time it is expected that the government will only provide a one-year settlement in the 2024 local government finance settlement announced in December 2024. The previous Government's decision to deliver short-term annual funding settlements and to delay local government funding reforms have created a challenging financial planning landscape. At this stage, the overall funding envelope for local government remains unclear.
- 1.5 The Medium-Term Financial Strategy assumptions/forecasts will be used to inform final decision-making in setting the 2025; revenue budget, capital programme and Council Tax for 2025/26, in the budget report to Cabinet and Council in February 2025. The MTFS assumptions also create the core principles and assumptions that will be used as the basis for engagement and consultation with Members, officers, residents, businesses and other stakeholders in reaching budget setting decisions for 2025/26.
- 1.6 The General Fund medium-term revenue budget forecast presented as part of the Budget report in February 2024 had a projected **3-year** Medium Term Savings requirement of £2.1m, and a residual budget gap of £532k for 2025/26. The Council have reviewed the current financial performance and future MTFS core assumptions, and the 2024 Medium Term Financial Strategy has a revised **5-year** savings requirement of £2.1m from 2024 - 2029.
- 1.7 The Total Savings Requirement for 2025/26 is £524k, the council have achieved a series of efficiencies and income generational proposals to the value of £464k which leaves a small residual budget gap in 2025/26 of £60k.
- 1.8 There are a series of ongoing projects and key decisions that will form part of the final 2025/26 budget setting approval process that will aim to close the 25/26 budget gap and reduce the overall medium-term savings requirement. The constant need to create additional income or deliver savings efficiencies is a significant challenge and although the level of savings is not significantly different to prior MTFS' the challenge increases year on year, and the required decisions become more and more challenging.
- 1.9 The MTFS reflects the ongoing proposed Capital and Investment Strategies to re-profile the General Fund capital programme for 2025/26 onwards, to support the key corporate objectives.
- 1.10 The Council is currently in the midst of a number of key strategic programmes that will in time impact on the financial planning going forward, some of these key programmes include.
 - Strategic Asset Review (SAR),
 - Commercial Income Review

- Transformation agenda (Including the digital and customer charters)
- Hemel Health Campus (HHC) and Place making programme.

As with the revenue budget, engagement and consultation on the detail will take place prior to final decision-making over the capital programme for 2025/26 to 2028/29, as part of the budget report to Overview and Scrutiny Committee and then Cabinet and Council in February 2025.

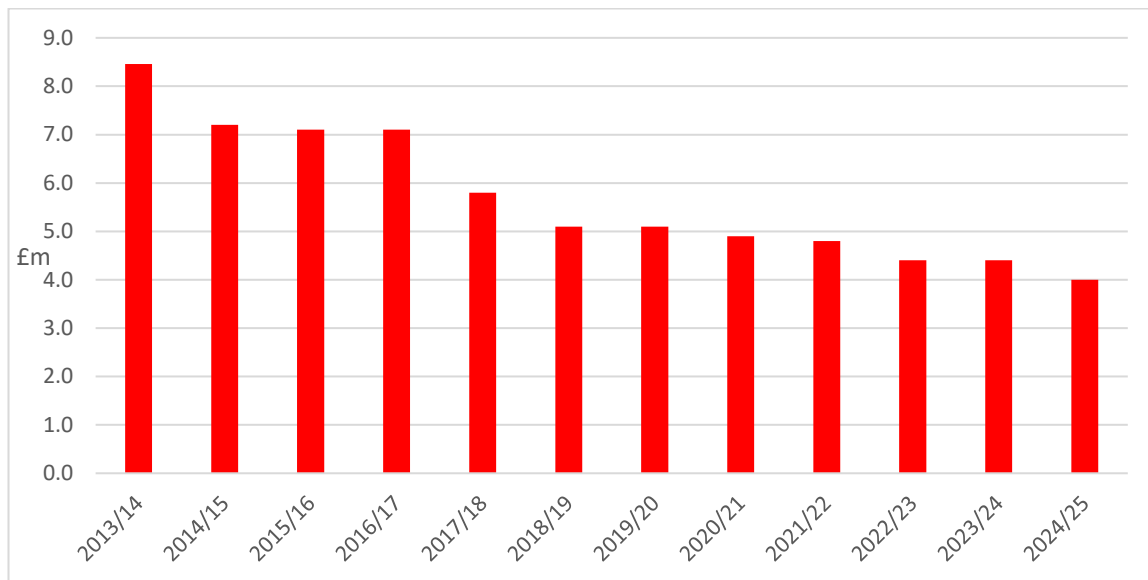
2 Background

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 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, the timeline for a revised funding review is still unclear. The current government will release their autumn financial statement in October followed by a Local Government finance settlement in December, it is unclear at this point what changes to the funding model maybe made, if any in the short term.
- 2.3 The new minister for MHCLG Jim McMahon provided some insight into the direction the government may go with local government funding in interviews in July with the summary message being "how do you move money around the system (Local Government). Whatever the problem is, how do you distribute it as fairly as possible? ... looking at distribution to ensure funding was directed towards the biggest pressures in the system." The interview discussed various local government pressures that would be targeted especially social services and children services which are not a Dacorum responsibility.
- 2.4 The main lever or core funding mechanism that the government could review in the next few months, without overall LG funding reform and prior to a December settlement is the MFG (Minimum Funding Guarantee). The current DBC MTFS assumes this mechanism would cease in the medium term and hence the Dacorum MTFS funding projections may provide some security from any significant short term government funding changes to direct funds towards authorities responsible for social care and children's services. The existing Dacorum medium term savings requirement is challenging enough if government funding was to increase this challenge it would increase the difficulty.
- 2.5 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 LA's 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 over 57% in cash terms, as detailed in Chart 1 below. In 2013-14 the total core government grants totalled £9.2m, 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



- 2.6 In this same period of time inflation (Cumulative Consumer price index, CPI) has increased costs on average by 38% (ONS Annual data 2014-2024) providing additional expenditure pressures to due to the funding reductions detailed above. The combination of reducing funding and additional inflationary pressures results in a significant challenge to Councils to ensure they can continue to deliver very valuable and relied upon services to residents and businesses. The primary focus of the Council has been to increase housing, improve economic growth through place development and regeneration and to maximise income generation where possible to support the community.
- 2.7 The COVID-19 pandemic had a profound and unprecedented impact on the activity and finances of the council since March 2020, and there are still ongoing pressures as a result.
- 2.8 The medium-term loss of income has had a significant impact on the services most impacted like commercial property, parking and garages and it has taken the council 5 years up to 2025/26 to project for income levels, in real terms, to be in line with pre covid levels.
- 2.9 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.
- 2.10 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 more strategic funding reforms. This has provided a small amount of short-term funding certainty but for 2025/26 onwards the Council is yet again in an uncertain situation in regard to future government funding.
- 2.11 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.
- 2.12 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.
- 2.13 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 2025-26 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, and service pressures have been taken into consideration as part of the MTFS assumptions and will be detailed in service budgets to deliver a balanced budget for 2025/26.

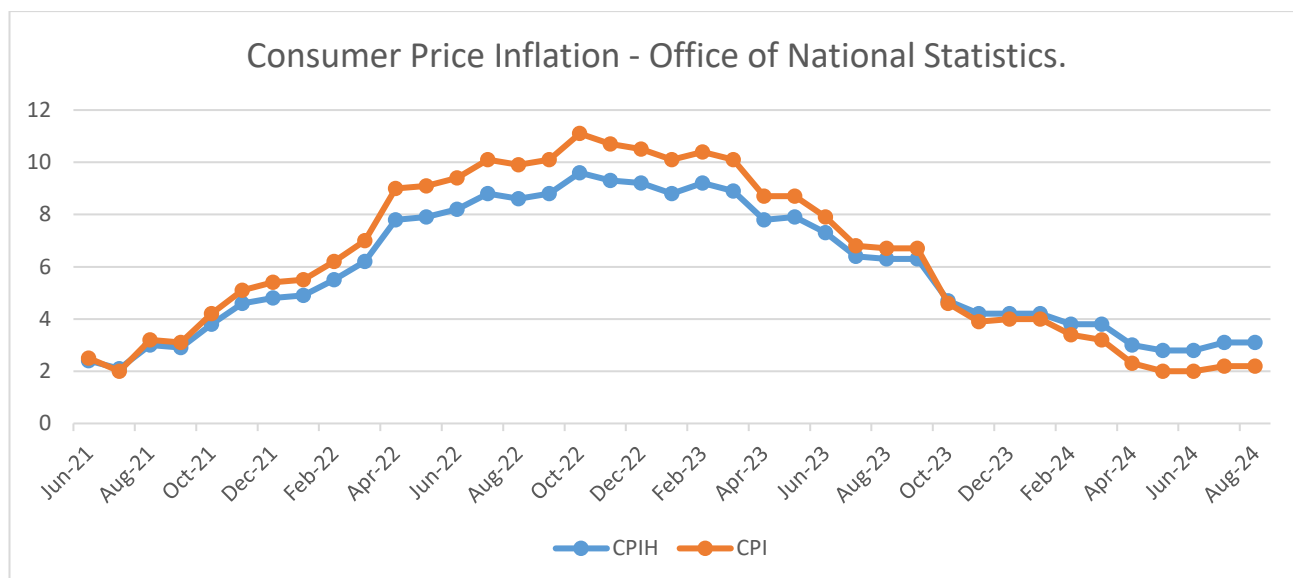
2.14 The MTFS provides assurance on the intended use and the overall level of reserves and the extent of underpinning commercial and financial planning risk.

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 and cost of living crisis 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 businesses changed over the post pandemic period, with the biggest impact being residents working habits and approach to travel. This has had a significant impact on income streams such as parking and also key service areas such as waste services, with income levels now approaching pre pandemic levels in real terms.

3.2 The wider economy is having to cope with fluctuating inflation resulting in a recent cost-of living crisis and this plays a key role in the 2024 MTFS assumptions and pressures. The inflationary impact remains uncertain, despite inflation levels now around the bank of England's 2% target, with particular attention to wage growth inflation and the local government pay awards being especially significant for Dacorum. The employee budget is circa £30m and forms over half of the Council's gross expenditure and there is a reasonable probability that these and other costs will increase above current and projected CPI inflationary levels.

Chart 2: Consumer Price Inflation - CPI & CPIH Inflation 2022- 2024 (ONS Date Sept 2024)



3.3 With inflation rates dropping to around the BoE's targeted 2%, on the 1st of August the BoE announced the first interest rate cut more than 4 years since the start of the pandemic, a reduction of 0.25% to 5%.

3.4 The inflationary impact on the council is pronounced and creates significant financial pressure on budgets, although the 2024 MTFS is starting to project a reduction in this pressure in the medium term. The direct impact on the council of inflation is the requirement to financially support the growing inflationary cost pressures to deliver our services, such as;

- Pay awards of circa 5% in 24/25 and 3.5% in 25/26,
- Supplies and Utility services growth, as well as

- Capital investment growth, through increases interest rates.

Indirectly the impact on residents and businesses is likely to;

- Increase the demand for council financial and hardship 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.

3.5 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 inflationary pressures and cost of living crisis. DLUHC/MHCLG 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 government departments and treasury advisers as well as wider sector experts to monitor the governments funding and monetary policy and the potential wider economic impact on local government.

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.

January – June	<p>All key corporate strategies are reviewed. This financial year this has included the Commercial, Transformation, People, Investment, Digital and Place Strategies.</p> <p>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.</p>
July	<p>The 2024/25 financial year financial monitoring begins, and the approved budget is then assessed at Quarter 1 under the in-year budget performance monitoring process.</p>
September	<p>The final 2023/24 audited accounts are provisionally approved by the Audit Committee, as well as reviewing the prior years financial performance, to ascertain any potential future trends.</p>
September – October	<p>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 scrutiny.</p> <p>Cabinet approves the revised Medium Term Financial Strategy.</p>
November – December	<p>Draft budget proposals presented to Joint Overview & Scrutiny Committee, for Members' scrutiny.</p>
December – January	<p>Provisional Local Government Finance Settlement announced by Government, which sets the level of grant the Council will receive over the next year(s).</p>

January	Feedback from December Joint OSC is considered by Budget Review Group and incorporated into final budget proposal presented to members.
February	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 25/26 budget.

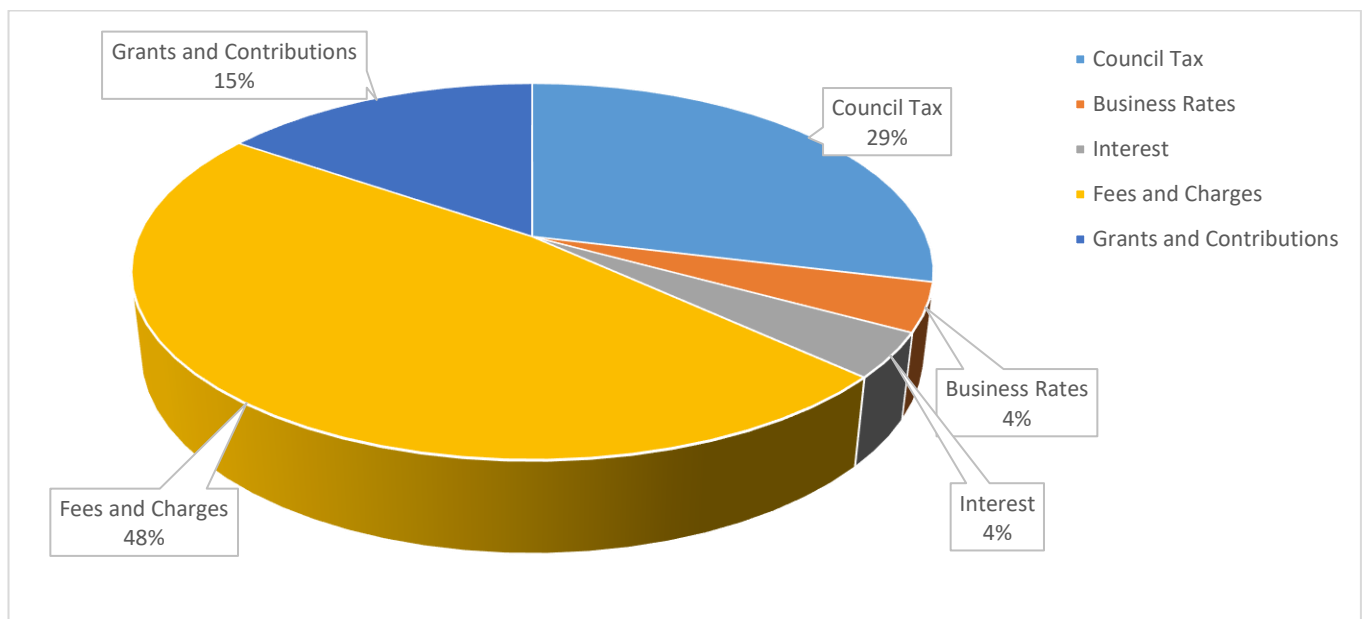
5. Review of the Councils Primary Funding Streams

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 the need for 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 2025/26 are projected to be in line with 2024/25, with the exception of the removal of the short-term minimum funding guarantee provided in the previous 2 years. The medium-term funding is extremely uncertain, with no clear understanding of what efficiencies may be required or whether the 2023 Spending Review funding projections will be maintained by the new government.
- 5.3 The Core funding baseline for Dacorum is projected to be £3.6m in 25/26 and is the combination of Retained business rates and business rates growth of £3.5m and the services grant £0.1m. The present Central Government Departmental funding envelopes for 2024/25, that finance these funding streams, are expected to be maintained for 2025/26 hence it is prudent to assume in this version of the MTFS that these base level funding streams will remain.

Fees and Charges

- 5.4 The most significant Council funding streams is the income collected through fees and charges and council tax. The pie chart below gives a summary of the overall 24/25 projected income streams. It is assumed in the MTFS that fees and charges will be protected and enhanced going forward.



Council Tax (CV)

- 5.5 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.
- 5.6 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%.
- 5.7 In recent years, the Local Government Finance Settlement has granted additional freedoms to increase Council Tax to higher levels, such as an increase in 2023 to 2.99%. As this additional freedom became the statutory CT cap as of 2023 it is not expected that any other short term changes will be announced, 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 it underlays financial sustainability.

Minimum Funding Guarantee (MFG)

- 5.8 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 overall Local Authority funding levels were not reducing year on year in cash terms. At present there is no confirmation that this funding will continue and hence it is assumed in the MTFS that this will no longer be provided.

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 (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.
- 5.10 The NHB scheme officially ended in 2023/24, and was due to be replaced with an alternative scheme that would support housing growth and development. The previous government never finalised their plans, but as this funding stream is still included in central government expenditure plans it is proposed to include a one off £500k of funding to be allocated to reserves to support housing growth. This funding, if received, will be one off in nature and hence committing this to reserves is the most appropriate treatment. Members will be updated on any information related to any possible funding announcements made to support future housing developments as and when the 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 2024/25, 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	2027/28	2028/29
Income						
Council Tax	1	2.99%	2.99%	2.99%	2.99%	2.99%
Council Tax Base Growth	1	1%	1%	1%	1%	1%
Core Government Grant	2	£1.1m	£0.1m	£0.1m	£0.1m	£0.1m
Retained Business Rates Baseline Funding	3	£3.1m	£3.5m	£3.3m	£3.3m	£3.4m
Fees & Charges	4	5%	Various	2%	2%	2%
CT Collection Rate	5	98.5%	98.5%	98.5%	98.5%	98.5%
Expenditure						
Pay settlement	6	5%	3.5%	3%	3%	3%
Pay: contract increments	6	1%	1%	1%	1%	1%
Utilities	7	20%	5%	5%	5%	5%
Fuel	7	5%	5%	5%	5%	5%
Supplies & Services	7	5%	3.1%	3.1%	3.1%	3.1%

Notes:

1. Assumed the increase in Council Tax is set at the government maximum of 2.99% plus a 1% increase in tax base. (Number of homes paying council tax).
2. Core funding assumes, Services grant of £100k going forward.
3. Retained business rates assumptions are based on baseline funding of circa £3m plus £0.5m of assumed business rates retained growth in 2025/26, with this growth reducing in 2026/27 to £0.3m as Dacorum is unlikely to be included in the Hertfordshire business rates pool.
4. The 2024 Fees and charges review has been completed and the proposed Fees and charges are outlined in the adjoining appendices C-F, they are set in line with the fees policy outlined in section 6.3.
5. Council Tax Collection rates have been maintained at 98.5% in line with current collection rates being achieved.
6. The undecided 2024/25 pay award is expected to be circa 4 - 5% for Dacorum and we have assumed a further 3.5% in 2025/26, 3% in future years. This is based on current CPIH levels and projections by the ONS and on the premise that local authority pay awards do not usually exceed inflationary levels. 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.

- 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 2% 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, as inflation is now at or around 2%,
 - Achieving income to offset the increase in service delivery costs due to inflationary pressures, or an
 - Increase of circa 2% on average where applicable on discretionary fees and charges.

7.0 Corporate Strategy

- 7.1 The NEW Corporate Plan approved by cabinet in September is the driving mandate the council strives to achieve and to do that the MTFS is one of several key corporate strategies that jointly form the delivery strategy to achieve those 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 and programmes of work that both form the foundations of the 2024 MTFS or will drive future medium-term planning and sustainability in particular the income generation and savings requirement of the future.
- 7.2 There are Key corporate strategies that are in operation or development at present to support the delivery of the corporate plan and are fundamental to the delivery of a sustainable MTFS these key strategies are evolving in many cases but have been reflected in the revised MTFS and include;
- Strategic Asset Review (SAR) – A review of the Council's assets both operational and investment assets was approved in June 2023.
 - Commercial Strategy and the development and review of all Commercial income streams and services to maximise the commerciality of the council.
 - Transformation Strategy- This is a cross-organisational approach to delivering changes to service provision and is centred around the intertwined People, Customer and Digital strategies.
 - A developing Dacorum Place strategy to support the approved Town Centre Vision and place shaping agenda in the medium term.
 - Local Plan – The 2025 Local Plan will outline the development plans to deliver on housing growth, economic development and infrastructure solutions, for final approval in 2026.

Strategic Asset Review

- 7.3 This strategy review has directly linked to the Corporate Plan with an overriding strategic objective to;
1. Increasing housing supply.
 2. Delivering wider regeneration and place-making, including the regeneration of key strategic town centre and neighbourhood sites; and
 3. Securing long-term additional income streams to the Council a wide-reaching programme of work that includes various workstreams.

The outcomes and outputs from this programme will be delivered from 2025 onwards and will form a fundamental backbone of the future financial planning and investment of the council.

Commercial Strategy

- 7.4 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.
- 7.5 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 commercial activity. A Commercial Board has been established that plays an integral strategic role in supporting commercial activity, and providing corporate oversight of commercial performance, to help shape an agile, commercial culture across the Council.
- 7.6 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, which resulted in net additional income in the 2024/25 and 2025/26 budgets.

Transformation Strategy

- 7.7 The Council's transformation strategy, Future Dacorum, is now in delivery phase. The strategy centres around the customer, with a clear ambition to be more efficient and effective across all Council activity. This will deliver better for our residents and businesses but 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 and is focused on the three key corporate strategies of People, Customer and Digital.
- 7.8 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 senior management and members to make informed decisions about how and where best to use resources including savings and re-investment options.

Place

- 7.9 The Hemel Place Strategy, to be finalised in 2024/25, will set an overarching place shaping agenda. This, along with Berkhamsted and Tring Place Strategies to be developed, will be fundamental to supporting future investment strategies and increased economic development to support sustainable growth across the borough. This will be delivered through supporting work such as the Hemel Hempstead Town Centre Vision and Maylands Masterplan and these delivery programmes will drive future investment requirements.

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, hence the need to make regular update and revisions to the assumption. In recent year's global economists, the investment sector and various governments have made assumptions on interest rates and inflation that have resulted in multiple revisions of government funding policies.

- 8.3 During the financial planning framework and general financial stewardship the council is duty bound to review and reflect on the short- and medium-term risks financial risks that exist to ensure that through the Strategic and Operational risk framework the organisation can monitor, report and mitigate these risks where possible. There are intrinsically a number of risks for an organisation the size of Dacorum, the significant financial risks under close scrutiny at present include;

Waste Service Delivery

- 8.4 The councils largest front line service delivery is the waste and recycling service. This service has undergone significant changes to improve service delivery and value for money, the largest recent change was the implementation of a revised route optimisation schedule in 2023. This project had a significant impact on the overall cost of the service and the outcome in regard to the 3 E's (Efficiency, effectiveness and economy) was very positive on the council. As Dacorum develops new homes and businesses the demand for this service increases and the service needs to be agile to continue to respond to this growth, in an efficient manner.
- 8.5 There are a series of expected government policy reviews on waste and recycling including the producer responsibility policy, where significant producers of waste will be charged to finance the collection and disposal of that waste, this is likely to have an impact on how and what the service delivers going forward, and this will need to be reflected in service delivery plans. In addition to this and as part of the Councils ambitious climate change programme the decarbonisation of the waste fleet is a key deliverable in the medium term and one that the council will need to invest in going forwards as plans are produced.

Temporary Accommodation

- 8.6 The council has seen a growth in the volume and complexity of people and families presenting themselves at the council as homeless. The council has a statutory responsibility to find accommodation for these people and families, and up to the end of 2023 the council was able to manage this demand through existing facilities and supply chain and with support through the third sector. The growth in this demand has resulted in the Council having to utilise a small amount of hotels and B&B's to provide this provision that comes at a great cost to the council. A deep dive of Dacorum supply and demand is currently underway to outline a medium- and long-term strategy to ease this financial pressure.

Service Planning

- 8.7 The annual service planning review and horizon scanning process was undertaken in the first quarter of 2024 and the MTFs has included circa £480k of growth across the council to support ongoing service delivery, income shortfalls and service improvements, with significant investment being made to support the commercial property portfolio.

Parking Review

- 8.8 As part of work undertaken through the council's Commercial Strategy, there is a car parking policy and tariff review that is due to be implemented by January 2025 this is projected to deliver an additional £660k p.a. of car parking income. If car parking tariff's policy is not implemented, it would have a significant impact on the overall financial plan.

Treasury Management

- 8.9 The 2024/25 treasury management function is delivering greater financial returns than budgeted, following a strong performance in 2023/24.
- 8.10 The combination of higher interest rates and larger cash balances to invest have resulted in significant investment returns in 24/25. At present the projected spend in the 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 25/26. 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. As discussed in section 3, following the reduction in interest rates by the BoE in August the future the projections for future interest rates is lower than 24/25 projections.

9.0 General Fund Medium-Term Savings

- 9.1 Based on the assumptions in the MTFs strategy, the total Savings Requirements in the period 2024-2029 is £2.5m, of which £464k has already been identified. This leaves a residual savings requirement of £2.1m.
- 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 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.

		2025/26	2026/27	2027/28	2028/29
	Total Savings Requirement	£524k	£960k	£526k	£503k
a.	Savings identified and delivered.				
b.	Savings Identified, but still to be delivered	£464k			
	Total Savings Requirement	£60k	£960k	£526k	£503k

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. The £464k of savings identified includes circa £425k of additional income generation in 25/26, with the residual £39k efficiencies across a number of service areas.

- 9.3 Plans for the delivery of future savings for 2026 onwards are being developed, as part of the delivery of the key corporate strategies (summarised in section 7). As outlined in section 7 above there are 5 key corporate strategies that are developing which will contribute to delivery of future efficiencies and/or income generation.

Key Financial Performance Risks

- 9.4 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 kept updated on any potential implications.

Discretionary Income Generating Services

- 9.5 The Council collects circa £21m from charges for services and circa 50% of this income is for discretionary services that residents could choose to not purchase or are impacted by a more difficult economic environment where residents are spending less. These income streams include garage rental, car parking, planning services, garden waste collection and other discretionary services.

Council Tax Collection

- 9.6 The council collects circa £133m of council tax on behalf of its preceptors of which we retain circa £15.7m 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 lead to further future funding pressures.

Borrowing Costs

- 9.7 The MTFS at present has no General Fund requirement to externally borrow in 2024/25, with borrowing potentially required in 25/26. These borrowing needs will be met by internal borrowing and monitored as part of the treasury management service.
- 9.8 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 C5% and would mean for every £1m the council borrows it will incur annual interest charges of £50k p.a.

10.0 General Fund Working Balances and Earmarked Reserves

- 10.1 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 2024/25 Budget Report, in February 2024.
- 10.2 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 M of the Budget Report to Cabinet in February 2024.
 - 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.
- 10.3 In accordance with best practice, the General Fund Working Balance is maintained at a level between 5% and 15% of Net Service Expenditure.
- 10.4 As part of the annual CFO statement in the budget report in February 2024 the Chief Finance Officer (S151) is required to report on the adequacy of the proposed financial reserves, at that point in time I confirmed that the level of reserves and balances are adequate to mitigate the foreseeable risks to the organisation, and I can reaffirm at this point in time that position is unchanged.

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 early in the new year with the HRA 25/26 budget proposed presented for formal approval alongside the General Fund budgets in February.

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 2024/25 to 2028/2

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

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Planned Capital Expenditure	9.1	25.2	23.2	6.7	8.6

12.5 The Council's Capital Programme is currently fully funded until 2025/26, the only borrowing being the balance of a portfolio of loans taken in May 2015. The balance is structured over a portfolio of 14 remaining loans, valued in total at £5.5m, with one maturing each year. The remaining loans were 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 3.03%.

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 2024, 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.

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Capital Receipts and Reserves	7.8	10.6	1.5	0.0	7.9
Capital 141 Receipts	0.0	0.0	0.0	0.0	0.0
Borrowing	0.0	13.9	21.0	6.0	0.0
Grants and Contributions	1.3	0.7	0.7	0.7	0.7
Total	9.1	25.2	23.2	6.7	8.6

13 Financial and Value for Money implications

13.1 Contained within the body of the report.

14 Legal Implications

14.1 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

16.1 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

17.1 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**18.1 Monitoring Officer**

No comments to add to the report.

18.2 S151 Officer Comments

This is a S151 Officer report, and comments are included in the body of the report.