

# MEDIUM TERM FINANCIAL STRATEGY

**2016/17 – 2020/21**

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**Working in partnership, to create a Borough which enables the communities of Dacorum to thrive and prosper**

Affordable Housing ♦ Regeneration ♦ Building Community Capacity ♦ Safe and Clean Environment ♦ Dacorum Delivers

**DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2016/17–20/21**

**July 2016**

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## **1. Introduction**

- 1.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. In detailing the financial implications of the Corporate Plan over a five-year period, the MTFS provides a reference point for corporate decision-making and ensures that the Council is able to optimise the balance between its financial resources and delivery of its priorities.
- 1.2 The MTFS informs the annual budget-setting process, ensuring that each year's budget is considered within the context of the Council's ongoing sustainability over the entirety of the planning period. The annual budget-setting process is detailed in the Financial Planning Framework in Section 3.
- 1.3 In order to forecast the Council's future financial position, the MTFS contains a number of assumptions, the bases of which are detailed throughout the Strategy. It should be noted that these assumptions are subject to change. The Corporate Director (Finance & Operations) will report back to Cabinet as a matter of urgency if there are changes to key assumptions in the Strategy that threaten the sustainability of the approved MTFS.

## **2. Recommendations**

- 2.1 The MTFS makes the following recommendations for approval by Council. It is recommended that:
  - 2.1.1 The financial projections within the 5-year Medium Term Financial Strategy be noted, and the Strategy approved;
  - 2.1.2 A General Fund savings target of £1.33 million be approved for the 2017/18 budget-setting process;
  - 2.1.3 A four-year General Fund savings target of £3.6 million be approved for the duration of this Medium Term Financial Strategy;
  - 2.1.4 A review of the Housing Revenue Account base budget and savings target be undertaken as part of the review of the HRA business plan and budget preparation cycle;
  - 2.1.5 The Corporate Director (Finance & Operations) works with the Council's Corporate Management Team and Portfolio Holders to deliver options that will achieve the saving targets identified within the strategy;
  - 2.1.6 Authority be delegated to the S151 Officer, in consultation with the Budget Review Group, to consider Government's proposed four-year Settlement, and, subject to further guidance emerging before October, to accept the offer if appropriate;
  - 2.1.7 The Financial Planning Framework is approved to support the budget-setting process for 2017/18;
  - 2.1.8 The Corporate Director (Finance & Operations) 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.

### 3. Financial Planning Framework

- 3.1 The Financial Planning Framework, shown below, demonstrates the process by which the Council ensures that revenue and investment plans are developed in tandem, and that the annual budgets approved by Council each February are developed within the context of longer-term sustainability. It also demonstrates the consultation the Council undertakes with major stakeholders as part of the budgeting process.

<b>May</b>	The Budget Review Group, comprising both Members and Officers, begins a series of meetings, continuing throughout the budget-setting process, to develop proposals for strategic savings options.
<b>June/July</b>	<p>The final budgetary position for the previous year is finalised, and reported to Members for approval through the Provisional Outturn Report to Cabinet and the Final Outturn Report to the Audit Committee.</p> <p>The approved outturn position is then incorporated within a refreshed MTFs, which is recommended to Council as the basis for setting the subsequent year's budget.</p> <p>The first cut of the base budget for the following year is produced by the end of July.</p>
<b>August/September</b>	Budget Holders begin developing Service Plans, in consultation with Portfolio Holders, for the following year. These plans include revenue and capital bids, and highlight new savings proposals and budgetary pressures.
<b>October – November</b>	Proposed budgets are scrutinised and challenged by the Corporate Director (Finance & Operations) and by the Budget Review Group, both supported by the Financial Services team.
<b>November – December</b>	<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> <p>Consultation events held with Town and Parish Clerks and Members, and with members of the public.</p>
<b>January</b>	<p>Draft budget proposals presented to Joint Overview &amp; Scrutiny Committee, for Members' scrutiny.</p> <p>Feedback from Joint OSC is considered by Budget Review Group, and incorporated into final budget proposal presented to a second Joint Overview &amp; Scrutiny Committee meeting.</p>
<b>February</b>	Final budget report presented to Cabinet for recommendation to Council. Council considers the recommendations of Cabinet for approval.
<b>April</b>	The new financial year begins, and the approved budget is then assessed under the in-year budget performance monitoring process.

#### **4. Review of the Council's primary funding streams (General Fund)**

- 4.1 On 8 February 2016, the Secretary of State for the Department for Communities and Local Government, Greg Clark MP, made a statement to Parliament on the provisional Local Government Finance Settlement 2016/17. The Settlement contained details of a four-year offer to local authorities, with some of the key messages affecting Dacorum summarised, below.

##### **Reduced central government grant to the local government sector**

- 4.2 On a national level, in 2016/17 there was a 12.5% reduction in the amount of Settlement Funding Assessment paid by government to local authorities – reducing from £21.2bn to £18.6bn. This will be followed by a further three years of annual reductions, resulting in a total reduction of 32% over the period to 2019/20 (from £21.2bn to £14.5bn).
- 4.3 Settlement Funding Assessment (SFA) constitutes the primary source of government support for local authorities, and refers to the combined payments of Revenue Support Grant and Baseline Funding (Business Rates).
- 4.4 Dacorum's SFA was reduced by 22.5% (£1.1m) in 2016/17 and will face a further 58% (£2.8m) reduction over the period to 2019/20. In both cases this is significantly higher than the national average for district councils, which was 17% for 2016/17 and is 44% for the period to 2019/20.

##### **The concept of Core Spending Power**

- 4.5 The reason Dacorum's SFA reduction is high relative to the district council average is that for 2016/17 onwards the government has apportioned grant reductions based on a new method: *Core Spending Power*. This means that rather than simply applying the same percentage grant reduction to all authorities, Core Spending Power (CSP) also takes into account the amount that a council can raise locally from Council Tax and New Homes Bonus (NHB) when apportioning funding reductions. All funding reductions calculated using CSP, are applied to RSG – Baseline Funding is not reduced.
- 4.6 In 2016/17, Dacorum was forecast to have the 15th highest Council Tax income of the 200 district councils in England (£10.1m compared to the average £6.3m). This means that Dacorum can generate more income locally than most district councils and therefore, within the context of Core Spending Power, can absorb a greater reduction in government grant than most district councils.

##### **Revenue Support Grant and the four-year Settlement proposal**

- 4.7 Within the Settlement, government offered local authorities the opportunity to accept a four-year funding deal, to 2019/20, for *RSG, Transitional Grant and Rural Services Delivery Grant* only. Dacorum receives funding through the first two of these grants. (£150m of Transitional Grant was introduced to the sector by government for 2016/17 and 2017/18 to soften the impact of the continued reductions in RSG. Dacorum will receive around £125k in each of 16/17 and 17/18.)
- 4.8 Notably, the four-year deal excludes New Homes Bonus, of which Dacorum received £3.5m in 2016/17, and Baseline Funding, of which Dacorum received £2.7m in 2016/17. Government policy to reform both of these funding streams within the four-

year period are already underway, and the potential implications of these reforms for Dacorum are detailed within paragraphs 4.17 – 4.28 of this strategy.

4.9 The Secretary of State has also confirmed, that the four-year deal will not protect against:

- The extra responsibilities and functions that might need to be accepted by local government as part of the move to 100% business rates retention;
- Future transfer of functions to or between local authorities, or the impact of mergers; and,
- Any other ‘unforeseen events’. (No parameters have been put on the breadth of this definition.)

4.10 The table below shows the four-year deal available to Dacorum.

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Revenue Support Grant	£970k	£100k	0	0
Transitional Grant	£125k	£125k	0	0

4.11 Members will note that Dacorum sees its RSG reduced to £100k in 2017/18 and down to zero for 2018/19 and 2019/20, the final two years of the Settlement. On this basis that grant funding cannot fall any lower than zero, Members may question whether the Council has anything to lose by not accepting the deal.

4.12 In response to this question, it should be noted that the Settlement also includes, for the first time, a ‘payment’ from councils to government known as a ‘Tariff Adjustment’. This is effectively ‘negative RSG’, and its purpose is to allow government to continue reducing an individual council’s funding, under the Core Spending Power calculation, even after they are no longer in receipt of any RSG to reduce. (See paragraphs 4.5 - 4.6 for an explanation of government’s Core Spending Power approach.)

4.13 The Final Settlement shows that the only year in which Dacorum is currently scheduled to face a Tariff Adjustment is 2019/20 (£1m), and even this is likely to be superseded by that time by the reforms to Business Rates scheduled for implementation in 2019/20. The key point relevant to the question of whether to accept the four-year Settlement is that in establishing the principle of Tariff Adjustments, government has provided itself with the means to effectively reduce Dacorum’s RSG beyond zero. On this basis, the zero-levels of RSG within the proposed four-year deal should not be considered a strong reason for rejecting the deal.

4.14 Despite the list of eventualities against which the deal does not protect local authorities, listed in paragraph 4.9 of this report, the feeling within the sector is that the relative certainty it provides over the medium-term is an attractive proposition. Furthermore, any argument to reject the deal would rely on the belief that government might increase funding for those councils which do not accept. This would seem improbable.

4.15 Other than to specify a deadline of 14 October 2016, and to state the need for an accompanying ‘efficiency strategy’, no guidance has yet been issued by government

as to the process by which councils should apply to accept the four-year deal. The LGA and CIPFA are currently working on the design of an approach that could be used consistently across the sector to meet the stated requirements.

- 4.16 It is recommended that Members accept the four-year deal in principle, but that final approval be delegated to the S151 Officer in consultation with the Budget Review Group, pending any further guidance and information that may be publicised before the acceptance deadline.

### **Baseline Funding**

- 4.17 Baseline Funding (also known as Retained Business Rates) contributed £2.6m to DBC in 2016/17. This is based on the government's assessment of need within the borough, and it can be increased or decreased depending on whether the overall amount of business rates collectable across the borough increases or decreases. The amount by which the Baseline Funding can reduce is capped at 7.5%, which is known as the 'safety net'.
- 4.18 Over the last three years the Council has had to provide for potential backdated refunds for extant Business Rates appeals that were outstanding at the time the localisation of Business Rates was introduced in 2013. The Council's audited assessment of these outstanding appeals is that enough of them will be successful to offset the forecast business growth within the borough, thereby resulting in a net reduction in the amount of business rates collectable, and a consequent reduction in Baseline Funding.
- 4.19 The assumption in the proposed version of the MTFS is that the Council will be in 'safety net' throughout the planning period and will receive the minimum amount of Baseline Funding, i.e. 7.5% less than the government's assessment of need within Dacorum.
- 4.20 It is possible that the amount of Baseline Funding the Council receives could be reduced further if Government changes the structure of the Business Rates Localisation scheme. At the time the scheme was implemented, however, Government announced that the baselines would not be reset until 2020. The S151 Officer will continue to monitor Government announcements over coming years, as the resetting of baselines, and subsequent reductions in the level of Baseline Funding, could be forthcoming earlier than 2020 if the Government needs to intensify its deficit reduction programme.

### **Council Tax**

- 4.21 Government's view of Council Tax as a cornerstone of its planned shift from centralised to localised funding for local government is clear in the greater freedoms permitted within the 2016/17 Settlement for local authorities to set their Council Tax.
- 4.22 Whereas previous Settlements have incentivised Council Tax freezes, in 2016/17, in addition to there being no Council Tax Freeze Grant on offer, there has been an increase in the Council Tax referendum limit for all district councils from 2% to the higher of 2% or £5 on a Band D, to be in place for each year until 2019/20.
- 4.23 In February 2016, Council approved an increase in Council Tax for 2016/17 of £5, equating to 2.78% for a Band D property. The proposed MTFS assumes continued increases of £5 per annum and growth in the tax base of 0.75% per annum, equating to around 250 dwellings per year.

- 4.24 It should be noted that in calculating the four-year Settlement for Dacorum, government has assumed that the Council will increase Council Tax by £5 per year, and that the tax base will grow by around 1.5% per year.

### **New Homes Bonus**

- 4.25 The Council received £3.5m of New Homes Bonus (NHB) from central government in 2016/17. NHB is paid to local authorities to stimulate local housing growth and takes the form of a grant for each additional home within the borough, payable for a six-year period.
- 4.26 With the exception of £325k per year, which is used to support annual revenue budgets, the Council has contributed NHB to reserves in order to fund capital projects over the life of the Capital Programme. It is recommended that Members continue with this strategy.
- 4.27 As part of Spending Review 2015, Government announced a review of NHB and a reduction in the amount of grant paid nationally by around 50%, or £800m. Government is currently considering a number of changes to help achieve this, primarily relating to a reduction in the grant cycle from the current six years down to four. However, a review of the allocation method is also expected in order to address perceived inequalities in the current distribution of the grant.
- 4.28 The proposed MTFS assumes that the level of NHB received by Dacorum will reduce in 2017/18 by two thirds from the 2016/17 level, and that this level will then be sustained throughout the remainder of the planning period. This is a prudent assumption, approved by Council in February 2016, and will be subject to further refinement when Government makes an announcement on the future of NHB later in the current financial year. The S151 Officer will update Members as more information becomes available.

## **5. Review of MTFS assumptions**

### **Update of General Fund budget assumptions based on 2015/16 outturn**

- 5.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2016/17, 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.
- 5.2 The 2015/16 outturn was approved by Audit Committee at its meeting of 29 June 2016. A fundamental part of the outturn analysis is to focus on those areas where there were over- or under-spends in order to identify whether the budget assumptions were flawed and require updating in order to improve the accuracy of the MTFS. Budgetary assumptions for 2017/18 have been updated where appropriate.

### **Update of MTFS assumptions based on other information**

- 5.3 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.



	Note	2017/18	2018/19	2019/20	2020/21
<b>Income</b>		%	%	%	%
Council Tax	1	3.45	3.38	3.31	3.20
Revenue Support Grant	2	(89)	(100)	n/a	n/a
Tariff Adjustment Grant	3	£125k	£125k	n/a	n/a
Business Rates Retained	4	1.4	1.7	2	2
Fees & Charges	5	2.1	2.8	3.4	3.2
Investment Income	6	0.9	1.5	2	2.75
<b>Expenditure</b>					
Pay settlement	7	1	1	1	1
Pay: contract increments	8	0.6	0.6	0.5	0.3
Pension contributions	9	1	0	0	1
Utilities	10	5	5	5	5
Fuel	11	5	5	5	5
Supplies & Services	12	2.1	2.8	3.4	3.2

Notes:

1. Increase by £5 per Band D and 0.75% increase in tax base (see paras 4.21 – 4.24).
2. Based on proposed four-year Settlement (see paragraphs 4.7 – 4.16).
3. Based on proposed four-year Settlement (see paragraphs 4.7 – 4.16).
4. Based on proposed four-year Settlement (see paragraphs 4.7 – 4.16).
5. Inflation assumptions from OBR on controllable income eg excludes Planning fees
6. Sector forecast on interest rates
7. Consistent with most recent government announcement: Summer Budget 2015
8. Based on actual increments due and historical staff turnover rates
9. Increase 1% on current service costs and 0.9% per annum on past service costs
10. Currently under review – historical assumptions used at present
11. Currently under review – historical assumptions used at present
12. Inflation assumptions from Office of Budget Responsibility (OBR)

**Growth**

- 5.4 Growth is defined as an increase in the expenditure, or the net expenditure, budgets of the Council. In the event that essential or unavoidable growth is required within a Service area, a business case outlining the requirements should be produced by the relevant Group Manager and Assistant Director, and be signed off by the Director and S151 Officer, before being submitted for consideration by the Budget Review Group.
- 5.5 Growth in the income generating capacity of a particular Service does not mean that the additional income automatically accrues to that Service. All Council income, unless stated otherwise by statute, is considered corporate income and is used to finance the provision of all Council services. All requests from budget holders to retain additional income budget in order to finance increased expenditure are subject to the growth process outlined above.
- 5.6 If, during the budget-setting process, a budget holder reduces the cost of providing one of their services, the resultant saving does not automatically become available to them to finance the expansion of an alternative service area. All savings made across services constitute a contribution to the Council's corporate budgetary

position. Any expansion of a Service area constitutes growth, which necessitates a separate growth bid.

### **Fees and Charges Strategy**

5.7 The fees and charges set by the Council are subject to annual review as part of the budget-setting process. Changes made between years are included within the annual Budget Report, and are subject to Council approval. The key principles behind charging are that:

- discretionary charges should recover costs unless the strategy is to provide a particular service at a subsidy;
- discretionary income should be optimised through appropriate commercial charges; and,
- robust systems of discounts or concessions should be in place for those who would otherwise find that they could not access services, where deemed appropriate.

5.8 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.

5.9 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.

5.10 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.

5.11 Increases for the annual review of fees and charges have been included in the MTFS projections based on the percentages set out in table 5.3.

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

5.12 The Council's Reserves Strategy is integral to the Medium Term Financial Strategy 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 2016/17 Budget Report, in February 2016.

5.13 The Council holds two types of reserve. These 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 was met within Appendix M of the Budget Report.

- **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.

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

## 6. General Fund medium-term savings target

6.1 Based on the assumptions detailed throughout this Strategy, and the need to maintain the desired level of General Fund Working Balances, the savings targets over the life of this MTFS are as follows. (See Appendix A for a full summary.)

	2017/18	2018/19	2019/20	2020/21	Total
Savings Target	£1.3m	£250k	£1.1m	£1m	£3.6m

## 7. Closing the savings gap

7.1 In order to meet medium-term savings targets and continue to deliver services within the context of continuing reductions to government funding, the Council has adopted two key strategies: 1) a multi-year savings plan; and, 2) a Corporate Efficiency Strategy. These are detailed in the paragraphs below.

### Multi-year savings plan

7.2 Each Assistant Director, together with their Group Managers, has proposed a number of transformation initiatives and budgetary changes within their Service areas which, cumulatively, will deliver an estimated £1.5m of savings over the period to 2018/19.

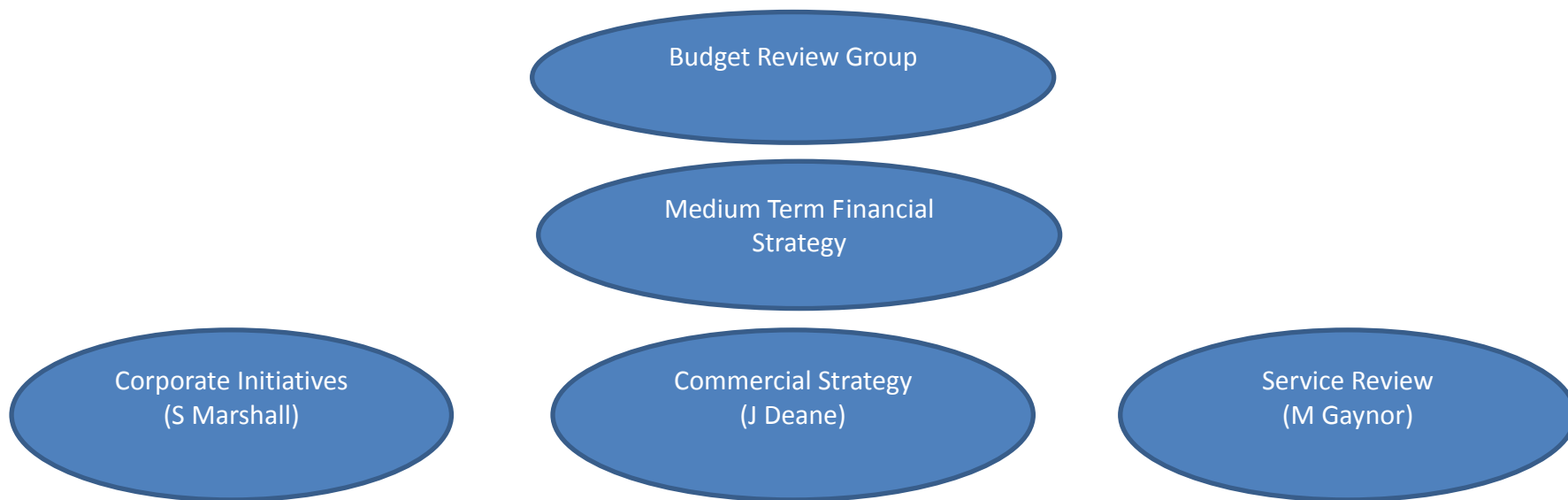
7.3 These proposals are currently under review by the Chief Officer Group (COG) to ensure that the initiatives proposed by each individual Service do not have any unintended consequences for other services within the Council, and to provide the corporate oversight that will help identify opportunities for cross-service initiatives. This process entails scrutiny meetings between COG and each Assistant Director and Group Manager to consider the ramifications of proposals.

7.4 It is envisaged that this process will result in a refined and more detailed series of projects which will be presented to Budget Review Group for discussion and scrutiny from September onwards.

### Corporate Efficiency Strategy

7.5 In addition to the multi-year savings plan, which is essentially a *Service-driven* approach to the identification of savings programmes, the Council is in the process of implementing a new approach, in the form of the Corporate Efficiency Strategy (CES), which the objective of delivering savings and efficiencies through broader *Council-wide* initiatives.

- 7.6 To deliver this objective, the CES will focus on two clear strands: operational change and cultural change. Operational change will focus on the identification of *specific opportunities* for the Council to deliver its services more efficiently. Cultural change will focus on embedding a *commercial outlook* across the organisation that will enable the continuous improvement ethic the Council needs in order to continue delivering value for money for its residents.
- 7.7 In order to deliver the required corporate oversight of CES, it is jointly owned by Chief Officer Group (COG) and progress is reported directly into the Budget Review Group. Updates on the programme of projects within the CES will be reported formally to Members at various points throughout the year.
- 7.8 There are three programmes within the CES, each of which is sponsored by a different member of COG. Each programme contains a number of sub-groups which will be led by Assistant Directors or, in particularly technical areas, by Group Managers. The three programmes, together with their respective sponsors are:
- Corporate Initiatives – Sally Marshall
  - Commercial Strategy – James Deane
  - Service Efficiency – Mark Gaynor
- 7.9 A pictogram of the project structure is shown on the following page.



**Council 2018 and beyond**

**Human Resources**

- T&Cs Review
- Sickness Management
- Agency staff usage

**Development Company**

- Revenue stream
- Increased housing

**Leisure Provision**

- Reduced costs
- Investment opportunity

**Commercial Assets**

- Garage disposal
- Land disposal

**Review of revenue generation**

- Stat & Non-stat services
- Current profitability
- Selling opportunities
- Business case models

**Business Rates review**

- Planning for the future retention scheme

**Financial Management**

- Budget Process
- Savings Trackers
- Improvement measures

**Service Efficiency Review**

- Establish review method
- Process review by AD
- Review HRA process

**Establish delivery programme**

- Savings pathway identified
- Monitor delivery

**Contract Management Review**

- TAM review
- Identify blueprint
- Links to future procurement
- Performance measures

## 8. Key Budget Risks (General Fund)

### EU referendum result

- 8.1 Although the Chancellor has announced that there will be no Emergency Budget as a consequence of the EU referendum result, there remains significant uncertainty over the medium term implications for the economy as a whole and for local government. The following risks will continue to be monitored and the MTFS will be updated if/when they begin to crystallise.
- 8.2 Although the detailed arrangements behind the policy have yet to be released, the 100% retention of Business Rates by the local government sector from 2019/20 will link councils' financial sustainability to their ability to retain and grow rate-paying businesses. It is not yet known how multinational companies will view the UK's attractiveness as a base for investment post-Brexit, but there is a risk that demand for commercial property will fall, resulting in **reduced Business Rates** and consequent funding pressures in the medium-term.
- 8.3 The longer-term impact on **demand for the Council's services** will depend on how the local economy fares, but nationally there has already been reported increases in hate crime which require a response from local authorities. As at the time of writing there has been no increase in hate crime statistics within Dacorum.
- 8.4 The Council already has a limited number of **investment counterparties** due to the stringent criteria in place within the Treasury Management Strategy (TMS) designed to prioritise the security of funds ahead of level of return. The recent downgrading of the UK's sovereign credit rating has already necessitated a revision to the TMS to enable continued investment in UK based institutions. There is a risk that further changes to the credit rating of individual institutions will reduce further the list of the available investment counterparties, thereby reducing the Council's return on investment.
- 8.5 The downgrading of the UK's sovereign credit rating would normally be expected to increase the **cost of borrowing** for government and therefore increase the borrowing rates available to the Council through the Public Works Loan Board (PWLB). The extent of economic uncertainty at present has meant that borrowing rates remain low. However, increasing cost of borrowing remains a risk for the Council in the medium-term.
- 8.6 The Council's **pension fund** is already the most volatile material liability on the balance sheet and the impact of low bond yields is likely to drive up the deficit in the short-term. The size of the pension fund deficit has a direct relationship with the amount of contributions the Council is required to make to the fund, and therefore to the annual revenue cost of providing the scheme. Changes to the Council's contributions are triggered by the recommendations of the fund's triennial review, the next of which is scheduled for December 2016. The Council has a Pensions Reserve of £1.8m which could be used for one-off payments to reduce the deficit, pending future actuarial reviews.

### Recruiting professional staff

- 8.7 In common with other local authorities within Hertfordshire, the Council is currently facing difficulties in the recruitment of staff with professional qualifications e.g. within Finance, Legal, Building Control, Planning, Environmental Health. In the short-term this can cause a revenue pressure as the Council is forced to increase its use of

(more costly) agency staff in order to maintain service provision. Council officers continue to work with neighbouring authorities to identify a strategic solution to future recruitment needs.

## 9. Housing Revenue Account (HRA)

- 9.1 The HRA Business Plan plans delivery of 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.
- 9.2 The Business Plan is kept constantly under review, and is presented for Members' approval at least annually. The most recently approved HRA Business Plan was approved in November 2015, and is next scheduled for Cabinet consideration in October 2016. The table below details the assumptions within the most recently approved plan,

Budget	Assumptions
HRA Working Balance	Minimum 5% of turnover, as per Reserves Strategy.
Major Repairs Reserve (MRR) Balance	Depreciation is ring-fenced to the MRR. The plan does not show an increasing MRR balance because in all years planned capital expenditure exceeds depreciation. The investment shortfall is met through HRA contributions to capital.
Rent	In accordance with Government policy, the Business Plan assumes an annual reduction to rents of 1% for four years. After this, the plan assumes uplift on rents of CPI + 1% to all rents.
RPI	3%, as per historic average (since 2001)
CPI	2.3% as per historic average (since 2001)
New Build Programme	Years 1-5: 263 homes
Bad Debt Provision	Increased five-fold in 2015/16 to take account of new restrictions on Housing Benefit rents.
52 week rent per unit	£109 p/w based on social rent charged for New Build - 2 bedroom property. This figure is equal to average 2014/15 Target Rent.
General Management costs	£500 per unit, based on current stock.
Right to Buy	The model reflects the Government's proposed policies within Reinvigorating RTB through: <ul style="list-style-type: none"> <li>1) inclusion of 80 RTB sales in year 2,</li> <li>2) Inclusion of '1-4-1' receipts of £5m for 2015/16 ('1-4-1' receipt is additional RTB receipt income permissible on the premise that it is used for new build and is match-funded).</li> </ul>

### Key HRA Budget Risks

- 9.3 The number of properties sold under **Right to Buy** (RTB) legislation remains at around one hundred per year. Within the current model, the resulting loss of rental income is not yet sufficient to jeopardise the Council's medium-term ambitions. However, this will need to be kept under review as the number of sales shows no sign of abating.

- 9.4 The Council is subscribed to Government's '**One for One Replacement**' scheme, which entitles it to retain substantially all of the receipts from RTB sales. However, in order to retain the income, the Scheme stipulates that it can only be used as a contribution to new build schemes up to a maximum contribution of 30%, and must be utilised within three years of receipt.
- 9.5 There is a risk that the Council will be unable to retain this income because the high value of receipts (£8m in 2014/15) means that the Council may struggle to cash-flow its 70% share of new build project costs within the three-year timeframe. The borrowing cap imposed by government as part of the Self-Financing settlement precludes the Council from borrowing sufficient amounts to meet the costs.
- 9.6 The HRA business plan faces further risk to its rent collection rates resulting from the Budget announcements relating to **benefit and tax credit reductions**, and that tenants with household incomes of £30k will have to pay market, or near market rent, for their properties. The additional amount received by DBC cannot be retained by the HRA, but must be paid over to HM Treasury to be used as part of the deficit reduction programme. The impact of these changes will be monitored over the next few months and the appropriate changes made to the HRA bad debt provision.

## **10. Capital Resources**

- 10.1 Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services, such as houses, vehicles, public buildings, play areas, ICT, etc.
- 10.2 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**

- 10.3 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.
- 10.4 At present, the Council's forecast capital receipts are fully committed to financing the approved Capital Programme. It is recommended that any future case for the flexible use of capital receipts first be considered by Budget Review Group, before progressing to Cabinet and Council for further approval in accordance with government guidance.

### **Capital Spending Plans 2016/17 to 2020/21**

- 10.5 The Council's approved Capital Programme for the current and future years was approved by Council in February 2016, and is summarised below:



<b>Capital Expenditure</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund	21.8	15.3	1.9	2.1	1
Housing Revenue Account	28.2	29.4	25.6	22	16.9
<b>Total</b>	<b>50.0</b>	<b>44.7</b>	<b>27.6</b>	<b>24.1</b>	<b>17.9</b>

## General Fund

- 10.6 The Council's Capital Programme is currently fully funded, following borrowing of £19.4m taken in May 2015. The loan is structured over a portfolio of 30 loans, with one maturing each year. The loan was taken from the Public Works Loan Board (PWLB), at favourable rates, around 60 basis points above gilts, and resulted in an average initial interest rate of 2.98%.
- 10.7 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 2016, 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.
- 10.8 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, at the time of writing the Council is examining the potential for further investment in leisure and recreation across the borough. This would provide additional quality of life infrastructure to support the additional housing and economic developments that will be taking place over the next few years. The costs of these proposals for leisure and recreation have not yet been assessed, and thus at this stage there is no provision for their funding within the MTFS.
- 10.9 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 revenue contributions and capital receipts generated from the sale of Council assets; and, thirdly, through undertaking prudential borrowing.
- 10.10 The approved General Fund Capital Programme is financed as follows:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Receipts	5.4	10.5	0.4	0.6	0
Borrowing	9.9	1.5	0	0	0
Grants and Contributions	0.8	2.2	0.4	0.4	0.4
Revenue Contributions to Capital	5.8	1.2	1.2	1.2	1.2
<b>Total</b>	<b>21.9</b>	<b>15.4</b>	<b>2.0</b>	<b>2.2</b>	<b>1.6</b>

## HRA

- 10.11 The majority of the approved HRA capital programme is funded through depreciation and revenue surpluses. Revenue is contributed to capital on an annual basis as required to fund the shortfall between planned capital expenditure and depreciation contributions to the Major Repairs Reserve. Surplus revenue not required for capital expenditure is transferred to the HRA revenue reserves.

10.12 Following the legislatively imposed 1% per annum rent reductions, the most recent iteration of the HRA Business Plan is forecasting the need for the HRA to take a further £9.6m of borrowing in 2017/18 and 2018/19 in order to maintain the planned new build programme. This position was approved by Council in February 2016. Members will be updated on this position when the updated HRA Business Plan is presented to Cabinet in October 2016.

<b>GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY</b>					
	<b>Original 2016/17</b>	<b>Estimate 2017/18</b>	<b>Estimate 2018/19</b>	<b>Estimate 2019/20</b>	<b>Estimate 2020/21</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Service Expenditure &amp; Income</b>					
Employees	22,508	22,521	22,594	24,000	23,718
Premises	2,981	2,922	2,858	2,994	3,067
Transport	1,526	1,594	1,667	1,745	1,827
Supplies & Services	6,629	7,092	6,822	7,311	7,404
Third-Parties	1,548	1,581	1,625	1,680	1,734
Transfer Payments	47,622	47,622	47,622	47,622	47,622
Capital Charges & Bad Debts	4,443	4,450	4,459	4,470	4,481
Income	(65,991)	(65,993)	(66,258)	(66,732)	(67,112)
Recharge to HRA	(2,827)	(2,883)	(2,941)	(2,941)	(3,000)
Cummulative Savings	0	0	(1,364)	(1,626)	(2,756)
<b>Net Cost Of Services</b>	<b>18,439</b>	<b>18,904</b>	<b>17,084</b>	<b>18,523</b>	<b>16,985</b>
<b>Less:</b>					
Interest Receipts	(242)	(236)	(287)	(383)	(383)
Interest Payments & MRP	965	1,052	1,039	1,026	1,026
Reversal of Capital Charges	(4,125)	(4,125)	(4,125)	(4,125)	(4,125)
Revenue Contributions to Capital	5,796	1,189	1,189	1,189	1,189
Net movement on Earmarked Reserves	(7,033)	(821)	178	(834)	381
<b>Budget Requirement General Fund</b>	<b>13,800</b>	<b>15,964</b>	<b>15,079</b>	<b>15,396</b>	<b>15,074</b>
Parish Precepts	690	713	735	757	781
<b>Budget Requirement Including Parishes</b>	<b>14,491</b>	<b>16,676</b>	<b>15,814</b>	<b>16,154</b>	<b>15,854</b>
<b>Funded by:</b>					
Use of General Fund Balance	(151)	0	0	0	0
Revenue Support Grant	(970)	(110)	0	990	1,640
Transition Grant	(126)	(126)	0	0	0
Business Rates Retained	(2,553)	(2,616)	(2,689)	(2,780)	(2,869)
New Homes Bonus/Government Grants	(3,491)	(1,214)	(1,214)	(1,214)	(1,214)
Other Government Grants	0	0	0	0	0
Council Tax (Surplus)/Deficit	(80)	0	0	0	0
Business Rates (Surplus)/Deficit	3,637	(0)	(0)	(0)	(0)
<b>Net Expenditure before Council Tax</b>	<b>10,757</b>	<b>12,611</b>	<b>11,911</b>	<b>13,149</b>	<b>13,411</b>
<b>Demand on the Collection Fund</b>	<b>(10,908)</b>	<b>(11,284)</b>	<b>(11,665)</b>	<b>(12,051)</b>	<b>(12,437)</b>
General Fund Balance B/Fwd	(2,502)	(2,502)	(2,502)	(2,502)	(2,502)
In year use	0	0	0	0	0
General Fund Balance C/Fwd	<b>(2,502)</b>	<b>(2,502)</b>	<b>(2,502)</b>	<b>(2,502)</b>	<b>(2,502)</b>
Savings Requirement	<b>0</b>	<b>1,327</b>	<b>246</b>	<b>1,098</b>	<b>974</b>

## Housing Revenue Account 2015/16 – 2019/20 &amp; 2044/45 year totals

Year £'000	2015.16 1	2016.17 2	2017.18 3	2018.19 4	2019.20 5	2044.45 30
<b>INCOME:</b>						
Dwelling Rents	56,410	55,785	54,998	54,686	54,381	113,278
Void Losses	(562)	(837)	(825)	(820)	(816)	(1,699)
Service Charges	780	803	828	852	878	1,838
Non-Dwelling Rents	80	82	85	87	90	189
Contributions to Expenditure	555	571	588	606	624	1,307
<b>Total Income</b>	<b>57,262</b>	<b>56,405</b>	<b>55,674</b>	<b>55,411</b>	<b>55,157</b>	<b>114,912</b>
<b>EXPENDITURE:</b>						
Supervision & Management	(11,598)	(12,031)	(12,406)	(13,096)	(13,356)	(28,013)
Special Management	0	0	0	0	0	0
Rents, Rates & Taxes	(14)	(14)	(15)	(15)	(16)	(33)
Rent Rebates	0	0	0	0	0	0
Bad Debt Provision	(217)	(1,116)	(1,100)	(1,093)	(1,087)	(2,265)
Responsive & Cyclical Repairs	(10,262)	(10,653)	(10,676)	(11,039)	(11,374)	(23,475)
<b>Total Revenue Expenditure</b>	<b>(22,090)</b>	<b>(23,814)</b>	<b>(24,196)</b>	<b>(25,244)</b>	<b>(25,833)</b>	<b>(53,786)</b>
<b>OTHER:</b>						
Interest Paid	(11,658)	(11,643)	(11,663)	(11,839)	(11,938)	(391)
Finance Administration	0	0	0	0	0	0
Interest and Investment						
Income	142	240	317	339	359	425
Depreciation	(9,224)	(9,506)	(9,755)	(10,138)	(10,452)	(20,696)
<b>Net Operating Income</b>	<b>14,432</b>	<b>11,682</b>	<b>10,376</b>	<b>8,529</b>	<b>7,292</b>	<b>40,464</b>
<b>APPROPRIATIONS:</b>						
FRS 17 /Other HRA Reserve Adj	0	(11,000)	3,500	750	6,595	0
Revenue Contribution to Capital	(14,729)	0	(14,363)	(9,312)	(13,934)	(31,784)
<b>Total Appropriations</b>	<b>(14,729)</b>	<b>(11,000)</b>	<b>(10,863)</b>	<b>(8,562)</b>	<b>(7,339)</b>	<b>(31,784)</b>
<b>ANNUAL CASHFLOW</b>	<b>(297)</b>	<b>682</b>	<b>(487)</b>	<b>(33)</b>	<b>(48)</b>	<b>8,680</b>
Opening Balance	2,846	2,549	3,231	2,745	2,712	10,331
<b>Closing Balance</b>	<b>2,549</b>	<b>3,231</b>	<b>2,745</b>	<b>2,712</b>	<b>2,665</b>	<b>19,011</b>
<b>Capital Reserves</b>	<b>23,667</b>	<b>20,656</b>	<b>14,295</b>	<b>13,545</b>	<b>6,950</b>	<b>1,000</b>

General Fund Reserves Summary	Balance as at	Net Reserve Movement	Balance as at	Net Reserve Movement	Balance as at	Net Reserve Movement	Balance as at	Net Reserve Movement	Balance as at	Net Reserve Movement	Balance as at
	31/03/2016 £'000	2016/17 £'000	31/03/2017 £'000	2017/18 £'000	31/03/2018 £'000	2018/19 £'000	31/03/2019 £'000	2019/20 £'000	31/03/2020 £'000	2020/21 £'000	31/03/2021 £'000
Civic Centre Major Repairs Reserve	200		200		200		200		200		200
Earmarked Grants Reserve	274	(10)	219	(199)	20	(10)	10	(10)	0		0
Redundancy Reserve	0		0		0		0		0		0
Management of Change Reserve	1,441	72	1,433	(400)	1,033		1,033		1,033		1,033
Technology Reserve	163	(153)	0		0		0		0		0
CSR Transitional Reserve	0		0		0		0		0		0
Car Parks Commuted Sums Reserve	0		0		0		0		0		0
On Street Car Parking Reserve	149	(128)	0		0		0		0		0
Local Development Framework Reserve	366	(282)	34	(34)	0		0		0		0
Dacorum Development Reserve	568	(228)	276	(120)	156	(70)	86	(86)	0		0
Planning Enforcement & Appeals Reserve	125		125		125		125		125		125
Planning & Regeneration Project Reserve	160	(40)	110	(85)	25	(25)	0		0		0
Litigation Reserve	214		214	(214)	0		0		0		0
Vehicle Replacement Reserve	350	350	700	350	1,050	350	1,400	350	1,750	350	2,100
Invest to Save	411	(116)	248	(150)	98	(98)	0		0		0
Building Control Reserve	86	(86)	0		0		0		0		0
Longdean School Repairs Reserve	7	(7)	0		0		0		0		0
Tring Swimming Pool Repairs Reserve	91	(91)	0	8	8	8	16	8	24	8	32
Youth Club Reserve	101		101		101		101		101		101
Election Reserve	30	30	60	30	90	30	120	(90)	30	30	60
Uninsured Loss Reserve	586		586		586		586		586		586
VAT Reserve	0		0		0		0		0		0
Training & Development Reserve	114	(26)	88	(22)	66	(22)	44	(22)	22	(22)	0
Housing Conditions Survey Reserve	66	15	81	15	96	15	111	(111)	0	15	15
S106 Commuted Sums Reserve	0		0		0		0		0		0
Dacorum Partnership Reserve	66		53		53		53		53		53
Dacorum Rent Aid - Guarantee Scheme	15		15		15		15		15		15
Rent Guarantee Scheme Reserve	15		15		15		15		15		15
The Forum Reserve	2,006	(1,758)	0		0		0		0		0
LG Resource Review and Localisation of Council Tax Transition	0		0		0		0		0		0
Funding Equalisation Reserve	2,943	(3,606)	0		0		0		0		0
Pensions Reserve	1,773	(900)	873		873		873	(873)	0		0
Maylands Plus Reserve	100	(69)	0		0		0		0		0
<b>Total Earmarked Reserves</b>	<b>12,420</b>	<b>(7,033)</b>	<b>5,431</b>	<b>(821)</b>	<b>4,610</b>	<b>178</b>	<b>4,788</b>	<b>(834)</b>	<b>3,954</b>	<b>381</b>	<b>4,335</b>
<b>Working Balance</b>	<b>2,502</b>	<b>0</b>	<b>2,502</b>	<b>0</b>	<b>2,502</b>	<b>0</b>	<b>2,502</b>	<b>0</b>	<b>2,502</b>	<b>0</b>	<b>2,502</b>
<b>Total General Fund Reserves</b>	<b>14,922</b>	<b>(7,033)</b>	<b>7,933</b>	<b>(821)</b>	<b>7,112</b>	<b>178</b>	<b>7,290</b>	<b>(834)</b>	<b>6,456</b>	<b>381</b>	<b>6,837</b>