AGENDA ITEM:

SUMMARY

Report for:	**Cabinet**
Date of meeting:	**14 February 2017**
Part:	**1**
If Part II, reason:	

Title of report:	**Budget 2017/18**
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations)
Purpose of report:	To present to Cabinet budget proposals for recommendation to Council in relation to: • Revenue and Capital Expenditure together with the potential use of reserves • The setting of the Council Tax for 2017/18 • The Treasury Management Strategy 2017/18 • The level of fees and charges for 2017/18 • Advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003
Recommendations	It is recommended that Cabinet recommend Council to: **General Fund Revenue Estimate** a) set a Dacorum Borough Council General Fund Council Tax requirement of £10.709m, and of £11.442m for the combined Borough Council and Parish Councils' requirement for 2017/18; b) approve an increase of 2.71% in Council Tax for Dacorum Borough Council; c) approve the base estimates for 2017/18, as shown in Appendix A1, and the indicative budget forecasts for 2017/18 – 2020/21, as shown in Appendix A2; d) approve the forecast balances of Revenue Reserves as shown in Appendix J, and approve paragraphs 10-20 of

	this report as the updated Reserves Strategy; e) approve increases in Fees and Charges for 2017/18 as set out in Appendices C3, D3, and E3; f) approve and adopt the Treasury Management Strategy for 2017/18, attached at Appendix K; g) approve and adopt the Treasury Management Principles and Practices for 2017/18, attached at Appendix L; h) note that this budget paper, when approved by Council, will form part of the Medium Term Financial Strategy. **Capital Programme** i) approve the revised Capital Programme for 2016/17, and for 2017/18 to 2021/22, as detailed in Appendix I; j) approve the financing proposals in Appendix I subject to an annual review of the financing options by the Corporate Director (Finance & Operations), in consultation with the Portfolio Holder for Finance and Resources, during the preparation of the Statement of Accounts. **Housing Revenue Account (HRA)** k) reduce dwelling rents by 1% in accordance with government legislation, resulting in an average rent of £104.17 per week (based on 52 weeks); l) approve the HRA estimate for 2017/18 as shown in Appendix F. **Terms & Conditions** m) approve the continued application of a living wage supplement for all affected employees, in accordance with the rates of the Living Wage Foundation, for 2017/18 (to be reviewed annually thereafter). **Statement by Chief Finance Officer** n) approve the statement by the Chief Finance Officer regarding the robustness of the budget estimates and level of reserves as set out in Appendix M.
Corporate objectives:	All of the Council's corporate objectives are reflected in the Budget proposals.
'Value For Money Implications'	Contained within the body of the report
Risk Implications	Budget Risk Assessment completed within report (Appendix M)
Equalities Implications	Group Managers are responsible for carrying out Equality Impact Assessments for individual budget proposals contained

	within the overall budget. Group Managers will need to confirm these have been carried out prior to Budget and Council Tax setting.
Health And Safety Implications	None arising directly from this report.
Monitoring Officer/S.151 Officer Comments	**Monitoring Officer:** Under the Council's Constitution it is the responsibility of Cabinet to draw up firm proposals for the Budget, having regard to the responses to the consultation, and to present those proposals to full Council for approval. Once full Council has approved the Budget it is the responsibility of Cabinet to implement it. **S.151 Officer:** Comments contained in body of report. Chief Finance Officer Statement contained in Appendix M of the report.
Consultees:	Overview and Scrutiny Committees Budget Review Group Town and Parish Councils Public Engagement Forum Corporate Management Team Leadership Team
Background papers:	Joint Overview and Scrutiny Reports: 6 December 2016, and 7 February 2017.
Abbreviations	GF – General Fund Revenue Account HRA – Housing Revenue Account MTFS – Medium Term Financial Strategy NHB – New Homes Bonus OSC – Overview and Scrutiny Committee PWLB – Public Works Loan Board RSG – Revenue Support Grant SFA – Settlement Funding Assessment

Appendices to this report are as follows:

Corporate view
- Appendix A1 – General Fund Budget Summary 2017/18
- Appendix A2 – Draft General Fund MTFS update 2016/17 – 2020/21
- Appendix B1 – Budget Change Analysis 2016/17 – 2017/18
- Appendix B2 – Budget Summary by Overview & Scrutiny Committee

Finance & Resources
- Appendix C1 – Finance & Resources Budgets Summary 2017/18
- Appendix C2 – Finance & Resources Budgets Detail 2017/18
- Appendix C3 – Finance & Resources Fees and Charges 2017/18

Housing & Community
- Appendix D1 – Housing & Community Budgets Summary 2017/18
- Appendix D2 – Housing & Community GF Budgets Detail 2017/18
- Appendix D3 – Housing & Community Fees and Charges 2017/18

Strategic Planning & Environment
- Appendix E1 – Strategic Planning & Environment Budgets Summary 2017/18
- Appendix E2 – Strategic Planning & Environment Budgets Detail 2017/18
- Appendix E3 – Strategic Planning & Environment Fees and Charges 2017/18

Housing Revenue Account
- Appendix F – Housing Revenue Account Budget 2017/18
- Appendix G – Housing Revenue Account Movements 2016/17 -2017/18

Capital Programme
- Appendix H – Capital Programme Summary of new and amended projects
- Appendix I – Capital Programme 2016/17 - 2021/22, by OSC

Reserves
- Appendix J – Statement of Earmarked Reserves

Treasury Management
- Appendix K – Treasury Management Strategy Statement 2017/18
- Appendix L – Treasury Management Principles & Practices 2017/18

S151 Officer
- Appendix M – Statement by the Chief Finance Officer

1. The Budget-setting process

1.1 The 2017/18 budget proposal and the updated Medium Term Financial Model have been produced to ensure that the Council maintains a sustainable financial position over the planning period to 2020/21. The following Council strategies and policies have informed the budget-setting process:

- The Council's Vision and Priorities, as stated in the Corporate Plan
- The Medium Term Financial Strategy (MTFS)
- Service Strategies and Plans

1.2 In accordance with the Medium Term Financial Strategy, a Budget Review Group comprising the Leader, Portfolio Holder for Finance and Resources, Chief Officers and the Group Manager (Financial Services) has met to review and monitor emerging budget proposals throughout the budget preparation period.

1.3 There has been a series of budget briefings and planning meetings throughout the budget cycle involving Portfolio Holders and members of the Council's leadership team. In addition, there have been combined briefings for Overview and Scrutiny Committees in December 2016 and February 2017, during which Members undertook detailed scrutiny of the budget proposals.

1.4 External stakeholders have also been consulted, with the Corporate Director (Finance & Operations) providing a briefing to Town and Parish Clerks at the Parish Council in November 2016 followed in January 2017 by a residents' consultation event, where residents from across the borough had the opportunity to feedback on the Council's proposals for 2017/18.

1.5 The Council commissioned Opinion Research Services (ORS) to arrange and facilitate the residents' consultation with a representative sample of Dacorum residents. The event took place on 14 January 2017, and involved participants working in discussion groups to prioritise some broad strategic options open to the Council to address its savings targets. The full report is available on the Council's website, but a summary of the key points is shown below:

Strategic Option	Priority weighting
Council Tax Increase £5	43%
Service Reductions	5%
Increase Charges	13%
Improve Efficiency	39%

1.6 The table above demonstrates the weighting that the groups allocated to the broad four strategies the Council could adopt to meet its savings targets. At the end of the meeting, 21 of the 24 attendees (88%) supported the Council's proposal to increase Council Tax by £5.

2. The 2017 Local Government Finance Settlement

2.1 On 15 December 2016, the Secretary of State for the Department for Communities and Local Government, Sajid Javid MP, made a statement to Parliament on the provisional Local Government Finance Settlement 2017/18.

2.2 This settlement was very much a follow on from December 2015, in which central government offered a four-year funding agreement (to 2019/20) for those local authorities which submitted an Efficiency Plan demonstrating how they would benefit from increased funding certainty. Given that 97% of local authorities accepted this offer, the level of central government funding, nationally, has remained largely as forecast in late 2015.

2.3 The largest source of central government funding is the Settlement Funding Assessment (SFA) which for 2017/18 consists of two funding streams: Business Rates Retention and Revenue Support Grant (RSG).

2.4 Nationally, the total amount of SFA paid out by government to local authorities will reduce by 10.5% in 2017/18, down to £16.6bn. Continued reductions are planned for the next two years as part of the four-year settlement, which will reduce the annual amount of SFA paid to £14.5bn by 2019/20, an aggregate reduction of 22% between 2016/17 and 2019/20.

3. Dacorum's Key Funding Streams – Settlement Funding Assessment

3.1 The Council benefits from two elements of funding within the Local Government Finance Settlement (which together comprise the Settlement Funding Assessment (SFA)):

- Revenue Support Grant (RSG)
- Baseline Funding (the guaranteed element of Business Rates Retention)

3.2 The provisional **Revenue Support Grant** for 2017/18 is £105k, a reduction of £865k from the £970k received in 2016/17. This continues the trend of reducing RSG for the Council, down 97% from the £3.962m received in 2013/14.

3.3 **Baseline Funding** is funded by Central Government through redistributed Business Rates, and the amount is determined by Government's assessment of need within Dacorum. The provisional settlement for 2017/18 is £2.8m compared to £2.75m in 2016/17.

3.4 Baseline Funding is part of the Government's Business Rates Retention Scheme, which is designed to incentivise local authorities to grow their local economy by enabling them to share in any increase in Business Rates income (i.e. growth in the tax base). However, under the terms of the Scheme, the reverse is also true, i.e. that local authorities must absorb a portion of the lost business rates income arising from a contraction in the tax base. Government has capped at 7.5% the income that can be lost to councils from their Baseline Funding as a result of a reduced tax base. This cap is known as the 'Safety Net'.

3.5 There is currently a significant backlog of Business Rates valuation appeals that have been submitted by businesses across the country, including within Dacorum. The Valuation Office (VOA) is responsible for adjudicating on these appeals. Based on historical data, there is a risk that a high number of these backlogged appeals will be upheld, and that consequently Business Rates reductions will be granted to a sufficiently high number of businesses to reduce the Dacorum tax base below the 7.5% Safety Net. On this basis, the 2017/18 Budget assumes that the level of Business Rates grant will be at the Safety Net level. This is in accordance with the MTFS approved by Cabinet in July 2016.

3.6 As expected under the four-year settlement, the combined reduction to the Council's **Settlement Funding Assessment** in 2017/18 is 21.7% (£810k) rising to 45.9% (£1.7m) by 2019/20, i.e. the remaining period of the four-year settlement. In both cases this is a significantly higher reduction than the national average for district councils, which is 15% for 2017/18 and 32% for the period to 2019/20.

3.7 The reason Dacorum's SFA reduction is high relative to the district council average is that grant reductions within the four-year settlement were based on Government's assessment of each council's **Core Spending Power**. Rather than simply applying the same percentage grant reduction to all authorities, Core Spending Power ensures that the grant reduction for each council also takes into account the amount that a council can raise locally, i.e. through Council Tax and New Homes Bonus.

3.8 In 2017/18, Dacorum is forecast to have around the 15th highest Council Tax income of the 200 district councils in England (£10.7m compared to an average of around £6.7m). This means that Dacorum can generate more income locally than most district councils and therefore, within the government's context of Core Spending Power, can absorb a greater reduction in government funding than most district councils.

4. Dacorum's Key Funding Streams – New Homes Bonus

4.1 The provisional NHB allocation for Dacorum in 2017/18 has been announced as £3.1m. This is £500k less than the £3.5m received in 2016/17, but £1.9m more than the £1.2m forecast in the MTFS. The difference between the forecast and the actual award was due to the ongoing government consultation on the future of NHB at the time the forecast was made. In the absence of firm information on the likely outcome, the Council had forecast a prudent reduction based on inference from the general announcements of the Chancellor.

4.2 In late 2015, Government announced a technical consultation ('*Sharpening the Incentive*') on the future allocation of NHB, with a view to reducing the total amount of NHB paid in order to divert more central government funding towards social care. The revised means of allocating NHB were announced as part of the Local Government Finance Settlement in December 2016, and will come into force from 2017.

4.3 The key changes announced for the allocation model are:

a) A move to 5-year payments from 2017/18 (from the current 6 years) and then to 4-year payments from 2018/19;

b) The introduction of a national baseline of 0.4% growth, below which no NHB will be paid – i.e. Local Authorities will only receive NHB for growth in the number of dwellings above 0.4%. Government has reserved the right to revisit this baseline annually;

c) Government will consider withholding payments for homes that are built following appeal. Further consultation will take place on this subject.

4.4 Over the medium-term (to 2020/21), based on currently forecast housing growth within the borough, these changes to NHB will result in £3.5m of additional funding for the Council over the previous forecasts. This additional funding has been incorporated within these budget papers on the assumption that the Council will continue to use only £325k per annum of NHB to support the provision of General Fund services, with the remainder being used to support delivery of the Capital Programme. The impact of utilising the NHB for capital purposes has revenue implications in that it has reduced the previously forecast need to borrow in 2018/19 and 2019/20, along with the associated revenue costs.

5. Dacorum's Key Funding Streams – Council Tax

5.1 The Council's Council Tax requirement for 2017/18 is calculated as £11.422m (inclusive of parish precepts) and £10.709m (exclusive of parish precepts). The approved taxbase for 2017/18 is 56,415 based on a collection rate of 99.4%.

5.2 The income due from Council Tax goes into the Collection Fund. Throughout the year the actual number of properties (as well as allowances for exemptions, discounts or appeals) inevitably varies from the figure estimated at the start of the year. This leads to a change in the amount of Council Tax due, and therefore a surplus or deficit on the Collection Fund.

5.3 In 2016/17 a surplus position has arisen on the Collection Fund primarily due to an increase in the number of new properties built, coupled with a decrease in the requirement for Council Tax Support. This surplus is shared between the Major Preceptors, i.e. the County, the Police Authority and the Borough, in proportion to their precepts for the year.

5.4 The proportion of this surplus that each of the Major Preceptors will receive from the Collection Fund when calculating the Council Tax for 2017/18 is as follows:

Dacorum Borough Council	£81,655.06
Hertfordshire County Council	£492,467.15
Hertfordshire Police & Crime Commissioner	£61,159.59
Total Surplus	**£635,281.80**

5.5 Cabinet approved the Collection Fund surplus in December 2016.

5.6 The Localism Act 2011 abolished Council Tax capping in England and instead allows local residents to reverse 'excessive' Council Tax increases by means of referendum. Currently, Government has set the referendum threshold for district councils at the higher of £5 or above 1.99%. The proposed increase of £5 for Dacorum in 2017/18 is therefore within the threshold. This referendum threshold does not currently apply to Town and Parish Councils. The cost of holding a referendum within Dacorum is estimated to be around £80,000.

6. Local Government accounting requirements

6.1 The budget-setting process within Dacorum is governed by a number of statutory requirements. Some of the key requirements are explained, below.

Capital charges

6.2 Where a Service benefits from the use of a council-owned asset, the Revenue expenditure budget for that Service includes a nominal charge for the use of that asset. This is in line with standard accounting practices, and the nominal charge is known as a Capital Charge.

6.3 Capital Charges ensure that the ‘true’ cost of running a Service is captured in the budget. However, in order to ensure that this nominal charge is not passed onto the Council Tax payer, there is corresponding credit (reversing out the charge), which can be seen in the General Fund Summary (Appendix A1).

6.4 A rolling programme of valuations is undertaken by the Council’s valuer which ensures that the asset register is kept up-to-date and that capital charges to Services are accurate. The Council’s valuation method and calculation are subject to audit by the Council’s external auditors, EY. Any change in the use of assets, or revised valuation, or additional Capital Expenditure will affect the capital charge made to the Revenue Budget.

Prudential Code

6.5 The Council complies with the Prudential Code for controlling Local Government Capital Finance, and the Budget for 2017/18 has been prepared in the context of these plans and controls. (More details of the Prudential Code are included within the Treasury Management Strategy in Appendix K.) The key objectives of the Code are to ensure that:

- Capital Investment Plans are affordable, prudent, and sustainable;

- All external borrowings and other long term liabilities are within prudent and sustainable levels;

- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudency, affordability and sustainability;

- The Council is accountable for its decisions; and,

- The Code supports local strategic planning, local asset management planning and proper option appraisal.

7. Forecast Outturn 2016/17

7.1 Appendices C2, D2 and E2, which breakdown the proposed 2017/18 budget by OSC remit, also show the forecast budget outturn for the current financial year, as at November 2016. This is included to provide Members with comparative context for the 2017/18 budget proposals.

7.2 As at January 2017, the outturn for financial year 2016/17 is forecast to be broadly on budget. However, if revenue underspends are identified as part of the year-end process, it is recommended that they be contributed to earmarked reserves in order to fund specified expenditure in future years. Formal approval for movements in reserves will be sought from Members as part of the year-end process. The Council’s Reserves Strategy, including justifications for current balances and recommendations for future movements, can be found in paragraphs 10 to 20 of this report.

8. Budgetary assumptions 2017/18

8.1 The inflationary assumptions used to compile the 2017/18 estimates are set out below.

Inflation Factors	
Salary Inflation (annual pay settlement) for 2017/18	1%
Business Rates	2.1%
Fuel	5%
Utility Cost increase assumptions: Gas Electricity The Council is in a fixed price contract until 2017/18.	5% 5%
Other Assumptions	
Average rate of return on Investments	0.25%
Salary Vacancy Factor	5.0%
Growth in numbers of Band D equivalent properties	2.1%

8.2 The salary vacancy factor for the 2016/17 budget was 5%, excluding front line staff within Waste Services. Analysis of the employee related budget undertaken during the last financial year shows that this level is appropriate. It is therefore proposed to maintain the vacancy factor at 5% for 2017/18.

9. Revenue Income

9.1 In addition to the key funding streams explained in section 5 of this report, the Council receives income from a number of sources.

9.2 Housing Rents received through the Council's housing stock are ring-fenced within the Housing Revenue Account (HRA) for the administration and maintenance of existing stock, and for the delivery of new buildings. More detail on the HRA budget is covered in –section 13.

9.3 Investment Income – Low interest rates in recent years have led the Council to reduce its dependency on investment income as a means of financing revenue expenditure. Investment income has been further eroded as the Council has delivered a number of high value capital projects, which has reduced the capital balances, and, therefore, the balance of investable funds available. Budgeted General Fund investment income for 2017/18 is £236k, and £206k within the HRA. This assumes an average interest rate of 0.25%.

9.4 Fees and Charges – Service managers have proposed changes to fees and charges for 2017/18 as detailed in Appendices C3, D3 and E3.

10. Reserves Strategy

10.1 The Council's Reserves Strategy is reviewed annually, and was most recently approved by Members within Sections 10-20 of the Budget and Council Tax Setting Report (February 2016).

10.2 The Council holds two types of reserve, both of which are subject to audit by the Council's external auditors, EY LLP, as part of the year-end process. The two types of reserve are:

- **Working balances**, which are required as a contingency against unforeseen events, and to ensure that the Council has sufficient funds available to meet its cash flow requirements. The Local Government Act 2003 requires the Section 151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year. This requirement is met within Appendix M.

- **Earmarked reserves**, which are funds approved by Members to finance specific items of future expenditure. The Council's Financial Regulations dictate that Earmarked Reserves can be created only with Member approval, and that all subsequent transfers to and from those reserves also require Member approval.

10.3 In line with the Council's approach in previous years, it is recommended that the **General Fund Working Balance** is maintained at a level between 5% and 15% of Net Service Expenditure. The proposed budget forecasts a General Fund Working Balance of £2.5m by the end of 2017/18, which equates to 14.2% of the Net Cost of Services of £17.653m (as shown in Appendix A1).

10.4 The **HRA Working Balance** is maintained by the Council at a level of not below 5% of turnover, as approved by Members as part of the MTFS Reserves Strategy. The proposed budget maintains the HRA Working Balance at £2.9m by the end of 2017/18, which equates to 5.1% of the £56.6m turnover (as shown in Appendix F).

10.5 It is recommended that Council approves the continued use of these parameters for the maintenance of both General Fund and HRA Working Balances.

General Fund Earmarked Reserves

10.6 The General Fund budget proposes a Net Cost of Service of £17.7m, as set out in Appendix A1. A balanced budget has only been possible as a result of making savings within Services, generating increased income, and identifying efficiencies, together with a net use of c£0.6m from earmarked reserves for non-recurring items (excluding Revenue Contributions to Capital). The proposed movements of General Fund earmarked reserves for revenue use in 2017/18 are as follows:

Earmarked Reserve	**Net Movement £000**
Earmarked Grants Reserve	(169)
Management of Change Reserve	(408)
On Street Car Parking Reserve	(26)
Local Development Framework Reserve	(34)
Dacorum Development Reserve	(174)
Planning & Regeneration Projects Reserve	(45)
Litigation Reserve	216
Vehicle Replacement Reserve	350
Tring Swimming Pool Reserve	8
Youth Provision Reserve	(40)
Election Reserve	30
Uninsured Loss Reserve	(86)
Training and Development Reserve	(43)
Housing Conditions Survey Reserve	15
Dacorum Partnership Reserve	(11)
Funding Equalisation Reserve	(209)
Total Net Movement	**(626)**

10.7 Appendix J identifies the proposed movements on General Fund Earmarked Reserves. All reserves have been reviewed during the preparation of the

Budget for 2017/18, and there will be a further review of the reserves position as part of the closure of accounts process for 2016/17.

10.8 The justification for balances currently held by the Council within Earmarked Reserves is shown below.

- **Civic Buildings Major Repairs Reserve**
  This reserve was created as the Civic Centre Major Repairs Reserve to cover the costs arising from unplanned repairs to the Civic Centre. It is recommended that a balance of £200k be retained in this reserve in order to finance unplanned costs associated with unplanned repairs to civic buildings, and the reserve be renamed the Civic Buildings Major Repairs Reserve.

- **Earmarked Grants Reserve**
  This reserve has been set up for unutilised grants from current and prior years. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas. It was previously agreed that £10k of this reserve be drawn down each year for four years (starting in 2016/17) in order to fund energy efficiency initiatives across the Council. This use of funding is in accordance with the award of the original £40k grant. The balance of £139k is for previously awarded new burdens grants, and can be released back to general fund balances in 2017/18.

- **Management of Change Reserve**
  To finance any one off costs of projects required to make improvements or significant changes to services for which no budgetary provision exists, including redundancy and pension strain payments.

  With continually increasing pressure on the Council's funding streams, service transformation remains high on the Council's agenda. This has resulted in a recommended draw down from this reserve of £408k in 2017/18 to fund various initiatives including: the review of leisure provision (£200k), flats recycling project (£81k), Tring town development (£70k), corporate graduates (£32k) and a two year Sport England project (£25k).

- **Technology Reserve**
  This reserve was set up in 2010/11, to be utilised with the Management of Change reserve to invest in technology improvements which will help improve efficiency and resilience.

- **Savings Contingency Reserve**
  It is recommended that this reserve is created in order to mitigate the risk of the Council's savings initiatives failing to complete on time, and thereby causing an in-year budgetary pressure. The reserve will be funded through savings achieved ahead of the savings targets laid out in the MTFS

- **On Street Car Parking Reserve**
  There are statutory requirements the Council must observe in relation to income derived from certain parking activities, particularly on street car parking and penalty charge notices. Any operating surplus generated from these activities is transferred to this reserve for future re-investment in parking activities.

The £26k proposed draw down in 2017/18 relates to expenditure to fund the planned one-off costs associated with developing Controlled Parking Zones.

- **Local Development Framework Reserve**
  This reserve was created to smooth the costs associated with work on the LDF over a number of financial years, rather than incurring substantial expenditure in one financial year. The balance of the reserve has been drawn down for 2017/18, and there are currently no additional contributions planned to bring the level of reserve back up. This is because the level of annual expenditure on the LDF is so consistent that the MTFS has been updated to include a baselined budget rather than rely on draw downs from this reserve. The baselined annual budget has been set at £300k within the MTFS, which compares to an average annual spend of £310k over the last three years. This budget will need to be closely monitored by the Service in order to ensure that peaks and troughs in expenditure can be smoothed, and the reserve may be used for this purpose in the future.

- **Dacorum Development Reserve**
  This reserve was created in 2011/12 to support regeneration and economic development initiatives across the Borough. The net draw down of £174k proposed for 2017/18 includes draw down of £120k to fund the events associated with the Council hosting a stage of the Tour of Britain in 2017/18, along with a draw down of £54k towards the Dacorum Ambassadors programme.

- **Planning Enforcement & Appeals Reserve**
  To meet the costs of urgent action on planning enforcement, and stabilise the financing of fluctuating annual costs of planning appeals.

- **Planning and Regeneration Projects Reserve**
  This reserve is designed to meet any one-off costs associated with planning or regeneration projects. The £45k draw down proposed for 2017/18 funds one-off revenue expenditure associated with the Water Gardens project.

- **Litigation Reserve**
  The funds within this reserve are held to support one-off costs associated with the defence against, or settlement of legal claims. The Council is currently involved in a number of complex legal cases which are likely to progress in 2017/18, and it is therefore recommended that this reserve is increased to £430k.

- **Vehicle Replacement Reserve**
  This reserve was created to enable the Council to make regular contributions to the capital costs associated with replacing of key fleet vehicles. Funding replacement costs through Revenue Contributions to Capital enables the Council to reduce or avoid the costs associated with borrowing. From 2017/18 onwards, annual contributions to the reserve are recommended to continue at £350k.

- **Invest to Save Reserve**
  This reserve was created in 2015/16 to support the one-off costs associated with spend to save initiatives and investing in new ways of working. It is used to fund the up-front costs of projects that can

demonstrate payback within a 5-year period. Successful bids require sign-off by the S151 Officer, before requesting Member approval, and the proposed savings are removed, or income targets inserted, for the Service's future years' budgets at the point the bid is approved.

- **Longdean School Repairs Reserve**
  A reserve created to enable operating surpluses from previous years to be used in future years to contribute toward the cost of repairs.

- **Tring Swimming Pool Repairs Reserve**
  To set aside income from a dual use agreement in order to contribute toward the cost of future repairs at Tring Sports Centre. The proposed top up of £8k in 2017/18 is the setting aside of income from the dual use agreement in relation to the cost of future major repairs.

- **Youth Provision Reserve**
  To assist with repairs expenditure and the provision of youth provision. The proposed draw down of £40k in 2017/18 is towards funding the provision of a cycle hub at Grovehill Adventure Play Ground.

- **Election Reserve**
  This reserve was created to smooth the cost of Borough Elections over a four-year period. A contribution of £30k per annum is made from revenue to be drawn down to fund elections on a four-yearly basis.

- **Uninsured Loss Reserve**
  To cover potential liabilities which are above the budgeted amount for uninsured losses or those covered by the Council's insurance policy. As part of a re-tendering exercise, the Council has undertaken a detailed review of its insurance provision and risk exposure. As a result of this exercise, it is proposed that this reserve be reduced to £500k, releasing £86k back to general balances.

- **Training and Development Reserve**
  This reserve was created to finance specific development programmes for Council staff, and there is a planned draw down of £22k for 2017/18 towards training and development. In addition, a further £21k is planned for draw down to fund the apprentice scheme in 2017/18. This reserve complements the Management of Change reserve and ensures that Officers are able to access the training required to deliver services more efficiently.

- **Housing Conditions Survey Reserve**
  This reserve was created to smooth the costs associated with periodic Council inspections of private dwellings. As pressure continues to grow on the private rented sector across the borough, it is recommended that the Council continues to contribute to this reserve at a rate of £15k per annum.

- **Dacorum Partnership Reserve**
  This reserve was funded from the Performance Reward Grant received in 2009/10, and is used towards Dacorum Partnership projects. A proposed draw down is included in 2017/18 towards the final year of the current Get Set Go Dacorum programme.

- **Dacorum Rent Aid and Rent Guarantee Reserves**
  These reserves are to provide assistance to clients to obtain/retain accommodation.

- **The Forum Reserve**
  This reserve was created to support the relocation and fit-out costs associated with the Council's move to The Forum in January 2017. This reserve will be wound up in 2016/17, and the funds exhausted in meeting the final costs associated with the move to The Forum.

- **Funding Equalisation Reserve**
  Funded through annual surpluses on the Collection Fund, this reserve is essentially a means of making the necessary accounting adjustments that arise when actual collection rates differ from forecast collection rates. A drawdown of £206k is required to fund the declared 2016/17 deficit.

- **Pensions Reserve**
  This reserve was created in 2012/13 in order to fund potential costs to the Council arising from the statutory triennial reviews of the pension scheme. The results of the December 2016 triennial review announced that the payments the Council currently makes are, based on present assumptions, sufficient to reduce the pensions deficit within the 20-year planning horizon employed by the actuary, and that no further increase or one-off payment is required. However, the scale of the current deficit repayments, at c£2m per year, means that a small change in actuarial assumptions can result in significantly increased payments (an additional £1m payment was required at the last triennial valuation in 2013). On this basis, it would be prudent to retain this reserve at current levels.

- **Maylands Plus Reserve**
  This reserve was created in 2013/14 to set aside surpluses generated at Maylands Business Centre for re-investment into Economic Development across the Borough.

Earmarked Reserves future priority areas

10.9 Priority areas that Members may wish to consider for future contributions to Earmarked Reserves, subject to outturn, include:

- Management of Change Reserve
  This reserve has been used to fund a range of transformational projects over the last few years, as the Council seeks to deliver its services more efficiently. The continued reductions in grant from central government continue to underline the need for the Council's transformation agenda. There are a number of further projects in the pipeline, including the evolving digital agenda, and the focus on channel shift for public access to the Council's services.

- Savings Contingency Reserve
  It is recommended that this reserve is created in order to mitigate the risk of the Council's savings initiatives failing to complete on time, and thereby causing an in-year budgetary pressure. The reserve will be funded through savings achieved ahead of the savings targets laid out in the MTFS.

Housing Revenue Account Earmarked Reserves

10.10 The Council holds one Earmarked Reserve within the HRA; the Strategic Acquisitions Reserve, with a current balance of £7.2m. It is recommended that this reserve be renamed the New Build and Capital Investment Reserve and that it be increased by £13.5m in 2017/18.

This £13.5m revenue contribution would, in previous years, have been contributed directly to capital rather than being held in a revenue reserve. The rationale behind the recommendation to keep these funds within a revenue reserve in 2017/18 is to enable the Council to benefit from the increased financial flexibility that comes with holding funds as revenue rather than capital. This increased flexibility enables the Council to mitigate its financial risk exposure to further changes in government legislation governing the setting of rent.

This new approach does not change the ultimate use of these funds for capital purposes. It simply preserves the flexibility of revenue for a bit longer, until the funds are required within the Capital Programme. In accordance with the New Build programme approved within the HRA Business Plan, it is forecast that the funds will be contributed to capital in 2017/18.

Capital Reserve

10.11 This reserve is utilised to finance the Capital Programme. General Fund capital balances have now been fully utilised on a range of capital projects, and the balance brought forward to 2017/18 contains receipts from the sale of HRA properties under the Right-to-Buy scheme, along with the associated 1-4-1 receipts. It is estimated that the HRA capital balances will be £46.6m as at 1 April 2017, and £32.8 as at 31 March 2018.

11. Capital Programme

11.1 The Capital Programme has been structured to enable delivery of the Council's Corporate Plan over the medium- to long-term. The Programme includes all of the capital schemes within both the General Fund and the Housing Revenue Account (HRA).

11.2 The recommended Capital Programme detailed in Appendix I includes a revised programme for 2016/17, together with a proposed 5-year programme encompassing £186m of future capital investment across the Borough.

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

General Fund

- £9.4m to purchase and replace fleet vehicles, plant, machinery and other equipment;
- £13.9m Asset management of community facilities including Council-owned buildings, car parks, public conveniences, cemeteries and community and sports premises.
- £8.8m Economic Development, Affordable Housing, Town Centre and Gadebridge Park Regeneration;

- £2.0m Investment in Information and Communications Technology, including upgrading of software systems. This investment will enable future revenue efficiencies to be achieved through customer services 'channel shift' and service transformation projects; and,

- £3.5m Capital grants and loans to voluntary organisations and Private Sector Housing grants (including Disabled Facility Grants and improvement grants). It should be noted that the Council has no discretion over the payment of Disabled Facility Grants, which are mandatory.

Housing Revenue Account

- £88.2m for major capital repairs and replacements of components of the Housing Stock (such as bathrooms, roofs, windows, kitchens); and,

- £60.2m for the New Build programme.

Financing the Capital Programme

11.4 It is recommended that the Capital Programme for 2017/18 is financed as per the table below.

Proposed Financing for Forecast Capital Programme 2017/18	
	£m
Grants and External Funding	1.1
Capital Receipts and Reserves	30.3
1-4-1 Capital Receipts	6.4
Revenue Contribution	12.1
Borrowing	2.6
Total Indicative Funding	**52.5**

11.5 Key assumptions around the Capital Programme's primary financing streams are detailed below:

Major Repairs Reserve
This relates exclusively to capital expenditure within the HRA, and is funded through annual depreciation charges on the Council's housing stock.

Forecast of Capital Receipts
In accordance with the Council's Medium Term Financial Strategy, estimates of the likely Capital Receipts to be generated during 2017/18 and subsequent years have been made based on the Council's Asset Management Plan and the current economic climate. The level of receipts anticipated during 2017/18 is £11.2m (of which £3m will relate to General Fund and £8.2m will relate to the HRA).

Revenue Contribution to Capital
This refers to charges on revenue budgets in order to finance capital projects. Of this £3.2m relates to the General Fund and £12.8m to the HRA.

Borrowing
In May 2015, the Members approved the Council's General Fund taking borrowing of £19.8m from the Public Works Loan Board (PWLB) in order to support the delivery of the approved Capital Programme. The PWLB offers low

interest rate loans to Local Authorities, with interest rates derived from the gilt rate at which Government itself can raise funds.

Through the PWLB, the Council was able to structure a portfolio of loans, with a range of differing maturities (the longest at 40 years), designed to minimise the amount of interest payable by the Council whilst at the same time ensuring that annual repayments remain sustainable. The average interest rate secured was 2.9%, which reflects a discount of 40 basis points (0.4%) on the standard PWLB rates. This additional discount was secured through a combination of the PWLB's 'project rate' (20 bps) and through the Local Enterprise Partnership (LEP) support for the Council's regeneration programme (20 bps).

The proposed Capital Programme identifies a need for further £3.3m borrowing in 2021/22. This will be kept under review to ensure that further borrowing is undertaken, and associated revenue costs incurred, only if required.

The Borrowing Strategy and policies are set out in Section 3 of the Treasury Management Strategy, see Appendix K.

11.6 To ensure that the Council optimises its Capital Receipts and returns on existing assets, it is essential that all assets are kept under review in line with the Asset Management Strategy and Medium Term Financial Strategy. Cabinet will be briefed at least annually on the performance of assets and in particular non-operational assets. The briefing will identify any potential surplus assets that do not meet the Council's needs and may be considered for formal decision for disposal.

12. Treasury Management Strategy

12.1 In accordance with the requirements of the Local Government Act 2003 the Council produces an annual Treasury Management Strategy, see Appendix K. This appendix includes:

- the reporting of prudential indicators, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Section 2);
- the Borrowing Strategy (Section 3); and,
- the Investment Strategy in accordance with CIPFA Code of Practice on Treasury Management (Section 4).

13. Housing Revenue Account 2017/18

13.1 The HRA 'Self-Financing' regime was introduced under the Localism Act in April 2012. It replaced the previous HRA subsidy arrangements and required the Council to make a settlement payment to the Government of £354.015 million.

13.2 The Council has a duty to budget under Section 76 of the Local Government and Housing Act 1989 'to prevent a debit balance on the HRA'. The Council sets its own target balance at a minimum of 5% of total income, which for 2017/18 equates to £2.9m. The Council keeps the medium and long-term funding of housing services under regular review through updates to the HRA Business Plan.

HRA Business Plan update

13.3 The HRA Business Plan is a thirty year plan which encompasses both the financial and service related objectives. The long-term perspective is crucial to ensure that the service and its primary asset, the housing stock, is projected to be 'fit for purpose' throughout the whole period.

13.4 As the business plan projects forward thirty years, there will inevitably be opportunities and pressures that are difficult to predict. However, as it forms the basis of service delivery and asset management strategy, it will be regularly updated to take account of changed circumstances, tenant and Member priorities.

HRA Financial assumptions for 2017/18

13.5 The HRA business plan incorporates the following key financial assumptions, based on the draft 2017/18 HRA budget:

Budget	Assumptions
HRA Working Balance	Minimum 5% of turnover.
Major Repairs Reserve (MRR) Balance	Nil – to be fully utilised each year to fund capital works and new build
Rent	Years 2-4 -1%, then CPI (2.3%) + 1% (3.3% total) throughout plan. New tenancies re-let at (social) formula rent. De-pooling of Service Charges & Rent for flats to be implemented 2017/2018
RPI	3% as per historic RPI (since 2001)
CPI	2.3% as per historic CPI (since 2001)
New Build Programme	250 units planned with provision for expenditure for 100 more. Let at existing (social) formula rent levels
Voids and Bad Debts	Voids: 0.8% of gross income Bad Debts: 0.4% rising to 2% then reducing to 1% with the increases making a provision for the impact of Welfare Reform
Right to Buy	Assumption of 100 per year for 4 years then reducing to 50 then 20.

13.6 In 2015, Government issued new legislation on social rent setting for the four years commencing in April 2016. This legislation imposes a 1% rent reduction on social housing properties every year for the next four years. This legislation constitutes a fundamental change to Government's previous involvement in the setting of local authority rents, which has until now been limited to the issuance of guidance as opposed to legislation.

13.7 Implementing this legislation has had a dramatic effect on the Council's HRA Business Plan, reducing rental income by £30m over the next four years, and by a forecast £750m over the 30-year life of the plan.

13.8 Despite this reduced income, the Council has, through increased use of borrowing, reducing capital investment and reprofiling of existing projects, been able to protect its New Build programme until 2020. More detailed analysis of the longer-term impact of this legislation was provided within the report of the 'Annual Review of the HRA Business Plan' to Cabinet in November 2015 and is being updated in the HRA Business Plan 2016-2020 to Cabinet in February 2017

14. Staff Terms and Conditions

14.1 Within Budget 2015/16, the Council introduced a Living Wage supplement for all affected employees, in accordance with the Living Wage Foundation. Council agreed to review the Living Wage annually thereafter, but did not seek accreditation thereby avoiding the loss of autonomy that might entail.

14.2 The Living Wage is announced each year by the Living Wage Foundation based on a calculation by the Centre for Research in Social Policy at Loughborough University. It reflects the costs of those items identified by the University's consultation groups as necessary for a minimum acceptable standard of living.

14.3 The current 'out of London' living wage, which would apply to the Council, was announced in November 2016 as £8.45 per hour, a 20 pence increase over the previous year. The total cost to ensure all Council employees are the Living Wage for 2017/18 is approximately £30k. This increase has been included within the Budget proposals.

15. Summary and Conclusion

15.1 This report sets out how the Council will provide the financial resources required to achieve its priorities during the next financial year. It assumes that planned savings will be achieved and that the Capital Programme will be delivered on time and to budget.

15.2 The statement from the Chief Finance Officer at Appendix M provides assurance regarding the robustness of the 2017/18 budget and the level of the Council's reserves.