Financial Strategy

Contents

APPENDICES

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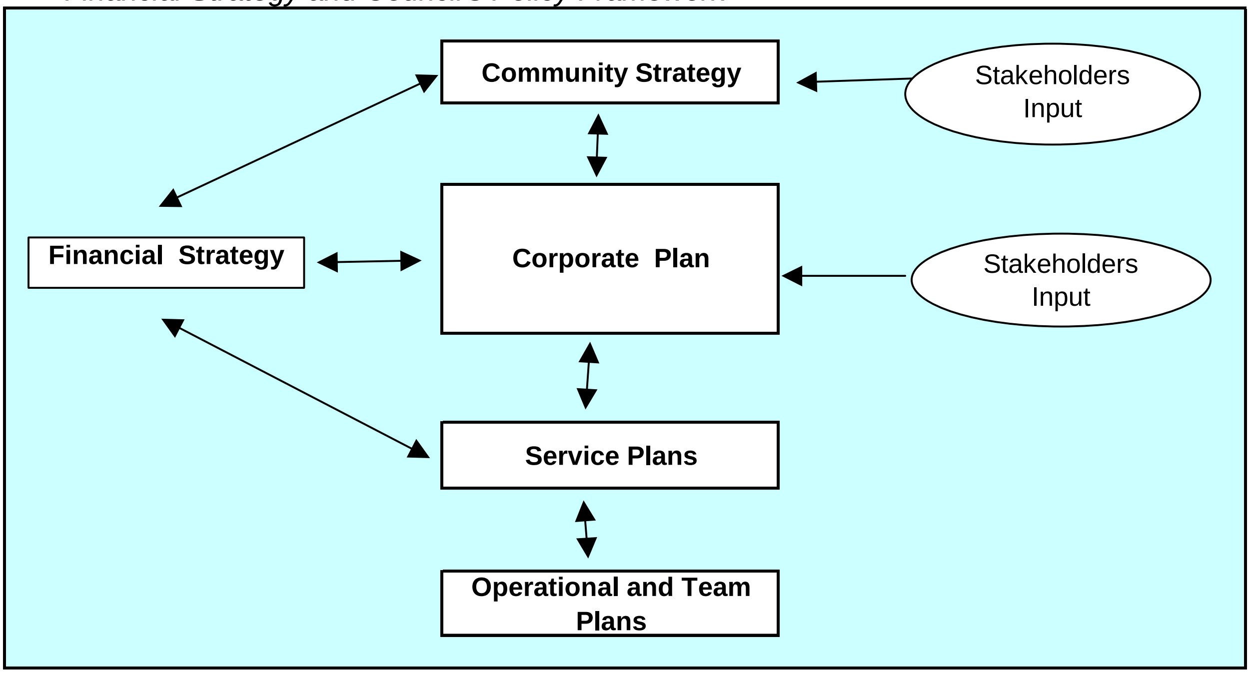
1 EXECUTIVE SUMMARY

1.1 The Financial Strategy is an integral part of Hertsmere Borough Council's (the Council) Corporate Plan. It is essential in applying a structured approach to the Council's service delivery and to ensure that resources are allocated to meet identified needs and priorities as shown in the diagram below. It also sets out the financial challenges and opportunities facing the Council.

Financial Strategy and Council's Policy Framework



1.2 In order to ensure continuous and sustainable improvement in services, it is vital that short term and medium to long term financial planning is undertaken.

1.3 As a district council with a population of 95,440, the Council's resources are limited. Over the years in order to maximise existing resources, the Council has taken the following decisions.

- Transfer of its social housing stock, which assisted the Council in maintaining a debt free status and earning substantial investment income.
- Setting up of Hertsmere Leisure Trust, which led to significant savings in National Non-Domestic Rates and VAT amounting to approximately £1m per annum. Moreover, the Council no longer subsidises (in the form of grant) the Leisure Trust.
- Continually secured reduction in NNDR on Council properties.
- Reviewed the staffing structure and 'flattened' senior management.
- Investment in a revenue generating property portfolio such as Elstree Film & Television Studios, Bushey Golf & Country Club, Cranbourne Industrial Estate etc.

- Partnerships and Consortium Procurement wherever possible.
- Working towards the achievement of efficiency gains as set out by DCLG.
- Delivery of the E-Government agenda.
- Working in Partnerships and shared service delivery in order to achieve continuous efficiency gains and effective service delivery.

1.4 The overall aims of the Council's Financial Strategy are:

- To set out how the Council wants to structure and manage its finances (typically for 3-5 years) and to ensure that this fits with and supports the Council's objectives as per the Council's Corporate Plan (see 1.5). The strategy should provide a framework and overall direction and parameters for resourcing of the Council's service delivery.
- To assist in the realisation of the core values of the Council (para. 1.6), and in particular, to ensure resources are allocated in line with corporate and service priorities, after taking full account of the financial implications of all policies, statutory duties and any long term issues and implications.
- To optimise use of the Council's assets in land, property and liquid resources so that appropriate reserves can be maintained in order to achieve the Council's overall financial and corporate objectives and to achieve it's agreed efficiency gains as set out in the Council's Annual Efficiency Statement.

1.5 Corporate Plan - Goals and Objectives.

In order to realise its vision, the Council has identified six Corporate Goals that are based upon the Strategic Objectives of the "Hertsmere Together " Community Strategy. The six Corporate Goals each have a number of outcome-based objectives, which support the development of priorities for action over the next three years. The Corporate Goals and objectives can be found in section 15, titled Aims, key priorities and targets of the capital programme (paragraph 15).

The Corporate Goals are to**:**

- Create an even safer community or all.
- Sustain improvements in the quality of Hertsmere's environment.
- Continue to promote healthy living, leisure and cultural opportunities.
- Encourage economic prosperity.
- Work towards meeting local housing needs through the strategic housing role.
- Sustain organisational improvements to meet community needs.

1.6 Strategic Financial Objectives

- To apply a strategic approach to how the Council's services are prioritised, managed and delivered through the Community Strategy and the Council's Corporate Plan and service plans while ensuring value for money is achieved at all times.
- To procure goods and services in the most economical, effective and efficient way and in accordance with ' Value for money' principles, driven by the Council's procurement strategy and e-government agenda.
- The Council has a statutory duty to achieve annual efficiency targets set by the DCLG. Since 2004/05 the target has been to achieve at least 2.5% annual efficiency gains (50% cashable & 50% non-cashable) in the years 2005/06 to 2007/08. It is worth noting that the DCLG is in the process of setting a revised efficiency agenda using the 2007 Comprehensive Spending Review (CSR 2007). More detailed information surrounding the CSR07 can be found in section 10.
- To use freedom of trading power to generate additional income.
- To ensure that essential services are maintained and improved for the benefit of all residents and businesses within Hertsmere in accordance with the Council's Corporate Plan.
- To invest 80% of the net capital receipts generated in 2004/05 and onwards into revenue generating asset portfolio and/or cost savings initiatives. In cases where there is a time lag in securing investment opportunities, interest earned on this sum will be utilised for Revenue Budget purposes.
- To maintain the Council's status as debt-free, except when an opportunity arises to obtain a significant return on capital investment.
- To maximise investment income and/or surplus on the budget funds in order to generate on-going savings.
- To provide towards employer's pension contributions as per the Actuaries' advice.
- To maintain the General Fund Revenue Reserve at a minimum of the 1999 level, plus annual indexing increases of 3%.
- To secure a reasonable rate of return on all the capital employed in the Council's asset portfolio used for revenue generating activities subject to the maintenance of essential services.
- To achieve minimum efficiency gains of 2.5% in 2007/08 (at least half cashable) and 3% in the years 2008/09 to 2010/11 (cashable – subject to 2007 Finance Settlement). To allow for a prudent level of contingency within the annual revenue budget to account for budgetary variations.
- To develop the Asset Management Plan further for the effective use of the Council's land and property portfolio.

- To minimise energy consumption further and to secure value for money when procuring utilities.
- To continuously carry out value for money reviews of the Council's services and implement the efficiency improvements identified taking into account comparison with similar services in comparable authorities.
- To improve the use of information technology and enhance the services to the public through the Customer Contact Centre and the Council's interactive web-site while achieving efficiency savings.
- To form additional alliances and partnerships in order to deliver services more efficiently and effectively and as part of the Pathfinder Agreement.
- To use electronic service delivery to achieve efficiency gains.

1.7 Financial challenges facing the Council

Similar to other Local Authorities in the country, the Council faces on-going budgetary challenges with respect to the following:

- Delivery of an increasing number of regulatory requirements such as licensing, crime and disorder act, and landfill tax.
- Ongoing issue regarding the provision of affordable housing.
- Ongoing issue of waste reduction and management with significant ongoing financial outlay.
- Increase in resources directed towards risk management and business continuity schemes.
- The cap on council tax increase and the relatively small increase in Government supported external funds (2007/08) (1.5% after adjustment to the formula grant for 2006/07).
- Demographic challenges of pension fund liabilities.
- Increased concern around the issues of global warming and carbon footprints. It has been agreed that the Council strive for carbon neutrality by 2010.
- Future impact of nationwide free off-peak bus travel to all people aged 60, and most disabled people regardless of where the passenger lives.

1.8 This strategy attempts to cover all financial aspects and should be taken into account in all areas of the Council's activities. Since its inception seven years ago, the financial strategy has continually evolved with the aid of Members, Executive, service managers, and other Stakeholders.

2 BACKGROUND

2.1 Local Context

Hertsmere Borough Council is situated to the north of London in southwest Hertfordshire. The Borough covers an area of 39 square miles and has four principal communities, Elstree

/Borehamwood, Potters Bar, Bushey and Radlett. Despite its proximity to London, 80 per cent of the Borough is Green Belt, much of which is in agricultural use.

The population is 95,440, of which black and ethnic minority communities make up 7.5 per cent (census 2001). The population is expected to rise by 3 per cent by 2008. The proportion of older people is above the national average, especially in the Potters Bar area.

Unemployment is 1.7 per cent, which is below the national average. The Borough is relatively prosperous with generally low levels of deprivation, although there are some wards with higher levels of deprivation, particularly in Borehamwood. Historically many residents have commuted to work in London and a high proportion of them are in professional or managerial roles.
There are a number of service sector employers in the area and Elstree /Borehamwood has been part of the British film industry for many years, hence one of the reasons the Council owns Elstree Film studios.

The majority of the housing in the Borough is owner-occupied with 17 per cent social rented housing and 8 per cent private sector rented or rent-free. The average price of a house in the Borough is £328,000 in 2007, which is well above the Hertfordshire County, regional and national averages. The Council transferred its housing stock in 1994 and now works with Registered Social Landlords (RSLs) as an enabler. Over recent years the number of applicants on the Council's housing register has increased steadily, with a 22 per cent rise over the last 12 months.

Local Government funding arrangements

2.2 Three year settlement of external finance (Revenue Support Grant and NNDR)

Following consultation the Government has introduced a three-year revenue and capital funding settlement between local and central government. This means that the government spending plans are set for three years and reviewed every two years. This provides some certainty as to government funding and hence assists the Council in its medium term and long term strategic and financial planning. In January 2007 the Minister for Local Government amended the finance settlement for 2007/08 which was part of the two year settlement. The next finance settlement for the years 2008/09 to 2010/11 will be set by the end of this year and will be based on the outcomes of the Comprehensive Spending Review (CSR) 2007. Although the finance settlement will bring greater certainty over the three year period, it also creates uncertainty at the start of each three year period, as figures will be unknown until the Comprehensive Spending Review has been completed.

According to the 2007 CSR, there will be a gross resource increase for local government of an average 1%per year in real terms for the next three years. The LGA has described it as "the worst settlement for local government in a decade". This will be underpinned by an ambitious value for money programme realising savings of 3%per year while maintaining the Government expectation of an increase in Council Tax of substantially below 5%in each of the next three years.

2.3 Sir Michael Lyons' inquiry into local government funding.

The final report by Sir Michael Lyons was published with the purpose of looking into the future role, function and funding of local government (a full copy of the report can be found at http://communities.gov.uk). The Lyons inquiry was commissioned to seek recommendations on Council Tax reform, how local authorities could have more powers to charge for their services and how supplementary revenue could be raised.

Recommendations from the Lyons inquiry state that Council Tax should be reformed rather that replaced but it is seen as unfair and has some limitations in that it is not a buoyant source of revenue (due to the fact that it provides a minority of local revenue). It was also recommended that, in the medium-term, properties be revalued to update the tax base and there should be additional bands so that those in the lowest value properties pay less and those in the highest pay more (the tax is still based on the valuation of properties 1991).

The CSR 07 has introduced a new power for Local Authorities to invest in economic development through business rate supplements. However the Government has published a White Paper and will consult on technical issues before finalising the detailed arrangements. It is the intention of the Government that only the higher tier authorities be entitled to levy supplements in consultation with district authorities.

2.4 The National Scheme for Concessionary Bus Fare

From April 2008, Councils must pay bus operators for passholders' journeys in their areas regardless of where the passenger lives (nationwide free concessionary travel), threatening huge costs for popular cities and holiday towns. The concessionary fares scheme will inevitably make up a far larger proportion of districts' budgets. The Local Government Association (LGA) is calling for a specific grant targeted on areas that will bear the brunt of costs, instead of a distribution of funds through the normal grant formula, which only takes into account the population of a specific area. The LGA believes demand for bus travel is unrelated to population.

The full financial impact of the April 2008 nationwide free concessionary travel is difficult to predict and, as yet, the Council has not received any detailed information from Central Government as to what funding can be expected.

However it is worth mentioning that the Hertsmere Borough Council already provides a countywide scheme. Hence the impact of the national scheme might not be as significant when compared to other areas where the minimum is provided i.e. free off-peak travel to holders of passes on local services within the area of the concession authority.

2.5 COUNCIL TAX CAPPING LIMIT

As mentioned in CSR 07 there is a risk that any Council Tax increase more than 5% will be capped by Central Government. This risk is managed as far as possible by ensuring that the Council and the Members are informed of the latest Central Government capping criteria and its implications on Council Tax.

It is worth noting the Financial Strategy will provide a framework for the effective management of all the Council's affairs. It will allow a strategic, approach to corporate spending priorities, together with funding of spending. It will also enable a systematic approach to be adopted to cater for the changing priorities of services.

2.6 The Local Government White Paper

In October 2006 the Department for Communities and Local Government (DCLG), published the Local Government White Paper. The White Paper illustrates the future challenges that local authorities are facing and what needs to be done to achieve these challenges. Councils were provided with the options of either becoming a county wide unitary or working towards pathfinders. The Council, along with the other authorities in Hertfordshire have chosen the pathfinder route for an enhanced two-tier system that aims to deliver a shared services approach across the county. Currently this is happening on many fronts – Internal Audit, Benefits & Benefit Fraud, Procurement, Human Resources, and Risk Management. Going forward, the Council will be looking to secure additional shared service partnerships with all authorities throughout Hertfordshire.

2.7 Efficiency savings after the Gershon Review.

The Council has a statutory duty to achieve annual efficiency targets set by the DCLG. Since 2004/05 the target has been to achieve at least 2.5% annual efficiency gains (50% cashable & 50% non-cashable) in the years 2005/06 to 2007/08. It is worth noting that the DCLG is in the process of setting a revised efficiency agenda using the 2007 Comprehensive Spending Review. As mentioned above the Council will have to achieve at least 3.0% cashable annual efficiency gains for the years 2008-09 to 2010-11. It is estimated that the Council will have to achieve efficiency gains of £300,000 (cashable).

2.8 Proposed key amendments to the financial strategy.

Broadly the strategy remains unchanged as a good working practice guide except for the following:

Disposal of Land

It has been the Council's policy to offer any surplus housing land available to Registered Social Landlords (RSL) in the first place for the development of affordable housing.

Furthermore, in order to enable the RSL's to fund these development projects the Council has been disposing of land at a significantly discounted price. Over the last three financial years (2004/05 – 2006/07) the amount foregone (the difference between the unrestricted value of land and the discounted net capital receipts) is £2.8M.

This ensures that the development projects are viable and at the same time enables the Council to meet one of its corporate goals which is to work towards meeting local housing needs through its strategic housing role.

Hence it is proposed:

- To continue to offer surplus housing land to RSLs in the first place for the development of affordable housing.
- It certain circumstances, in order to achieve best value, to dispose of housing land at market value and to earmark 80% of net capital receipts generated from the disposal for the purpose of facilitating the supply of affordable housing. The balance will be transferred to usable capital receipts and be used to fund capital projects.
- From the disposal of land other than housing land to invest 80% of net capital receipts generated in 2008/09 and onwards to revenue generating asset portfolio and/or cost saving initiatives.

The implementation of the above proposals will be subject to a further report to be submitted to Executive.

The Council would also use its powers conveyed under Section 106 of the Town and Country Act 1990 (as amended) in order to secure additional affordable housing whenever approval is given for land development.

Value for Money and Efficiency

Value for money (VFM) and the Efficiency agenda continue to be prominent features in the government finance. However, 2007/08 will be the final year that the Comprehensive Spending Review 2004 (CSR04) will be used to determine efficiency gain requirements.

Going forward (2008/09 to 2010/11) as mentioned by Comprehensive Spending Review 2007 (CSR07).

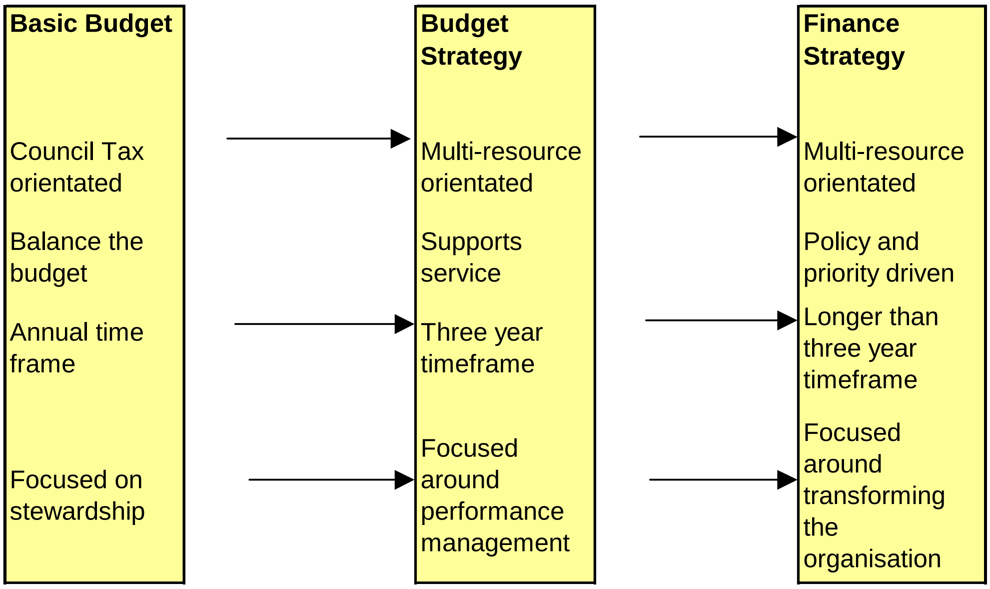
Pension Scheme

The valuation of the Hertfordshire Local Government Pension Scheme is taking place this year. The employers contribution rate for 2008/09 has been based on the 2004 valuation, however the outcomes of the 2007 valuation will have an impact on the contribution rates for the year 2009/10 to 2011/12. The Council has been informed that these rates will be available at the beginning of 2008 and the financial strategy will be amended accordingly.

3 INTRODUCTION

The Council starts its detailed budget plan as part of the service plan which is reflected in the budget strategy and culminates in the Financial Strategy. The relationship between the budget setting process and the Financial Strategy is shown below.

Relationship between Finance Strategy and Budgeting process.



3.1 This document has now been updated to take account of the following:

- The Council's Community and Cultural Strategies.
- The outcome of the Audit Commission's inspections
- Changes to the Council's Corporate Plan
- Improvements made to the Service and Corporate Plans.
- The Prudential regime for Capital Finance in Local Government.
- The Council's Housing Strategy and other key documents.

- The E-Government agenda
- The Efficiency agenda
- The new Comprehensive Performance Assessment regime.
- The Comprehensive Spending Review 2007 (CSR07).

3.2 The Council’s finances fall into two main categories:

- Revenue
- Capital

3.3 Annual revenue expenditure is financed by five main sources:

- Government Grants or External Finance
- Council Tax
- Fees & Charges
- Investment Income
- Revenue Reserves (only in exceptional circumstances)

4 REVENUE BUDGET & SETTING OF THE COUNCIL TAX

4.1 Introduction

The Council Tax (including Town and Parish precepts) for the year 2006/07 was £160.96 for a band D property. The average Council Tax (including Town and Parish precepts) for the year 2007/08 is £168.85, an increase of 4.90%. To achieve this level of Council Tax, the Council had to exercise controls over its spending and optimise its revenue. The Council has adopted a planned and structured approach to setting a balanced budget. The following paragraphs set out the process of setting the Council Tax. The key approach in achieving this is making the earliest possible start to the detailed budget setting process and adopting a proactive approach.

4.2 The Council’s Revenue Budget

The Council’s Revenue Budget represents the Council’s target for the cost of providing its ongoing services in the forthcoming year. The Council is required by law to set a balanced Revenue Budget each year, showing how it intends to fund the services it plans to provide in the forthcoming year. The Revenue Budget therefore reflects the financial implications of the Council’s aims and objectives for the forthcoming year.

4.3 Calculation of Budget Requirement

This calculation is required under Section 32 of the Act. The Council must calculate:

- Its aggregate expenditure (including the amounts of Parish Precepts to be met from the

General Fund).

- Its aggregate income (excluding redistributed National Non-Domestic Rate and Revenue Support Grant).
- The difference between the two, being termed the Net Budget Requirement for the purposes of Council Tax setting.

The calculations shown as per paragraph 5.9 are made not only to comply with the Act but are also presented in accordance with the Code of Practice on Local Authority Accounting in Great Britain

4.4 Achieving a balanced budget

Each year the Council is required under statute to present a balanced budget. The Council has the following options to consider in achieving this requirement:

- Reduce the annual expenditure requirement by making efficiency savings, increasing the level of fees and charges and raising additional income.
- By achieving ongoing annual efficiency gains as per Gershon.
- Increase the level of Council Tax.
- Alternate ways of service delivery to achieve efficiency gains.

In order to deliver value for money to taxpayers, the Council has used a combination of these methods in balancing the 2007/08 budget. The outcome is a proper balance that protects essential services, reduces reliance on investment income and keeps the rise in Council tax to a minimum. Applying further efficiency savings would increase the risk of reducing current service levels. Market forces and statutory guidelines together prevent further increases in fees and charges.

The Council's key aim in setting the Council Tax for 2007/08 has been to maintain, if not improve, value for money to the local taxpayer for the services it provides and to eliminate its dependence on investment income.

The system of National Non-Domestic Rates (NNDR) remains the same. However, a revaluation of all non-domestic property was effective from 1st April 2005. All income collected from this source is remitted to and pooled by the Government, and then redistributed to local authorities as part of the annual grant settlement scheme. The Council also receives a Revenue Support Grant (RSG) from the same annual grant settlement scheme. Over a number of years, the NNDR has steadily reduced in real terms. As external finance funding has been below the inflation rate this has resulted in a disproportionate increase in Council Tax, despite best endeavours.

The financial year 2007/08 sees the fourteenth year of Council Tax as introduced by the Local Government Finance Act 1992. The Council Tax is levied on all domestic properties and there are eight valuation bands (A - H). The charge payable is based on the band of the property as determined by the District Valuer and Valuation Officer.

The average charge levied for the services provided by Hertsmere for the whole Borough, is £150.34 at Band D (excluding Town and Parish Council precepts) for the financial year 2007/08.

The Council, as a billing authority, collects tax on behalf of Hertfordshire County Council and Hertfordshire Constabulary (paragraph 5.9). In summary the combined band D cost for a Hertsmere resident is £1,314.64 (excluding Town and Parish Council Charges.) This position is shown clearly in the Council Tax leaflets produced by Hertfordshire County Council and Hertsmere Borough Council, which accompany Council Tax bills.

4.5 The Revenue Budget Setting Process

Setting an achievable revenue budget is dependent upon resolving the fundamental conflict between the desire to improve services whilst at the same time ensuring that the cost of those services to the taxpayer is acceptable, affordable and sustainable. In order to resolve these conflicting aims, the Council needs to gain a clear understanding of the following factors:

- what level of funding is required to provide each service for the forthcoming year.
- which areas the Council considers to be its priorities for allocating funding (see the section on Corporate and Community Planning below).
- whether any efficiency gains or innovative service delivery solutions are possible for each service (e.g. through Partnerships).
- whether any additional income can be generated either in the form of Government grants or through fees and charges levied.
- after consideration of all of the above factors, what an acceptable level of Council Tax will be for the forthcoming year.

In order to gain a clear understanding of each of the factors listed above and prior to presenting a proposed budget to Full Council for approval, consultation is undertaken formally with the following groups:

- Residents
- Elected Members
- Service Managers
- The Finance and Property Portfolio Holder and The Leader of the Council
- The Executive as a whole
- Overview Committee
- Business Ratepayers

The Council's Budgets must be approved at a meeting of the Full Council in order for it to be enacted. Statutes require the Council Tax and the Council Budget to be set by 18th March of the preceding financial year. Full Council agreed the 2007/08 budget on 21 February 2007.

5 SERVICES PROVIDED BY THE COUNCIL

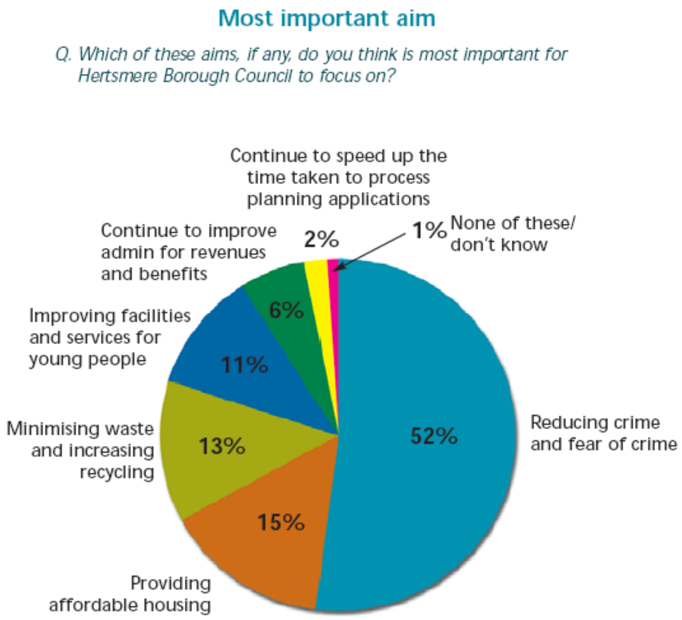
5.1 Services Provided under the Council's Constitution

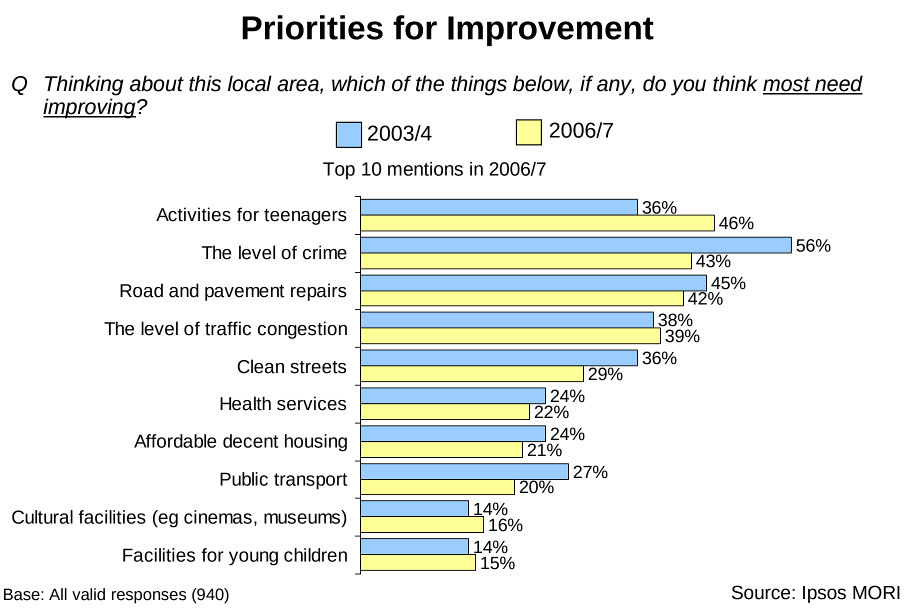
Building Control
Collection of Council Tax and Business Rates
Community Safety and Police Liaison
Cultural Strategy
Drainage
Development of Planning Policy
Development Control, including Planning Applications
Payment of Grants to Voluntary Organisations
Electoral Services
Emergency Planning
Environmental Health
Grounds Maintenance & Grass Cutting on Public Land
Housing/Council Tax Benefits
Housing Needs
Housing Strategy, private sector standards and energy efficiency.
Land Charges (searches)
Licensing
Management of Street Markets
Meals on Wheels
Parking Operations and Enforcement
Parks & Cemeteries Maintenance
Economic Development
Property Management including the letting of Garages
Taxi, Mini-Cab and other Licensing
Recycling
Street Cleansing
Provision of Leisure Facilities and Community Leisure
Waste Collection

5.2 Corporate Planning and the Annual Budget

The revenue budget needs to be considered in the context of the wider aims and objectives that the Council has for delivering its services. In order for the Council to be able to meet its targets for delivering services, it is necessary to ensure that the right amount of funding is available for each service in the revenue budget. Equally, the provision of services is constrained by the level of financial resources available through the revenue budget. Thus service delivery and financial planning are closely linked.

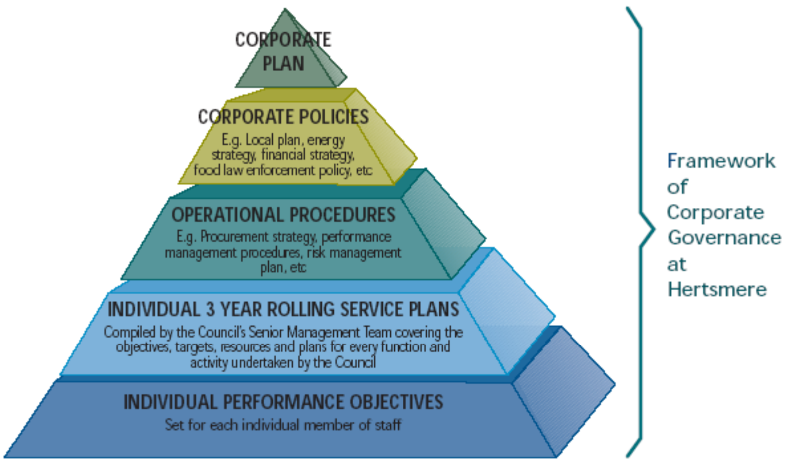
In order to deliver value for money to its taxpayers, the Council is continually reviewing its services, operational structure, systems and practices. The Council is committed to seek value for money from all its services and has a record of significant improvements in the efficiency and effectiveness of its services to the benefit of Council Taxpayers and users of services. To support this aim, the Council carries out consultation with local people, including regular triennial residents' surveys and more specific surveys with a panel of more than 1000 local residents. These surveys have been used to determine satisfaction levels and establish local priorities for service delivery that are articulated through the Council's Corporate Plan Review.





In addition to local priorities relating specifically to Council services, the authority has been instrumental in the development of a Community Strategy for Hertsmere. The strategy has been developed within a Local Strategic Partnership (LSP) called "Hertsmere Together". This partnership includes, amongst others, Hertsmere Borough Council, Hertfordshire County Council, Hertfordshire Police Authority and the Primary Care Trust. The strategy has identified a range of joint priorities for service delivery within the borough. These will be delivered by the partners of Hertsmere Together.

The Council's corporate priorities and those articulated within the Community Strategy are linked via the Council's Corporate Governance Framework. This provides the mechanism through which these priorities will be filtered down throughout the organisation as a whole.



The service plans developed by the Management Team should be based on the aims and objectives contained in the Community Strategy and developed strategically for Hertsmere through the Corporate Plan, Corporate Policies and Operational Procedures. The budget process is based on information contained within each service plan.

The Council is in the difficult position of having inadequate ongoing revenue resources available to meet all of the needs contained within each service plan. This is due in part to additional funds being required for issues outside the Council's control and increases due to government legislation requirements. This has meant that the Council's service improvement programme is dependent on it being funded from increases in Council Tax. To keep this increase under control the Council has prioritised its service improvement programme for 2007/08 in line with the service priorities mentioned above and will apply the same principles in future.

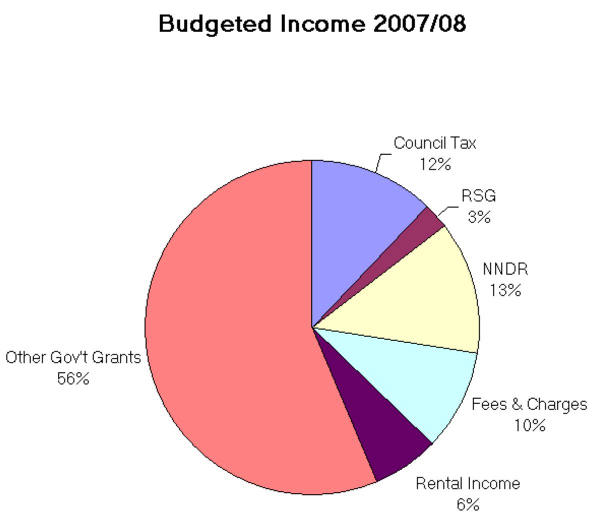
5.3 Factors impacting the Revenue Budget and Key Challenges for 2007/08

Summarising the information in the preceding pages, in order to ascertain the priorities for setting the revenue budget, it is necessary to consider the following factors:

- Corporate Priorities as determined by the process outlined above.
- Changes in income that are outside the Council's control such as:
    - Planning fees.
    - Volumes for trade waste, paper and glass recycling.
    - Potential capping of future Council Tax increase.
    - Imbedding decriminalisation of double yellow lines on the Council's parking areas.
    - Changes in expenditure that are outside the Council's control
    - Increased funding of the pension scheme or increase in number of employees who wish to join the scheme
- Corporate Policy Implications
    - Outcome of CPA inspections and changes to Council's priorities.
- Changes that are due to government legislation
    - Additional Bin Collection following statutory requirements to increase recycling rates.
    - Choice Based lettings.
    - Introduction of the Health Act 2006 and Gambling Act 2006.
    - "Equal Pay and Single Status Directive" for the waste management services.
- Efficiency gains and income increases that can be generated

5.4 Funding the Annual Revenue Budget

The gross expenditure on the Council's services is funded through various sources of income as shown in the chart below:



Note: "Other Government Grants" shown in the chart are primarily composed of grants *used to pay Council Tax Benefits and Rent Allowances.*

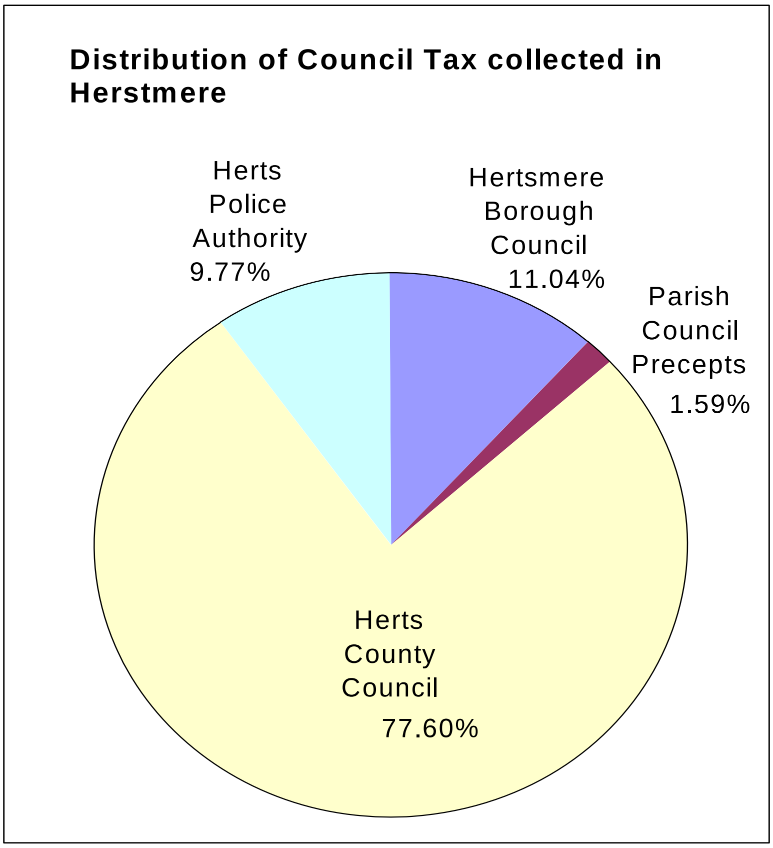
Central Government sets the level of Revenue Support Grant (RSG), Redistributed National Non-Domestic Rates (NNDR) and other government grants which are payable to Hertsmere each year. The Council therefore has very limited control over these sources of income.

The Council also receives income from fees & charges and property rentals. However, the scope for significantly increasing the income from these sources is limited because:

- In relation to rental income and certain fees and charges, the Council must remain competitive with other providers
- Some fees and charges are determined by Central Government guidelines
- Other fees and charges relate to services provided for the benefit of the community where the Council aims to make the service accessible by making it available at a reasonable cost.

5.5 Council Tax collected in Hertsmere

Hertsmere Borough Council acts as the billing authority for all Council Tax payments on behalf of Hertfordshire County Council, Hertfordshire Constabulary and the Parish/Town Councils of Aldenham, Elstree and Borehamwood, Shenley, and Ridge.



All receipts are paid into a collection fund. The receipts arising from Council Tax remain in the fund until specified dates when payments can be made to all precepting Authorities and the Borough Council.

The average total Council Tax levy for Band D residents excluding Parish Precepts in Hertsmere is £1,314.64. The additional Parish Precepts vary depending upon location (as shown on page 18), but are on average 2% of the total bill as shown above.

5.6 Calculation of Hertsmere's Share of the Council Tax for 2007/08

Council Tax Levy @ Band D for 2006/07

= £ 160.96

Increase by 4.90%

Council Tax Levy @ Band D for 2007/08

= £ 168.85

Multiply Band D Estimate by the Tax Base for 2007/08

<u>Total Gross Council Tax</u>

£ 168.85 (Levy) x 40,742 (tax base)

= £ 6,879,287

Collection Fund Adjustment

<u>Adjustment for Collection Fund</u>

£ 6,879,287 (above) - £ 18,504 (Adjust)

= £ 6,860,782

Determine the Parish Precept claim to this amount

<u>Gross Council Tax Less Precepts</u>

£ 6,860,782 (gross) - £ 865,602 (Precepts)

= £ 5,995,180

Determine the Special Expenses claim to this amount

<u>Tax Available for Revenue Budget Funding</u>

£ 5,995,180 (above) - £ 629,035 (Special Expenses)

= £ 5,366,145

5.7 PARISH PRECEPTS

The Council Tax requirements for 2007/08 for each of the local precepting authorities is as follows:

	Precept	Band D Charge
	£	£
ELSTREE AND BOREHAMWOOD	303,060	22.98
ALDENHAM	502,049	101.69
SHENLEY	59,843	33.32
RIDGE	650	6.91

5.8 Charges for Each Band

The figures for each band of property below is arrived at by taking the charge for a Band D property and scaling it depending on the valuation band in which the property is listed.

5.9 Analysis of Council Tax levy and net budget requirement.

The table below shows the amounts that make up the Council Tax bill for 2007/08:

Band	A	B	C	**D**	E	F	G	H
	£	£	£	**£**	£	£	£	£
Borough plus Parish Charges								
Aldenham	156.01	182.00	208.01	**234.01**	286.02	338.02	390.02	468.02
Elstree & Borehamwood	114.55	133.63	152.74	**171.82**	210.01	248.18	286.37	343.64
Ridge	103.95	121.27	138.60	**155.92**	190.57	225.22	259.87	311.84
Shenley	121.44	141.68	161.93	**182.16**	222.64	263.12	303.60	364.32
Bushey & Potters Bar	100.23	116.93	133.64	**150.34**	183.75	217.16	250.57	300.68
Plus								
Herts County Council	689.42	804.32	919.23	**1,034.13**	1,263.94	1,493.74	1,723.55	2,068.26
Herts Police Authority	86.78	101.24	115.71	**130.17**	159.10	188.02	216.95	260.34
Combined Charges - The total bill								
Aldenham	932.21	1,087.56	1,242.95	**1,398.31**	1,709.06	2,019.78	2,330.52	2,796.62
Elstree & Borehamwood	890.75	1,039.19	1,187.68	**1,336.12**	1,633.05	1,929.94	2,226.87	2,672.24
Ridge	880.15	1,026.83	1,173.54	**1,320.22**	1,613.61	1,906.98	2,200.37	2,640.44
Shenley	897.64	1,047.24	1,196.87	**1,346.46**	1,645.68	1,944.88	2,244.10	2,692.92
Bushey & Potters Bar	876.43	1,022.49	1,168.58	**1,314.64**	1,606.79	1,898.92	2,191.07	2,629.28

GENERAL FUND BUDGET SUMMARY 2007/08

2005/06 ACTUAL		2006/07 ACTUAL	**2007/08 APPROVED BUDGET**
£		£	**£**
1,592,223	PLANNING & BUILDING CONTROL	1,468,815	**1,681,370**
1,902,387	HOUSING & HEALTH	1,858,626	**2,135,830**
5,007,577	WASTE AND STREET SCENE	5,331,966	**5,258,310**
2,114,346	CORPORATE SUPPORT	2,182,831	**2,308,620**
1,312,084	FINANCE, REVENUES & BENEFITS & ICT	1,608,100	**1,681,520**
4,690,622	LEGAL & DEMOCRATIC SERVICES	1,944,894	**1,592,550**
443,608	HUMAN RESOURCES & CUSTOMER SERVICES	834,566	**859,440**
1,026,533	CORPORATE MANAGEMENT	1,168,605	**1,316,360**
155,097	AUDIT & ASSURANCE	147,815	**160,370**
103,348	CORPORATE COMMUNICATIONS	108,854	**161,410**
70,000	PAY STRATEGY	70,000	**70,000**
50,000	STRATEGIC TRAINING	50,000	**50,000**
194,850	CENTRAL CONTINGENCY	146,793	**194,850**
141,604	AUDIT FEES, BANK CHARGES NOT RECHARGED	185,586	**171,600**
0	PROCUREMENT SAVINGS	0	**(53,000)**
18,804,279	**GROSS REQUIREMENT**	17,107,451	**17,589,230**
678,630	**TRANSFER TO FLOOD DEFENCE RESERVE**	0	**0**
19,482,909		17,107,451	**17,589,230**
	LESS :-		
13,391	MORTGAGE INTEREST RECEIVABLE	9,161	**9,000**
53,838	TRANSFER TO RESERVES	(56,690)	**0**
7,129,170	CAPITAL CHARGES	3,886,820	**3,886,820**
12,286,510	**TOTAL NET REQUIREMENT**	13,268,160	**13,693,410**
	FINANCED EXTERNALLY BY:-		
4,213,350	REVENUE SUPPORT GRANT	1,226,720	**1,106,270**
2,708,360	N.N.D.R. GRANT	6,354,900	**6,591,960**
6,921,710	**TOTAL OF GOVERNMENT GRANTS**	**7,581,620**	**7,698,230**
5,364,800	**COUNCIL TAX LEVY @ 4.9% INCREASE**	**5,686,540**	**5,995,180**

Analysis of 2007/08 Budgets

GROSS COST	LESS INCOME		BUDGET INC CAPITAL CHARGES	LESS CAPITAL CHARGES	NET COST
£'000	£'000	**Services**	£'000	£'000	£'000
3,649	(1,968)	Planning & Building Control	1,681	176	1,506
2,410	(275)	Housing & Health Services	2,136	39	2,097
6,626	(1,368)	Waste Street Scene	5,258	679	4,579
2,624	(315)	Corporate Support	2,309	27	2,281
29,823	(28,142)	Finance, Revenues & Benefits and ICT	1,682	40	1,641
6,187	(4,594)	Legal & Democratic Services	1,593	2,925	(1,333)
936	(77)	Human Resources & Customer Services	859	-	859
1,316	-	Corporate Management	1,316	-	1,316
160	-	Audit & Assurance	160	-	160
161	-	Corporate Communications	161	-	161
486	(53)	Other Income/Expenditure	433		433
54,381	**(36,792)**	**Sub-total**	**17,589**	**3,887**	**13,702**
-	(9)	Mortgage Interest Receivable	(9)	-	(9)
54,381	**(36,801)**	**TOTAL**	**17,580**	**3,887**	**13,693**

Recent changes which had an impact on the Financial Strategy.

The 2007/2008 Revenue Budget highlighted the issues listed below, which had to be taken into account in preparing this year's Financial Strategy:

- Reduction in income from parking and civic offices rents £132,000 (adverse).
- Waste Management single status £75,000 (adverse).
- Pension and pay award costs. £365,000 (adverse)
- Planning and Housing restructure/reorganisation £200,000. (Adverse)

MEDIUM TERM FINANCIAL PLAN 2007-2012

5.10 Even though the Council reviews its Financial Strategy on an annual basis, it predicts five yearly financial forecasts based on known future events, Appendix D – "Revenue Financial Planning 2007 – 2012" shows the Council's projected Income and Expenditure for the next five years.

As shown in Appendix D, the current anticipated additional funding requirement is £305,000 for 2008/09. The Council will have to fund any additional demand on resources by achieving efficiency gains to prepare a balanced budget as any efficiency gains can be ploughed back within the service. It is also clear from the projected figures that the Council will have to rely on efficiency gains in order to fund any additional budgetary requirements as the scope to raise additional income from Council Tax and Government Grants is very limited.

5.11 The medium term financial plan has been derived from the Council's Corporate Aims and Objectives, known statutory requirements, changes anticipated in economic factors, such as inflation, and changes to service plans.

5.12 The Council has eliminated its reliance upon investment income and this is placing significant pressure on the revenue budget. There is no doubt that investment income is assisting in maintaining and enhancing the Council's reserves. As at 31 March 2007 the Council's reserves were.

Council's reserves were.	31/03/07	31/03/06
❑ Capital Reserve	£14.8M	£14.4M
❑ General Fund Reserve	£6.7M	£6.5M
❑ Earmarked Reserves	£11.2M	£9.9M

5.13 In the light of the low increases in Government grants, compared to the additional budgetary requirements and inflationary pressures, the remaining sources available to balance the budget are either by Council Tax increase or from increased revenue.

5.14 In order to balance the Revenue Budget and improve services, certain actions need to be taken:

- ❑ Investment of 80% of net capital receipts generated in 2004/05 and onwards into revenue generating asset portfolio and/or cost savings initiatives. In cases where there is a time lag in securing investment opportunities, interest earned on this sum will be utilised for Revenue Budget purposes.
- ❑ Alternative service delivery to secure financial savings and efficiency gains such as partnership working and shared services with neighbouring authorities.
- ❑ Maximise returns from the portfolio of assets.
- ❑ Invest to save and spend to save schemes.

- Shared or partnership working.
- Further implementation of the Procurement Strategy.
- Further implementation of the Risk Management Strategy.
- Further implementation of the Efficiency Initiatives.
- Embedding of electronic service delivery following implementation of E government agenda.
- Use of Trading powers
- Shared Service delivery
- Business improvement programme
- Benchmarking and comparing the Council’s service delivery cost against similar authorities to establish better ways of working.

6 THE REVENUE ACCOUNT

6.1 Revenue Expenditure is incurred on:

- The day-to-day services that the Council provides.
- Contributions towards capital expenditure, which is not funded from Useable Capital Receipts.

6.2 Gross revenue expenditure for 2007/08 is projected to be £50.5M. This can be analysed as follows:

- 27% (£13.6M) - Employees Expenses.
- 54% (£27.2M) - Council Tax Benefits and Rent Allowances.
- 19% (£9.7M) - General Running Expenses.

6.3 Expenditure is divided into two main categories, Revenue and Capital. Revenue expenditure can be further divided into ongoing and one-off expenditure.

6.4 Aims of Expenditure Strategy

- To optimise the use of resources in delivering value for money services to residents of the Borough.
- To apply a focused approach to spending plans as per priorities laid down by the Corporate Plan, which is driven by the overarching Community strategy.
- To ensure that the Council has adequate arrangements to ensure the legality of transactions that may have a financial consequence.
- To procure the Council's goods and services in line with the Council's Procurement Strategy.

6.5 Strategic Objectives - Revenue Expenditure (ongoing and one-off)

- To fund from savings and/or additional income all improvements to discretionary services and discretionary improvements to mandatory services.
- To fund all one-off revenue expenditure applications from either the budgetary contingency sum and/or investment income to be made and approved in accordance with the procedures outlined in the relevant policy document.
- To reduce expenditure by procuring services in the most economical, effective and efficient way, as per guidelines laid out in the National Procurement Strategy and Council's

procurement strategy. Financial regulations with respect to competitive tendering and purchasing should be strictly adhered to.

- To control and manage energy and other utility costs in an efficient manner.
- To maximise the reduction of NNDR payments on council properties.
- To implement a continuous review of staffing requirements with a view to attain optimum efficiency.
- To enter into alliances and partnerships with neighbouring authorities in order to achieve more effective and cost-efficient delivery of services.
- To carry out regular Best Value reviews of services in order to establish cost-effective delivery of the service.
- To carry out a financial appraisal of all prospective operating lease commitments prior to committal.
- To achieve efficiency gains as set out in the Council's Efficiency Statement.
- Continuous Business improvement

6.6 Strategic Objectives – Capital Expenditure

- To approve all Capital Expenditure as per the Council's Capital Strategy (paragraph 14).
- To work within the prudential indicators as set out by the new capital regime known as the Prudential Code.
- To achieve a rate of return of at least the market investment rate, or base rate plus 2% to be achieved by income and/or revenue savings generated by any new discretionary capital commitments. This is also applicable to any enhancements to existing assets.
- To evaluate thoroughly all ongoing financial commitments with respect to their impact on the revenue budget.
- To minimise all future commitments against the Council's Capital Reserve.

7 INCOME STRATEGY

7.1 Hertsmere's revenue budget for 2007/08 is based upon total gross income of £36.8M. This can be analysed as follows:

- 76 % (£27.9M) - Government Grants.
- 24% (£8.9 M) - Fees and Charges for Council Services.

7.2 Aim of Income Strategy

To optimise income from government grants, investment income and fees and charges for Council Services. This will enable us to maximise the funding available for Council Services and to allow Council Tax increases to be kept at an acceptable, affordable and sustainable level.

7.3 Strategic Objectives

Where possible, fees and charges are to be set at the level where at minimum they recoup the costs.

- To optimise the return from the Council's portfolio of assets.
- To implement proactive debt-management and strict credit control checks.
- To implement an integrated Credit Control Policy and practices for debtors.
- To achieve a reasonable rate of return on capital employed from the Council's commercial investment properties such as Elstree Film and Television Studios, Bushey Golf and Country Club, and Cranborne Industrial Estate.
- To measure the subsidy paid to community organisations as the difference between commercial charges and the actual charges.
- To carry out annual reviews of fees and charges. The existing level of fees and charges should be compared against the legally permissible maximum (where applicable), as well as market rates.

7.4 Main Government Grants received

- Redistributed National Non-Domestic Rates (NNDR).
- Revenues Support Grant (RSG).
- Housing Benefit & Council Tax Benefit Grant.
- Other one-off/non recurring grants - Planning Delivery Grants (2007/08) and LABGI.

For the financial years 2006/07 and 2007/08, grant income was as follows:

	2006/07 £'000	2007/08 £'000
Redistributed N.N.D.R.	6,592	6,693
Revenue Support Grant	1,106	1,123
Total External Support	7,698	7,816

7.5 Fees and Charges

The Council obtains income from fees and charges for the provision of Council Services. A breakdown of the rates of fees and charges and the Council's charging policy for 2007/08 is included in the 2007/08 Budget Book.

One of the immediate priorities set within the Corporate Plan is to review the Council's fees and charges in order to ensure that they remain competitive and effective. This has also been fully endorsed by the Council's external auditors.

This is a challenging task faced by all senior managers. Therefore, to increase the Council's ability to succeed, it is important to break the task into a series of manageable steps.

The following steps have been identified to facilitate the process:

Step 1 - Prepare a schedule disclosing all Fees and Charges raised by the Council.

Step 2 - Determine why the service is provided and list the authority that allows the Council to set the price level.

Step 3 - Determine the sensitivity of each price disclosed in the schedule, i.e. what would be the estimated effect on demand if the prices were to be decreased or increased.

Step 4 - Determine the social impact of not providing the service and the likelihood of debt recovery for the existing customers currently using the service.

Step 5 - Determine the price of a competitor in the same localised market for each price disclosed in the schedule.

Step 6 - Prepare a marketing strategy for services that have a price in the schedule of Fees and Charges.

Step 7 - Assign responsibilities for a rolling review (to cover steps 2-5) of each price included in the schedule. Ensure there are clear deadlines and that the appropriate body within the Council approves the report.

8 TREASURY MANAGEMENT STRATEGY

8.1 The Constitution states that the Authority's borrowings and investments – management of liquidity - should comply with the CIPFA Code of Practice on Treasury Management and with the authority's Treasury Management policy statement. The Constitution also lays down the responsibilities of the Directors, the Head of Finance, Revenues & Benefits and ICT, and other staff involved with treasury management decisions.

8.2 Treasury Management covers the following functions of financial services:

- Cash flows management, including banking.
- Management of investments and borrowings.
- Insurance management.
- VAT management.
- Effective control of the risks associated with these activities.
- Pursuit of optimum performance or returns consistent with those risks.

8.3 Aims of the Treasury Management Policy

- To deliver an efficient, effective and economic Treasury Management service while being committed to the pursuit of proper corporate governance.
- To ensure that the Treasury Management responsibilities are properly defined, understood and assigned to staff.
- To ensure that risks are successfully identified, monitored and controlled.
- To ensure that sources of borrowings and instruments for investments are as per approved lists and are within the Prudential Indicators (Appendix B) in compliance with the Prudential Code and best practice.
- To ensure that effective Treasury Management will provide support towards the achievement of the Council's business and service objectives.

8.4 Strategic Objectives

- To optimise the rate of return on all investment transactions without compromising the security of investments.
- To ensure that the Council's temporary borrowing requirements are kept to the optimum level, i.e. below the overdraft limit (currently £500,000).
- To ensure that any surplus funds are invested wisely, always ensuring that investment maturity is in line with cash flow predictions.

- To maximise investment opportunities and evaluating any opportunities as they arise.
- To ensure that the Council's financial institution (i.e. Bank), will meet its needs, provide an excellent service to customers, and charge a reasonable rate for services provided.
- To ensure that the Council does not incur any penalty payments.
- To ensure that the Council reclaims all VAT input (in compliance with VAT laws).
- To ensure that the Council has appropriate insurance cover at all times.
- To monitor and pursue the progress of all insurance claims.
- To ensure that the Council does not incur any penalty charges from the HM Revenue & Customs in respect of NNDR interest charges.
- To ensure that the Council has an adequate Risk Management policy covering counterparty risks, settlement risk, market risk, liquidity risk and operational risk.
- To ensure that the results of the Treasury activities are properly accounted for and adequate records are maintained for the purposes of internal and external audit and steps are taken to provide adequate division of duties.
- To ensure that all persons engaged in Treasury Management receive appropriate training.
- To ensure that the Head of Finance, Revenue & Benefits and ICT monitors and reports to Directors, Chief Executive, internal auditors and external auditors any material change proposed to approved treasury policies and of any major breaches which have occurred.
- To ensure (where necessary) access is secured to independent and reliable sources of information and advice.
- To ensure that Treasury performance is properly monitored and any actions, which may appear to be necessary or desirable in the light of those performances, are taken.
- To ensure compliance with The Prudential Code and Best Code of Practice for Treasury Management as laid down by CIPFA

Scope of Treasury Management Strategy for 2007/08.

8.5 The Treasury Management Strategy 2007/08 (Appendix A) lays down the Council's strategy for the year 2007/08.

8.6 The Council has also prepared the Treasury Management Indicators (Appendix A) as required by the Prudential Code for Capital Finance in Local Authorities, which underpin and flesh out the system of capital finance.

9 BALANCES AND RESERVES POLICY

9.1 In order to maintain financial flexibility, in 1999 the Council had adopted a policy to maintain the General Fund Revenue Reserve at a level of at least £5m. The full Council in consultation with the External Auditors took this decision. At the time this decision was taken, there was no provision made for future inflationary increases of this amount.

9.2 The current s151 Officer in consultation with the Leader of the Council and Finance and Property Portfolio Holder has implemented a policy to increase this amount in line with inflation in order to maintain its real value, which has been commended by the External Auditors.

9.3 Sections 32 and 43 of Local Government Finance Act 1992 require local authorities in England and Wales to have regard to the level of resources needed to meet estimated future expenditure when calculating the budget requirement. Further, under the Audit Commission's Comprehensive Performance Assessment (CPA) regime one aspect of the Council's financial standing that was assessed is the level of financial reserves. As per the current guideline, in order to meet the 'good' ranking a Council would have to meet the following criteria:

The aggregate of the following items

- Council Fund/General Fund (GF) balance
- Other earmarked GF revenue reserves; and
- Liabilities not recognised in the financial statements*

are expected to be in surplus at 31 March 2008, and the GF balance is expected to be at least equal to 5% but not more than 100%, of forecast 2007/08 net operating expenditure. In addition there must be plans agreed by Members on how to use these reserves which link to the Council's strategic aims.

OR: There is a formal financial risk management process operating, which the authority uses to justify a lower level of reserves.

* Liabilities not recognised include unfunded insurance liabilities but excludes FRS17 unfunded pension liabilities.

Aim of Balances and Reserves Policy

9.4 To increase, at a minimum, the level of the Council's General Fund reserves in line with the anticipated inflationary increase currently set at 3%.

The Role of the s151 Officer or Chief Finance Officer (CFO) with respect to Reserve Set-up and maintenance.

9.5 Within the existing statutory and regulatory framework, it is the responsibility of the CFO to advise the Council on the level of reserves that it should hold, and to ensure that there are clear protocols relating to their establishment and use.

Types of Reserves

9.6 When reviewing the Council's medium term financial plans and preparing its annual budgets the Council should consider the establishment and maintenance of balances and reserves. These can be held for three main purposes as follows:

- A working balance to cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

9.7 The most commonly established earmarked reserves are listed below:

Category of earmarked reserve	**Rationale**
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations.	Where expenditure is planned in future accounting periods, it is prudent to build up resources in advance.
Insurance Reserves.	Self–insurance is common amongst English local authorities. In the absence of any statutory basis sums held to meet potential and contingent liabilities are reported as earmarked reserves.

Category of earmarked reserve	**Rationale**
Reserves of trading and business units.	Surpluses arising from in-house trading may be retained to cover potential losses in future years, or to finance capital expenditure.
Reserves retained by service departments.	Increasingly authorities have internal protocols that permit year-end under-spend at departmental level to be carried forward.
Pension Fund reserves.	Reserves to meet any future shortfall in pension fund under FRS 17.
Land drainage.	Reserves to meet any land drainage and flood related costs.
Leisure Sinking Fund.	Amounts set aside to meet the replacement of certain leisure assets.
E-government.	Unspent amount regarding e-government projects.

9.8 For each reserve held by the Council there will be a statement setting out:

- The reason for and purpose of the reserves.
- How and when the reserves can be used.
- A process and timescale for review of the reserves to ensure continuing relevance and adequacy.
- Procedures for the reserves’ management and control. The Chief Finance Officer in consultation with the relevant Director, Service Head and Portfolio holder decides upon the required level for each reserve and most appropriate strategy to achieve this.

CIPFA Guidelines

9.9 Reserves are defined by CIPFA as follows:

“Amounts set aside for purposes falling outside the definition of provisions should be considered as reserves, and transfers to and from them should be distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure should not be charged direct to any reserve. For each reserve established, the purpose, usage and the basis of transactions should be clearly identified. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.”

9.10 Capital reserves are subject to certain restrictions:

> “Capital reserves are not available for revenue purposes and certain of them can only be used for specific statutory purposes. The fixed asset restatement reserve, usable capital receipts, and capital financing reserves are examples of such reserves.”

9.11 Revenue reserves are defined as follows:

> “Revenue reserves result from events which have allowed monies to be set aside, surpluses, or decisions”.

9.12 Another reserve not available for general use is the pensions reserve. The pensions reserve is a revenue reserve that represents the financing of employee pensions cost and is not directly available for other purposes. Where this reserve is in credit it may represent probable future reductions in pension costs, but is not a reserve that authorities can use at their discretion.

Principles to assess the adequacy of reserves

9.13 In order to assess the adequacy of unallocated general reserves (balances) when setting the budget, The Chief Finance Officer, in conjunction with the senior management team and Executive, should take account of the strategic, operational and financial risks facing the Authority. The requirement for financial reserves is acknowledged in the Local Government Finance Act, which requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In order to militate against over-committing financially, the Council is committed towards producing a balanced budget. Moreover, the external auditors’ report on the financial standing of the Council is closely followed.

9.14 Setting the level of general reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. The key financial assumptions underpinning the budget alongside consideration of the Council’s financial management arrangements should be taken into account when setting the level of reserves. In addition to the cash flow requirements of the Council, the following factors should be considered:

Budget assumptions	**Financial standing and management**
The treatment of inflation and interest rates.	The overall financial standing of the Council (level of borrowing, debt outstanding, council tax collection rates etc).
Estimates of the level and timing of capital receipts.	The Council's track record in budget and financial management.
The treatment of demand led pressures.	The Council's capacity to manage in-year budget pressures and any unforeseen expenditure requirement.
The treatment of efficiency savings/productivity gains.	The strength of the financial information and reporting arrangements.
The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments.	The Council's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.
The availability of other funds to deal with major contingencies.	The adequacy of the Council's insurance arrangements to cover major unforeseen risks.

Good Governance

9.15 The Director of Resources has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. Moreover as per the Constitution, the full Council is responsible for approving procedures for recording and reporting decisions taken. Hence it is important that the Councillors take responsibility for ensuring the adequacy of reserves and provisions when the budget is set. Moreover, the Local Government Act 2003 Part 2, states that the Chief Finance Officer must report to the Council on the adequacy of the proposed financial reserves.

10 VALUE FOR MONEY POLICY, EFFICIENCY AND CSR07

10.1 The Council has a statutory duty for delivering value for money for public funds. It should keep its internal controls under continuous review in order to manage all its limited resources in an efficient and effective manner, taking into account guidance on good practice issued from time to time by the Councils auditors and appropriate advisory bodies. It is worth noting that the Council improved on its overall Use of Resources score from a 2 to a 3 in 2006, indicating “consistency above minimum requirements – performing well”.

10.2 Value for money is the term used to measure whether or not an organisation has obtained the optimum benefit from the goods and services it acquires and/or provides, with its resources. Value for money not only measures the cost of goods and services, but also takes into account quality, whole life costing, best value, benchmarking and other criteria to see whether or not, when taken together, they represent good value for money.

10.3 Achieving value for money may also be defined in terms of the ‘three Es’- economy, efficiency and effectiveness:

Economy – the most economically advantageous price paid to provide a service. I.e. doing more at the same or lower cost.

Efficiency – a measure of productivity – how much you get out in relation to what you put in. I.e. doing more than before, with the same resources.

Effectiveness – a measure of the impact achieved and outcome. I.e. providing a better quality service with the same resources as now.

10.4 Achieving value for money is an integral part of the Council’s planning and budgetary processes at all levels and is considered as part of all new schemes, investments and projects. It is management’s responsibility to ensure that the relevant partnerships are in place so that members and officers, different departments and services and the Council as a whole have a common aim and understanding of achieving value for money.

10.5 The achievement of value for money is dependent upon the existence of robust financial management (internal control and code of conduct), the continuous strive to improve performance management, benchmarking and the efficient and effective management of the Council within its limited resources.

10.6 **Policy and approaches to the value for money**.

1. To adhere to the Council’s constitution and code of conduct for good working practices.
2. To carry out procurement processes as per the Council’s approved procurement strategy.

3. To maximise opportunities to achieve the ‘three Es’ for all the Council’s activities.
4. To strictly monitor and manage the Council’s performance at all levels.
5. To benchmark the Council’s performance against similar organisations and aim to achieve performance within the top quartile.
6. To demonstrate to its external and internal auditors as well as the Audit Commission that the Council is achieving value for money for all activities undertaken.
7. To ensure the Council’s committee reports fully cover all relevant implications such as financial, legal, efficiency, risk management, corporate etc prior to decision-making.

10.7 Responsibility

10.8 All Council employees as well as members have a statutory responsibility to ensure that their decisions are taken in the context of value for money. Further, the Council’s external auditors have a duty to give judgement upon value for money and to inform all stakeholders whether the Council is delivering value for money at all levels of activity.

10.9 Annual Efficiency Gains

10.10 Efficiency gains agenda is defined as raising productivity and enhancing value for money but should not be about making cuts that result in poorer services for the public. The Department for Communities and Local Government (DCLG) set the legal requirement for local government to achieve at least 2.5% annual efficiency gains over a three-year period (2005/06 to 2007/08) with the year 2004/05 as the baseline. It is worth noting that the Council is on target to achieving its cumulative annual efficiency target and by the end of the current CSR period (2007/08), the Council would have achieved an estimated cumulative total of £2.3M efficiency gains over 3 years.

10.11 The DCLG is in the process of setting a revised efficiency agenda using the 2007 Comprehensive Spending Review (CSR07), under which the Council should achieve at least 3.0% cashable annual efficiency gains for the years 2008-09 to 2010-11. It is estimated that the Council will have to achieve efficiency gains of £300,000 (cashable).

10.12 The DCLG guideline requires that at least half of the gains identified should be “cashable”. These can be defined as those where there is a direct financial saving or benefit, with money released that can be spent elsewhere or recycled within a service to deliver better results. The remainder of the gains can be “non-cashable”; where the gains do not necessarily lead to lower costs, but lead to improved performance for the resources used. As mentioned in paragraph 10.11, for the period 2008-09 to 2010-11, all gains identified will have to be cashable.

10.13 The Council has always looked for efficiency gains as a matter of course. The efficiency agenda, laid out by the DCLG, establishes a more formal and transparent approach with a set timetable action plan. It should also be emphasized that it is a statutory requirement to prepare the Annual Efficiency Statement (AES) Forward look and Backward look and submit it to the DCLG (see planned timetable for future annual efficiency statements). In the event that the Council fails to make the AES return by the due date, the Council carries a legal risk of non-compliance.

10.14 The Council has embraced the agenda of delivering identifiable "efficiency gains" and this provides the Council with a more structured and formal approach that will ensure that focus is on how best to get the most from taxpayers' money. This is being achieved through the adoption of leading edge management practices, exploiting the potential of new information and communication technologies, and developing more focused delivery vehicles with private, voluntary and community as well as public sector partners. The efficiency gains agenda encouraged this work to be assessed and acknowledged across the Council and forms an integral part of the budget setting process.

10.15 DCLG's assessment on efficiency gains is categorised in the following groups:

- Reducing inputs (money, people, assets, etc) for the same output.
- Reducing prices (procurement, labour costs, etc) for the same outputs.
- Getting greater outputs or improved quality (extra services, productivity, etc) for the same inputs.
- Getting more outputs or improved quality in return for an increase in resources that is proportionately less than the increase in output or quality.

10.16 Certain types of activity are not acceptable as efficiency gains:

- Re-labelling of activity (e.g. reclassifying inspection as advice).
- Cuts that result in poorer services for the public.
- Increased income purely from higher prices in fees and charges to the public.

10.17 DCLG recognises the efficiency gains will be both cashable and non-cashable (for the periods 2005/06 to 2007/08), but also has reservations that the cashable gains may be detrimental to the quality of the services. Hence DCLG has recommended that Councils should adopt a suitable set of quality cross checks to demonstrate that the quality of the service is either improved or maintained.

10.18 Planned Timetable for Future Annual Efficiency Statements (AES) for SR04

Dates	Action
5 July 2007	2006-07 Backward Look
15 November 2007	2007-08 Mid-year Update
8 July 2008	2007-08 Backward Look

10.19 Auditing of the AES

The 2006/07 AES will be taken into account when the auditors carry out the Use of Resources audit later this year. The Auditors' review of the arrangements underpinning the efficiency statements will include those relating to quality cross check measures. Hence the evidence and audit trail provided by the Council, needs to cover both the efficiency gains made and the quality cross check data. The process of identifying suitable quality checks should be objective to what is the most appropriate one. Most primary crosschecks are being offered by the DCLG. However authorities still have the option of adding other secondary crosschecks if it enhances the robustness and clarity of efficiency gains.

10.20 Three Stages to the process for the AES:

- Initial analysis, which requires the Council to calculate its efficiency target of 2.5% of the baseline expenditure, and to chose a suitable quality cross check from those identified by the Measurement Taskforce.
- Monthly monitoring of efficiency gains as well as the statutory requirement to provide DCLG with self assessed mid-year updates.
- End of year reporting, which requires the Council to report the efficiency gains achieved through specific projects.
- Review process: from 2006, the AES is subject to review by the Audit Commission's appointed auditors who will require an audit trail with evidence to support the reported efficiency gains and show how they were calculated.

10.21 The table below shows the targets, which relate to the Council's cumulative achievement of efficiency gains:

Hertsmere Borough Council - Actual Efficiency Gain 2005/06 and 2006/07 and Targeted Gains for 2007/08 Council Gershon Baseline Expenditure: £12.399million				
	Year on Year Efficiency gains	Total Efficiency gains relative to 2004/05	Year on Year Efficiency gains – Cashable	Year on year Efficiency gains – Non-cashable
	£'000	£'000	£'000	£'000
2005/06	(A) 366	366	278	88
2006/07	(A) 312	678	228	84
2007/08	(E) 310	988	228	82

(A) Actual (E) Estimate

10.22 Approach to Delivering the Efficiency Agenda

- **Procurement:**
- Competitive tendering.
- Introduction of contract procedure rules has standardised procedures and documents with regards to all types of procurement.
- Adoption of new technologies in the form of e-procurement.
- Cooperating with the Regional Centre of Excellence means that there will be new partnership opportunities.
- Introduction of the e-market place should result in economies of scale.
- Procurement of a vendor neutral system of recruiting agency staff.

- **Personnel:**
- Developing flexible working, providing opportunities for home working and dedicated teleworking centres to recruit and retain better staff so that the cost of recruitment can be reduced and to improve productivity via enhanced staff moral.
- Scope to introduce working patterns more tailored to the needs of individual services.
- Widespread adoption of new technologies, especially delivery of the e-government targets.
- Review of bureaucratic burdens faced by front-line staff.
- Reducing sickness absence levels.
- Cost-effective recruitment.
- Re-shaping rewards and working time.
- Developing a pay and workforce strategy.

- **Corporate plan and policy framework:**
- Business Process Review (to eliminate duplications and inefficiencies in processes).
- Continuous service improvement.

- Partnership and collaborative working.
- Shared infrastructure and back office processes.
- New technologies and realising the benefits from investment in ICT.
- Best use of E-government National Projects.
- Strategic procurement.

➢ **Asset management plan:**

- Better use of our existing assets portfolio.
- Promotion of home and flexible working will also reduce the need for office space.

10.23 The Council will have to put in place more robust and innovative ways of achieving further efficiencies. As the Council becomes more and more efficient, the challenge of achieving further annual efficiency savings set out by DCLG will become more difficult to realise.

10.24 Comprehensive Spending Review 2007 (CSR07).

10.25 In June 1997, Government launched a Comprehensive Spending Review (CSR). The CSR was the most fundamental and in-depth examination of government spending and priorities ever attempted. The CSR set long-term aims and objectives for each department and put in place a public expenditure and performance management framework within which these long-term ambitions could be achieved.

10.26 The CSR set the Government's priorities for the long-term: sustainable growth and employment; fairness and opportunity; efficiency and modern public services. To support this longer-term approach to public spending, the CSR introduced a series of key reforms to modernise the public expenditure framework including firm three-year Department spending plans, separate current and capital budgets, and outcome-focused Public Service Agreements to support delivery and improve departmental accountability.

10.27 In 2005 the Chief Secretary to the Treasury announced that the Government intended to launch a second CSR reporting in 2007, to identify what further investments and reforms were needed to equip the UK for the global challenges of the decade ahead.

10.28 A decade on from the first CSR, the 2007 CSR will represent a long-term and fundamental review of government expenditure. It will cover departmental allocations for 2008-09, 2009-10 and 2010-11.

10.29 To lay the ground work for the CSR, the Government is taking forward a programme of work involving:

- An examination of the key long-term trends and challenges that will shape the next decade – including demographic and socio-economic change, globalisation, climate and environmental change, global uncertainty and technological change;
- A national debate to build a shared understanding of how the UK and public services need to respond to these challenges;
- Detailed studies of key areas where cross-cutting, innovative policy responses are required to meet long-term challenges;
- An ambitious and far-reaching value for money programme to release the resources needed to address the challenges, involving both further development of the efficiency areas developed in the Gershon review, and a set of zero-based reviews of departments' baseline expenditure to assess its effectiveness in delivering the Government's long-term objectives; and
- A more strategic approach to asset management and investment decisions, ensuring the UK is equipped with the infrastructure needed to support both public service delivery and the productivity and flexibility of the wider economy.

10.30 The DCLG is in the process of setting a revised efficiency agenda using the 2007 Comprehensive Spending Review (CSR 2007), under which the Council should achieve at least 3.0% cashable annual efficiency gains for the years 2008-09 to 2010-11. It is estimated that the Council will have to achieve efficiency gains of £300,000 (cashable).

10.31 The next finance settlement will be announced later this year and will detail the amount of grant allocated to the Council for the next three years. At the time of writing figures are not known, however, the Council is led to believe that it will be a tight finance settlement.

11 RISK ANALYSIS AND RISK MANAGEMENT STRATEGIES

Risk management is an essential part of securing the "health" of an organisation. Effective risk management provides organisations with a means of improving strategic, operational and financial management. It can also help to maximise opportunities and minimise events which might result in financial losses, service disruption, bad publicity, threats to public health and claims for compensation.

The Accounts and Audit Regulations 2003 states that the Council is "responsible for ensuring that the financial management and accounting control systems of the body are adequate and effective, that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes risk management arrangements. The Audit Commission's Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks should be assessed in the context of the authority's overall approach to risk management.

11.1 The Accounts and Audit Regulations 2003 also states that the Council is responsible for conducting a "review at least once a year of the effectiveness of its system of internal control and shall publish a statement on the adequacy of internal control (Statement on Internal Control) with any statement of accounts it is obliged to publish". It is CIPFA's view that the Chief Finance Officer has responsibility for ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

The Council considers the assessment and minimisation of all types of risk to be vital and so, it has formally adopted the Statement of Recommended Practice (SORP) and has a strategy in place to meet its requirements. The Risk Management Policy Statement (Appendix E), and Risk Management Strategy (Appendix F), were formally approved by the full Council, on 12 November 2003. The bullet points below illustrate the impact of Risks on Financial Strategy.

- Not to be able to achieve the income required to fund the services as required by the Council's Strategy and Corporate Plan.
- The Financial Strategy will be kept under review and any unforeseen changes in the Service Plan will have to be evaluated as far as affordability and sustainability is concerned and the strategy amended accordingly.
- The level of resources and Council funding will have to be adequate in order to ensure any unforeseen increases in cost and absorbed without having any impact in service delivery.
- All assumptions used for the purpose of this strategy are kept under review and any impact will have to be assessed accordingly.

Current position

11.2 The Local Government Act 2003, Part II, subsections 25-28, has placed onerous requirements on the Chief Finance Officer. Subsection 26 & 27 requires the Chief Finance Officer to give assurances to the members on the robustness of the budgets. The Chief Finance Officer is obliged to present a "balanced budget".

11.3 The Chief Finance Officer identified the risks inherent in the budget setting process as representing the greatest threats to the 2007/08 budget:

- The majority of income budgets are subject to external factors, such as demand and supply in the market and the general state of the economy.
- The demand for accommodation for the homeless has proved difficult to predict in recent years. Current uncertainties in both the private sector housing market and social housing schemes will lead to continued difficulty in predicting the demand for homeless accommodation.
- Continuous increases in the obligations placed upon the Council by Central Government, with little or no corresponding increase in funding, such as the Health Act 2006, gambling Act 2006, and the impact of the revised concessionary bus fare scheme beginning in April 2008.

12 ACTION PLAN – TARGETS

Action	By Whom	By When
The long-term financial implications of any new initiative should be considered prior to submission to Executive Committee for approval.	Chief officers and Service Heads	Ongoing
To achieve the efficiency agenda by improving service efficiency through new technology and implementation of e-government agenda and business process review. This will ensure that the financial strategy reflects service planning and the best value process.	Chief officers and Service Heads	Ongoing
To implement Business Process review recommendations to achieve efficiency.	Management Team	2007-11
Maximisation of return from the Council's Asset Portfolio and make use of freedom of trading powers.	Chief officers and Service Heads	Ongoing.
To achieve reduction in NNDR with respect to Council properties.	Estate Valuer	Ongoing – To be reviewed December 2007.
To achieve reduction in energy and utilities cost either via effective procurement methods or energy efficiency measures.	Officers, Members	Ongoing – To be reviewed annually.
Review and maintain cost efficient staffing structures.	Chief Executive, Head of Human Resources Executive Directors Service Heads	To be reviewed December 2007.
No further commitments are to be made against the Council's capital reserves except for essential repairs and maintenance, any statutory obligations. (E.g. Health & Safety Act, Discretionary Disability Allowance etc) and any other extraordinary items determined by the Executive as implications from Community Strategy.	Service Heads	Ongoing – To be reviewed December 2007.
The Council's general fund reserve is to be maintained at least at its 1999 level, plus indexing increases since then of 3% per annum.	Director of Resources	Ongoing – To be reviewed annually.

Action	By Whom	By When
To assess the level of subsidy given to community organisations in Council properties.	Director of Resources & HoFRBICT	Ongoing – To be reviewed December 2007.
To achieve economies of scale through Partnership arrangements and public/private funding is sought for any appropriate project and as part of pathfinder.	Officers	Ongoing
Any improvements to discretionary services and discretionary improvements to mandatory services are to be funded primarily from savings or additional income.	Officers, Members	Ongoing
Wherever permissible income from all sources to be increased by at least 2% per annum plus inflation either by increasing fees and charges and/or introducing new charges strategies subject to meeting statutory constraints.	Officers	Ongoing – To be reviewed as part of 2008-09 budget.
Council's approved credit control policy rigorously followed.	Management Team and & HoFRBICT	Ongoing
Secure reduction in expenditure through competitive tendering and via approved procurement policy.	Management Team	Ongoing
Invest 80% of all net capital receipts generated in 2004/05 and onwards into revenue generating asset portfolio and/or cost savings initiatives.	Chief officers and Service Heads	On-going
The revised efficiency agenda using the CSR 2007, under which the Council should achieve at least 3.0% cashable annual efficiency gains for the years 2008-09 to 2010-11. It is estimated that the Council will have to achieve efficiency gains of £300,000 (cashable).	Chief officers and Service Heads	On-going

13 MONITORING AND REVIEW

Assessing progress of the Action Plan

13.1 In order to assess the progress of the items in the Action Plan above, quarterly meetings are to take place throughout the financial year, to be attended by all staff involved in developing and implementing the financial strategy. The progress made will also be communicated to the Executive and to full Council.

Future Changes to the Financial Strategy

13.2 In addition to assessing the progress of the Action Plan, the meetings will also be used to discuss any changes to this strategy and any new action points which are needed as a result of this. Any significant changes to the Strategy will be put before the Executive and/ or full Council as deemed appropriate within the constitution.

Communication of Outcomes

In addition, it is proposed that Internal Audit, the Executive Directors and the Finance Portfolio Holder are updated on a quarterly basis on the progress of the Action Plan and also are informed of any changes to this Financial Strategy, via the minutes of the quarterly meetings.

Performance Assessment & Management

13.3 The purposes for developing performance measures and applying comparison to the service are as follows:

- To provide a measure of the competitiveness of service delivery.
- Assist in the identification of potential service improvements.
- To provide meaningful performance information for service stakeholders.
- Generate a focus for internal service delivery.
- Demonstrate the “added value” the service provides.

13.4 Key Performance Indicators should be developed and monitored in order to assess whether the aims and objectives of the Financial Strategy have been met. The performance against these Performance Indicators should be re-assessed every quarter at the monthly meeting.

13.5 There are three types of indicator used for performance measures: Headline, Local and Management. The first indicator is relevant to all authorities whereas the two other indicators reflect more local factors and are more appropriate to monitor and manage the services. These are detailed below:

- Statutory publication of Prudential Indicators (Appendix B)
- Rate of investment return achieved

- Budgetary achievements for Revenue and expenditure projections.
- Capital Projects to meet the required rate of return and objectives.
- Percentage of the level of increase in Council tax collection.
- Percentage increases in the level of fees and income.
- Meeting requirements for a 'good' ranking under Comprehensive Performance Assessment guidelines for reserves.
- Implementation of recommendations made by the External Auditors in their Annual Audit inspection letter.
- Implementation of recommendations made by Internal Auditor's reports.
- Number of undisputed invoices paid within 30 days. (BVPI = BV8)
- Meeting the statutory deadline for the approval of Final Accounts (30th June 2008 for 2007/08 Accounts)
- Staff attendance at training and annual away day.
- Publication of finance documents on web sites. Such as Budget Book, Financial Strategy, Unit's Service Plan, Statement of Accounts, Annual Audit and inspection Letter and prudential Code Indicators.
- Time saving in completing various tasks.

13.6 The Council has set both statutory and local performance indicators as by the BVPP as follows:

- Compliance with statutory rules and regulations and best practice achieved
- Positive Annual Audit Letter received.
- Unqualified Statement of Accounts
- Creditor invoices paid within 30 days (Target 99%)
- Efficiency gains for 2007/08 (Target £310,000)
- Total gross income generated by Council owned assets (Target £4,429k - 06/07, £4,239k - 07/08, £4,286 – 08/09)
- Difference between final budget and outturn (Target 1.0% (Favourable))
- Amount of Investment Income (Target £1,045k - 07/08, £1M - 08/09, £900k – 09/10)
- Percentage of sundry debtor invoices raised in quarter and paid within 3 months (Target 98%)
- Percentage of Council tax collected (Target 99%)
- Percentage of NNDR collected (Target 99.3%)
- Proportion of contingency as a proportion of local authorities budget. (Target 1%)

13.7 These performance indicators form part of the Service Plans prepared by each unit, and also form part of the staff key results areas wherever appropriate.

13.8 All available resources are targeted in order to:-

- Resources directed towards Council's agreed priorities as set out in the Corporate Plan
- Prepare a balanced budget annually
- Meet the statutory deadlines for closure of accounts as per Accounts and Audit Regulations.
- Assist the delivery of the Council's services
- Provide value for money service for taxpayers

13.9 The Financial Strategy is closely linked with the Council's other strategies such as: Asset Management Plan, Procurement Strategy, Risk Management Strategy, Annual Efficiency Statement, Reserves and Provisions, and Prudential Code Indicators in order to adopt a more coherent approach to financial and strategic planning.

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14 CAPITAL STRATEGY

14.1 This Capital Strategy document sets out the strategic direction for the Council's capital programme and provides a background against which the Council will pursue finding opportunities in order to maximise capital investment. It also takes into account changes to the Capital Finance system and the introduction of The Prudential Code. This strategy demonstrates corporacy, Council objectives and spending priorities. The Council's Capital Strategy was assessed by 'Go-East' and was rated as good.

14.2 The Borough of Hertsmere covers an area of 10,200 hectares in the South of Hertfordshire. There are four main centres of population, Bushey, Elstree & Borehamwood, Potters Bar and Radlett. The Borough has a population of about 95,440. There are approximately 40,123 dwellings and 2,402 commercial premises.

14.3 The Council has developed a Capital Strategy to ensure that there is a formal and transparent framework in place to manage the current property portfolio and future capital investment decisions. A key focus of the strategy is to ensure that capital resources are effectively utilised and prioritised to deliver the Council's strategic aims and objectives and represent tangible benefit to people and deliver improvements in essential services. This strategy outlines the recent developments, the capital investment background, capital strategy framework, key priorities and targets, key partners and alliances, investment priorities and the management and monitoring framework.

14.4 Major developments impacting capital decisions:

- Abolition of the LASHG funding system and new rules regarding pooling of capital receipts.

- Introduction of The Prudential Code by the Local Government Act 2003 and guidance issued by the DCLG on Local Government Investments.

- Decision by the Central Government to commission the Environment Agency to deal with flooding problems on a national scale.

Capital Investment Background

14.5 The Capital Strategy has been formulated with reference to the historical capital decisions and the future aims and strategies of the Council. The key capital decisions made by the Council in the past are outlined below:

- Transfer of housing stock - In 1994, the Council made a decision based on consultation with community organisations to transfer its housing stock under twin Large Scale Voluntary Transfer (LSVT) disposals to two housing associations. The Council has maintained the right to receive receipts from the "right to buy" schemes on a diminishing scale until ceiling targets with each of the associations are achieved.
- Redemption of Outstanding Debt – The Council is a debt free authority and is not required to provide for credit liabilities.

14.6 Capital Expenditure Programme – The Council has completed a significant 7-year programme of capital expenditure, which has seen replacement or renewal of some of the Council's principal operational assets. This has taken place together with significant new investment in community assets held by others and on facilities that are of specific benefit to people with disabilities.

Capital Strategy Framework

14.7 The Council's Capital Strategy sets out the framework outlining the Council's approach to capital management and the evaluation and approval for new capital investment projects. The key corporate aims and strategies outlined in the Corporate Plan, Best Value Performance Plan and the Community Strategy provide the basis for the formal framework for the Capital Strategy and the prioritisation of capital resources. The Asset Management Plan and Service Plans underpin the corporate strategies and provide the operational approach to implementing the corporate strategies and aims. The Capital Budget Programme estimates for the period 2007-2012, and any known commitment beyond this period, is attached as per Appendix C.

14.8 Capital Programme objectives:

- To assist in the corporate aim of economical, efficient and effective service delivery.
- To create opportunities through effective asset management in order to provide an optimum financial return and/or community benefits.

- To optimise usage of scarce capital resources in order to strike a proper balance between resources and the local strategic partnership needs.
- To Review:
    - Possibility of Government funding (whether ring fenced or not)
    - Type of capital programme – asset maintenance or new build.
    - Use of local resources (S106, UCR, external contributions and revenue to capital)
    - Revenue spend implications of capital spend (In Prudential Code)
- To earmark any proceeds from sale of surplus assets for future capital programmes subject to the pooling of capital receipts regulations.

14.9 The key components of the framework are outlined below:

- **Debt Structure:** The Council will maintain a debt free status (Prudential Code indicators – Capital Financing**.** (Appendix B)) except when an opportunity arises to obtain a significant return on capital investment.
- **Major Repairs and Renewals:** The renewal and structural repairs of assets (set out in the Asset Management Plan) will be funded from a provision in the revenue budget. Provisions amounting to £350,200 have been allocated for 2007/08 and it is intended that a similar amount will be provided for in future budgets. This is in line with Council's Financial Strategy.
- **Leisure Sinking Fund:** Over the years, the Council has been making provision towards the Leisure Sinking Fund. This will enable the Council to replace major assets in the future without having a knock on effect on the Council Tax. The balance at 31 March 2006 amounted to £ 2.4 million.
- **Service Provision:** The services provided by the Council will be prioritised and streamlined to ensure that the key aims and strategies set out in the Corporate Plan, Community Strategy and Best Value Performance Plan are achieved. The Capital Strategy complements the Financial Strategy to streamline services and focus on identifying the infrastructure priorities of the community.
- **Return on Investments:** The Council is committed to investments, which optimise service benefits and/or financial return. The opportunity cost of owning capital will be considered in each capital investment appraisal. The Asset Management Plan includes a process to manage and review the current property register in order to identify any under performing assets and produce an action plan to enhance the asset performance.

- **Capital Investment Appraisal:** A capital investment appraisal process is in place to ensure that all future projects are subject to a rigorous risk assessment, option appraisal, have an appropriate business case and are prioritised in accordance with the Council's corporate priorities. The Capital project appraisal process is very much a weighting and scoring mechanism and takes into account the key priorities and targets of the Council. Other factors include the Council's legal duties and responsibilities and health and safety requirements. All projects will initially be evaluated by the Asset Management Panel for final approval by the Executive.

- **Capital receipts:** Any proceeds from the sale of surplus revenue account properties are pooled and used to finance future capital investment programmes. These assets will comprise of revenue returning assets and assets that achieve the Council's aims and objectives.

- **Revenue Implications of Capital Investment**: Priority is given to projects that have no adverse revenue budget implications for the Council, and have long term cost savings and/or income generating opportunities, with the exception of projects of a statutory nature or a high community need. Through this process the Council ensures that the level of investment in capital assets remains within a sustainable limit and is affordable.

- **Management and Monitoring:** All projects will be managed and monitored on an ongoing basis and reported to the Executive and also to Overview Committee on a quarterly basis to ensure that they continue to meet approved budgets and specification. The results of the monitoring may result in re-prioritisation of Council's capital programme. The Capital Strategy will be reviewed annually.

- **Performance Monitoring and Measurement:** Each service Head will be responsible for monitoring, measuring and reporting the performance of service delivery to key stakeholders. Each service has adopted statutory performance indicators, local and national benchmarking comparisons from membership with other Local Authorities, benchmarking clubs and CIPFA. In respect of property, the performance indicators used by the Council are outlined in the Asset Management Plan. The Council has adopted the National Property Indicators, Audit Commission Indicators, Eastern Region Property Services Benchmarking Group Indicators and the National Benchmarking Standards for Property Related Services. The monitoring process also takes into account the post-implementation reviews of projects with a view to establish whether the original aims and objectives have been met. Any lessons learned will be fed back into the system and would be used for the appraisal of future capital programmes.

- **Options for Partnering and Funding**: A key requirement of the capital investment appraisal is to explore options for partnering and funding and S106 funding as means of alternate capital funding e.g. CCTV operations and Arsenal Football Club. The partnership network includes partners from public, private and voluntary sectors.

- **Procurement Strategy:** In January 2005, The Council approved the Corporate Procurement Strategy 2005 – 2007 to set a clear framework for such purchases throughout the Authority, which reflects The Councils Corporate Plan and stands alongside The Councils Contract Standing Orders and Constitution.

  The key role that Value for money now plays in the delivery of local services means that procurement has moved to centre stage. As such, procurement is now everyone’s concern and recognising its increased prominence it is important to understand the role that procurement plays in various aspects of The Council’s work and this has been reflected in the Strategy.

  The Action Plan contained within the Strategy is intended to facilitate the focus of excellence for procurement and the driver for mandating, modernising and monitoring procurement across The Council – amongst other things, this includes the implementation of e-procurement across the Council which has been completed.

- **Cross Cutting Activity:** Cross cutting activity is outlined in the priorities and targets section of this strategy (e.g. dealing with disability access, regeneration of the local community and social exclusion, the E-Government agenda etc).

- **Additional Capital Resources (Inform Bidding):** Decisions to bid for additional resources (i.e. E-government funding, lottery bids, regeneration funding) will only be made if it is in line with the existing Capital Strategy and a review of service needs, capital resources and ongoing capital commitments. The Asset Management Panel will deal with bids for additional resources on a project-by-project basis with reference to the capital project evaluation process.

- **Consultation:** The Council has engaged in two-way consultation and communication with all its stakeholders to inform them about future strategies and plans. This process of consultation will underpin the Council’s formulation of future strategies and plans.

15 AIMS, KEY PRIORITIES AND TARGETS OF THE CAPITAL PROGRAMME

15.1 The projects in the capital expenditure programme (Appendix C) are linked to the strategic aims of the Council, as per the Corporate Plan and the Local Strategic Partnership. The Capital Strategy has grouped the key priorities and targets of the capital investment programme under the six key goals outlined in the Corporate Plan and as explained below.

GOAL 1: CREATE AN EVEN SAFER COMMUNITY FOR ALL

15.2 The Council is committed towards the creation of an even safer community by:

- Building community confidence and further reducing the fear of crime.

15.3 **Priorities and targets**:

- Working towards a reduction in crime and fear of crime and anti-social behaviour and disorder by investing £100k annually in Police Community Support Officers and this has been increased to £130,000 for the year 2006/07.
- To progress the redevelopment of the “Borehamwood Village Hall” in Shenley Road into a multi-purpose community facility.
- Expand alcohol free zones across the borough.
- Improve the use of CCTV across the borough.

GOAL 2: SUSTIAN IMPROVEMENTS IN THE QUALITY OF HERTSMERE’S ENVIRONMENT

15.4 The Council will carry on improving the quality of Hertsmere’s environment by:

- Protecting and enhancing the natural environment.
- Protecting and enhancing the built environment.
- Improving waste minimisation.
- Reducing environmental nuisance.

15.5 **Priorities and targets**:

- Implement a programme of flood defence and major drainage works and maintain the strategic section of the land drainage system.
- Improve car parking management across the borough.
- Enhancement of pitch and pavilions for outdoor sports provision.

- Undertake key environmental improvements to parks and open spaces.
- Restoration of Rose Garden.
- Reduce environmental nuisance.
- Over the years the Council has made significant capital investment such as the purchase of a purpose-built depot & refuse vehicles.
- Working towards a reduction in crime and fear of crime and anti-social behaviour and disorder by investing £100k annually in Police Community Support Officers and this has been increased to £130,000 for the year 2006/07.
- Working towards a cleaner and unpolluted environment. Roadside air quality monitoring equipment has been purchased and installed with results regularly published in the local press.

GOAL 3: CONTONUE TO PROMOTE HEALTHY LIVING, LEISURE AND CULTURAL OPPROTUNITIES

15.6 The Council will carry on promoting healthy living, leisure and cultural opportunities by:
- Improving the range of recreational facilities and activities.
- Promoting and creating opportunities for residents to engage in a healthy lifestyle.

15.7 **Priorities and targets**:

- Improve the range of recreational facilities and activities for our residents.
- Continued investment in Leisure and recreation centres as part of the health improvement initiative to deliver equal access to healthy lifestyles and address social exclusion and social regeneration issues.
- Building of community theatre at Hertswood School.

GOAL4: ENCOURAGE ECONOMIC PROSPERITY

15.8 The Council will act as an enabler with a view to encourage economic prosperity by:
- Sustaining existing economic prosperity in the Borough.
- Targeting initiatives to address social and economic inequalities in the Borough.

15.9 **Priorities and targets**:

- Secure long term future of Elstree Film Studios.
- Optimise return from Council’s assets by seeking opportunities to re-utilise/dispose of under utilised sites.

- Adoption of development plan documents as part of review of Hertsmere Local Plan.
- Identification and development of Greenways routes.

GOAL 5: WORK TOWARDS MEETING LOCAL HOUSING NEEDS THROUGH OUR STRATEGIC HOUSING ROLE

15.10 The Council will work towards meeting local housing needs through our strategic housing role by:

- Optimising the supply of affordable housing.
- Improving domestic energy efficiency and reduce fuel poverty.

15.11 **Priorities and targets**:

- Promoting independent living and more disabled people living in suitable homes.
- Improve percentage of decent homes.
- Develop choice based lettings.
- Provide assistance to housing association to develop affordable social housing.
- Reduce the number of empty dwellings.
- Promote domestic energy efficiency.

GOAL 6: SUSTAIN ORGANISATIONAL IMPROVEMENTS TO MEET COMMUNITY NEEDS

15.12 The Council will carry on sustaining organisational improvements in order to meet community needs by:

- Continuing to improve the Council's performance.
- Building capacity to improve service delivery.
- Improving internal and external communications.
- Improving services to achieve economy, efficiency and effectiveness.
- Improve the standards of corporate governance and compliance with rules and regulations.

15.13 **Priorities and targets**:

- Improve accessibility to Council's Buildings.
- Improve standards of Council's properties.
- Improve energy efficiency and ensure ongoing effective maintenance of Councils buildings.
- Maintain an effective property portfolio.
- Increase the number of access channels.
- Promote efficiency by use of new technologies and new ways of working.

- Partnership with other neighbouring authorities e.g. EDO, Benefit Fraud Manager, West Hertfordshire PCT, Head of Human Resources, Procurement Manager and Risk Manager

16 CAPITAL INVESTMENT PRIORITY

16.1 The Local Government Act 2003 brought about a new borrowing system for Local Authorities known as The Prudential Code (The Code), which gives the Council much greater flexibility and freedom to borrow without Government consent as long as they can afford to repay the amount borrowed.

16.2 The new Prudential Capital Finance System is based on the principle of self-regulation and the concept of prudential management which came into force on 1 April 2004.

16.3 The aim of The Code is to support local authorities when making capital investment decisions, to ensure the capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in line with the Council's Community Strategy and Corporate Plan.

16.4 The Code prescribed the prudential indicators (Appendix B) that must be used and the factors that must be taken into account in order to show that the Council has fulfilled its objectives. They are not to be used as comparative performance indicators between authorities but to measure performance over time at the same local authority.

16.5 The Code also lays down clear governance procedures for setting and revising prudential indicators, with the Head of Finance, Revenues & Benefits and ICT bearing the responsibility for ensuring that the Council has taken into account all matters specified in The Code and for monitoring compliance with the established limits approved by full Council before the beginning of each financial year.

16.6 As part of the Council's quest for prudential management, it has implemented a capital investment appraisal process to appraise, approve, evaluate and monitor all capital projects.

16.7 The priority of capital investments by the Council will be considered in terms of the risk assessment, project length, financial outcomes (including impact on revenue budget), community consultation, project rationale (e.g. regulatory), match to strategic aims, link to service plan, stakeholders' consultation and availability of partners and alternative funding options. The Council's key decisions in relation to the investment appraisal process are outlined below:

- Projects relating to statutory requirements (i.e. disability access, Health & Safety requirements etc) will take priority over other capital projects.

- Projects with either cost saving opportunities or satisfactory rate of return/significant benefit to the community will be considered favourably.

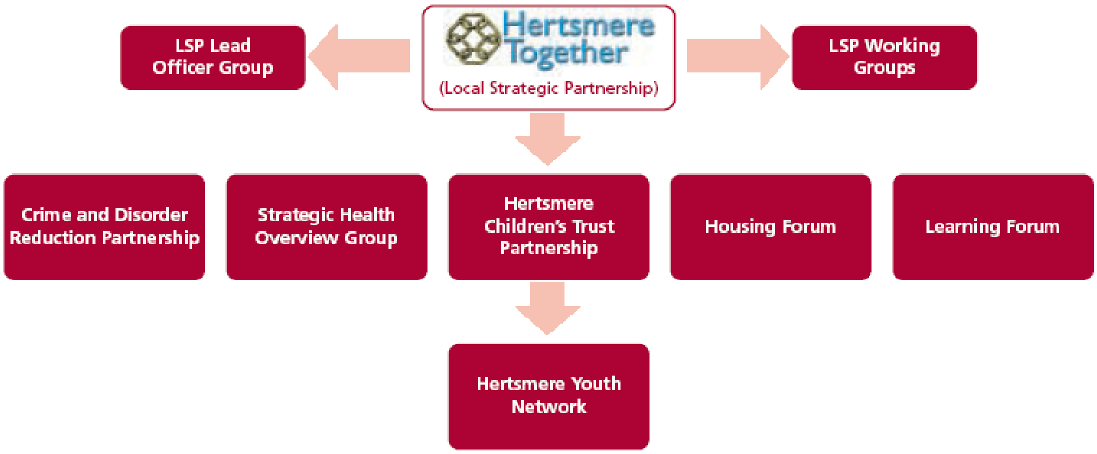
- Disposal of under utilised assets and reinvestment into alternative capital projects. E.g. Hartspring site sale to a Housing Association for affordable housing.

16.8 The Council also considers the overall priorities for the next three years during the budget preparation process as required by The Prudential Code. These are then put into the context of revenue and capital budgets at service level linking these overall priorities with service objectives and performance targets.

17 KEY PARTNERS AND ALLIANCES

17.1 The Council is committed to seeking out innovative partnership and funding opportunities in order to deliver the capital strategy and achieve value for money. We work in partnership with local community groups (i.e. County Council, Primary Care Trust and Police) and other service providers to co-ordinate their services in accordance with community needs. The Council is also a member of the Local Strategic Partnership, which is made up of representatives from other major agencies. The Authority seeks opportunities for sharing the use of land and buildings with other agencies. Its Civic Offices, leisure centres as well as community centres and Hertsmere Worknet are prime examples of shared use facilities.

17.2 Strategic partnership



The membership of Hertsmere Together (2007) is:

Organisation	Representative
Hertfordshire Constabulary	Chief Superintendent
Hertfordshire County Council	Hertsmere Lead Officer
WENTA Business Services	Chief Executive
Hertsmere Community Voluntary Support	Chairman
Hertfordshire County Council	Councillor
Hertsmere Borough Council	Chief Executive
West Herts Primary Care Trust	Public Health Partnership Manager
East of England Regional Assembly	Board Member
Hertsmere Housing Forum	Chair
Leader, Hertsmere Borough Council	Chairman
Oaklands College	Principal
Hertsmere Children's Trust Partnership	Chair
West Herts Primary Care Trust	Chairman
Hertfordshire Police Authority	Hertsmere Representative
Hertsmere Community Partnership	Chair
Hertsmere Forum of Faiths	Rev.
Hertsmere Leisure Trust	Chief Executive

MANAGEMENT AND MONITORING FRAMEWORK

17.3 The progress of Council-funded projects is monitored both from a financial perspective (through monthly financial monitoring teams of members) and through regular progress reports submitted to committees on all significant schemes and to any appropriate partners or stakeholders. Other “indirect” schemes are largely monitored directly by committees but any schemes funded via S106 contributions also form part of the financial monitoring process. The measures are linked to Council and service aims and therefore will indicate how the Council is progressing at achieving these aims.

17.2 The Hertsmere Best Value Performance Plan provides some basic performance indicators for asset management. These include disabled access to public buildings. These performance indicators are not only monitored by Council committees but are also assessed by the external auditors to form part of Comprehensive Performance assessment.

17.3 An officer Asset Management Team has been established, which meets on a regular basis to discuss capital strategy and asset management issues. The membership of this group includes officers from the relevant business units to gain a service wide perspective. A panel of elected representatives including executive members also meets regularly and the Portfolio holder is Chairperson of the Panel meetings. The Environmental Services Director has been designated as the Council’s Corporate Property Officer and the Portfolio holder is Chairperson of the Panel meetings.

17.4 The investment appraisal process includes an evaluation and approval process from the initial project bid to business case, project prioritisation and post implementation review. This process identifies lessons learnt and the value of ongoing monitoring of the service benefits and financial performance for all projects.

17.5 Additional projects will be incorporated into the capital programme on a priority basis to absorb any slippage from the originally approved programme.

17.6 Procedures have been established to monitor and report significant deviations from forward-looking prudential indicators covering capital investment plan, financing and treasury management as stipulated by The Prudential Code for capital finance.

17.7 The Service Heads will carry regular performance monitoring exercise (Continuous Performance Review) with their staff to ensure their personal responsibilities are adequately undertaken and that delegated activities are properly conducted.