Hertsmere Borough Council

Financial Strategy

2014/15 – 2018/19

Contents

1 Executive Summary

1.1 Hertsmere Borough Council is situated to the north of London in the southwest Hertfordshire and has a population for 2011 of 103,200. The Borough covers an area of 39 square miles and includes the communities of Aldenham, Bushey, Potters Bar, Radlett, Elstree and Borehamwood and is bordered by three London Boroughs. Despite its proximity to London, 80 per cent of the Borough is Green Belt, much of which is in agricultural use.

1.2 In order to realise its vision, the Council has identified five Corporate Goals (as detailed in paragraph 2.3.2) that are based upon the strategic objectives of the Hertsmere Together Community strategy. The five Corporate Goals each have a number of outcome-based objectives, which support the development of priorities for action.

1.3 The Financial Strategy (the Strategy) is an integral part of and critical to the Council's Corporate Governance and Performance Framework, delivery of the Community Strategy and Corporate Plan and the majority of the Council's policies and strategies.

1.4 The Strategy is reviewed and updated annually to assist the Director of Resources in planning the Council's financial resources in the short to medium term (3 to 5 years) with a view to deliver the Council's service priorities. It also sets out the framework and principle on which the Council plans and manages its finances. As such it forms an integral part of the Council's Budget and Policy framework.

1.5 The Strategy covers a five year period, 2014/15 to 2018/19. The final financial settlement has been announced for 2014/15, and 2015/16 headline figures was announced as part of the Spending Review 2015/16 with a 10% overall reduction. However, Hertsmere Borough Council's finance settlement for 2015/16 will be announced during December 2014. However, preliminary settlement figures have already been announced indicating a 40% reduction in Revenue Support Grant (RSG).

1.6 The strategy takes into account the national and regional context and links those with the Council's corporate goals and priorities. The Balances and Reserves Policy highlights the possibility that the Council may have to utilise some of its General Funds reserves as a last resort given the poor finance settlement and the previously economic conditions as stated in paragraph 7.1.3. The Financial Strategy also includes a section on influences, pressures and assumptions (paragraph 13) covering in the main inflation, the economic climate, and austerity measures.

1.7 The Strategy has been updated to take into account the recent economic recovery, and the anticipated strong growth prospects for the remainder of 2014. It also takes into account changes to Local Government Finance, Council Tax Reduction Scheme, New Homes Bonus (NHB), Business Rates Retention and Welfare Reforms as explained in 3.6 to 3.15. The last Spending Review took place in June 2013 and has provided provisional figures of 10% overall reduction in Local Government for the year 2015/16 only. Based on latest available information it has been anticipated that there will be further significant reductions in government grants over the next four years (2015/16 to 2018/19) amounting to £1.208m as explained in table 2 paragraph 7.1.4. This excludes any NHB which will depend on the number of residential properties build within the borough as explained in paragraphs 11.6. It is prudent not to use the whole NHB to balance the budget as explained in paragraph 3.1.5.

1.8 The current review forecasts that the Council, in line with other authorities, is facing a challenge for the next four years and beyond. Key assumptions have therefore been made as detailed in paragraph 5.5 and include a council tax freeze for 2015/16 and to accept the Government freeze grant of 1% and an increase of no more than 1.95% for the years 2016/17 to 2018/19. This ensures that the Council Tax increase remains within the limit of 2% set by central government without invoking a referendum.

1.9 The Council has approved a balanced budget for the year 2014/15**. Looking ahead, the financial forecast estimate additional budget requirements to be funded through efficiency savings would be £421k for 2015/16, £588k for 2016/17, £238k for 2017/18 and £119k for 2018/19 as detailed in paragraph 6.3.1 and appendix 2 to this report. This has been based on three key assumptions namely 1% pay award each year, a council tax increase of 1.95% for years 2016/17 to 2018/19 (no increase for 2015/16) and a reduction of 40% RSG in 2015/16 and on average 31% in each of the subsequent years until 2018/19.**

1.10 The last Participatory Budgeting process was carried out in 2013/14 and resulted in savings of £348k, making a total annual ongoing savings of £1.03m from the two participatory budgeting exercise (previously 2010/11). It was agreed that this exercise be repeated again in three years' time in 2016/17.

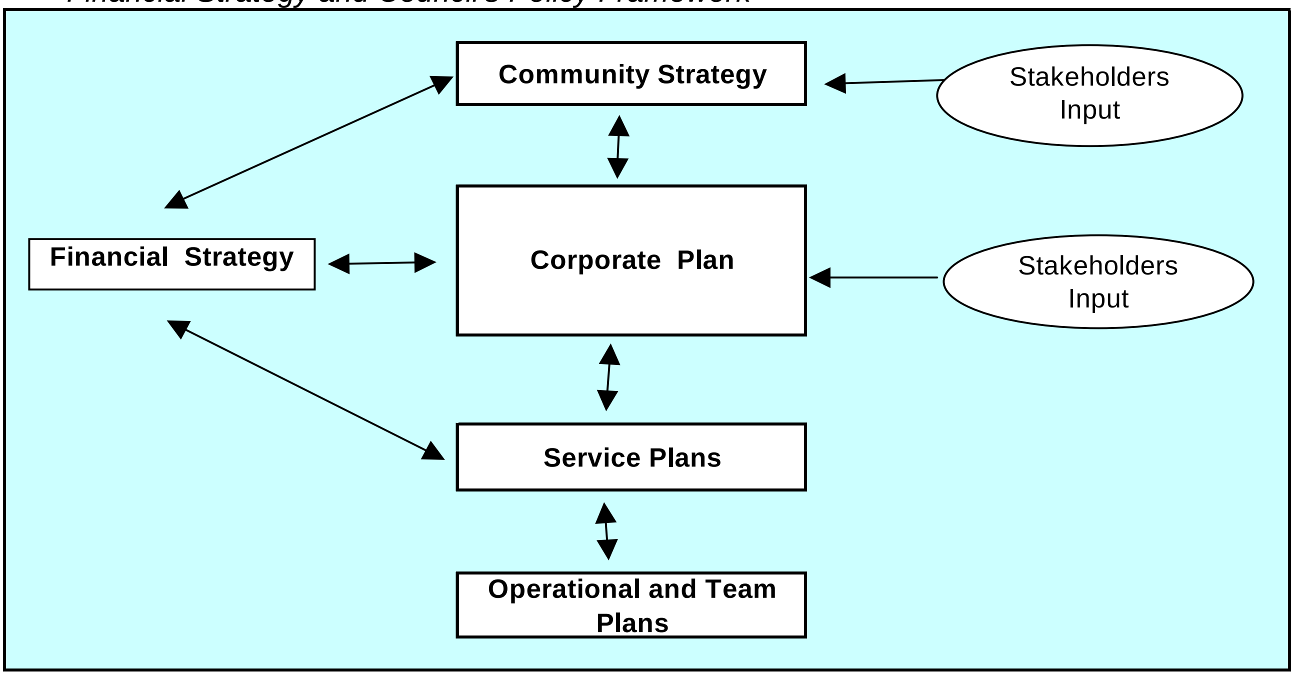
1.11 The Financial Strategy is an ever-evolving document, which will be implemented over a considerable period and will be subject to ongoing review and update. This is especially relevant to issues such as the current economic climate and weakness in the financial sector. Hence this Strategy will be further revised for the financial years 2016/17 onwards taking into account potential implementation of Universal Credit, Business Rates levy / pooling, the continuation of New Homes Bonus, the diminish Revenue Support Grant and future revenue generating income.

2 Introduction

2.1 The Financial Strategy is the Council's key financial planning document and 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 sets out and considers the financial challenges and opportunities facing the Council and also ensures that policies are properly resourced and effectively delivered. This strategy has been prepared following a period of recession but where there are signs of an economic recovery and growth in the UK, but with continued austerity measures whereby the Council's grants are being reduced significantly.

2.2 **Aims and Objectives of the Financial Strategy**.

Financial Strategy and Council's Policy Framework



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

2.2.1 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. The strategy should provide a framework, overall direction and parameters for resourcing of the Council's service delivery, and that the financial plans are achievable and sustainable.

2.2.2 To continue to deliver the Council's vital services within the financial constraints.

2.2.3 To ensure that the Council's finances are resilient in order to face future challenges such as austerity measures and recession.

2.2.4 To assist in the realisation of the core values of the Council, 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.

2.2.5 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 the efficiency gains required to deliver a balanced and sustainable budget. This will be reviewed by the Council's external auditors as part of the annual audit which includes forming an opinion on the Councils financial resilience and value for money

The Strategic Financial Objectives are:

2.2.6 Given the economic climate the Council needs to apply a strategic approach to how the Council's services are prioritised, managed and delivered through the Community Strategy, the Council's Corporate Plan and service plans while ensuring Value for Money (VfM) is achieved at all times.

2.2.7 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 the Councils VfM Strategy.

2.2.8 The Council has a duty to deliver services that provide best value to its residents. The table in paragraph 3.33 shows that the Council has achieved £5.301m of efficiency savings over the last ten years. This has been necessary following the significant reduction in support from central government. The last Spending Round continued to reduce public spending in 2014/15 and 2015/16 where further savings overall of 10% are required in 2015/16. However, Hertsmere Borough Council's finance settlement will be announced during December 2014. This means that the continuance of this level of unprecedented cuts can only be achieved by the Council's continuous review and challenge of its services and the way they are provided.

2.2.9 To invest net capital receipts set aside for revenue generating projects into revenue generating asset portfolio and/or cost savings initiatives and future opportunities, such as projects where the Council is developing its surplus land with a view to sell or to keep for additional rental income. In cases where there is a time lag in securing investment opportunities, interest earned on this sum will be utilised for Revenue Budget purposes.

2.2.10 Where the Council will dispose of housing land at market value, 80% of the net capital receipts generated from the disposal will be set aside for the purpose of facilitating the supply of affordable housing. Where the Council build and sell Housing properties on Council land, these receipts will be set aside to the Housing Fund for use on future affordable housing. All other (non-housing land) estimated usable capital receipts generated since 2010/11 are used to fund future capital programmes. Thus no contribution would be made to the earmarked reserve for revenue generating projects. The balance will be transferred to usable capital receipts and be used to fund capital projects.

2.2.11 To secure a reasonable rate of return on investments and projects which are considered as “invest to save” programmes. This has to ensure that the Council services are maintained and any revenue implications identified as part of business case.

2.2.12 To provide loans to subsidiaries companies at reasonable rates with a view to generate additional returns from cash which is surplus to Council requirement. This has to take into account the capital financing requirement of the Council and Prudential Code regime.

2.2.13 To maintain the level of capital, revenue and earmarked reserves and balances at an appropriate level, after taking into account external, financial and economic pressures.

2.2.14 To maintain adequate governance arrangements to ensure the legality of transactions that may have a financial consequence.

2.2.15 The Council carried out a consultation exercise with residents during July 2013 as part of the decision making process through Participatory Budgeting on a three year basis in order to help the Council to balance the 2014-15 budget. A further exercise will take place again in three years’ time.

2.3 Achievements

2.3.1 Over the years the Council has taken various initiatives as mentioned below which has led to maximise the Council’s existing resources in order to ensure continuous and sustainable improvement in services.

- Transfer of its social housing stock, which assisted the Council in earning substantial investment income. The investment income generated since 2007 has been reducing as a result of the unprecedented low level of base rate (0.5%). This has been exacerbated by the banks and building societies rebuilding of their balance sheets (shrinking their lending portfolio) and hence are less active on the money market. Hence it has proved difficult to generate sufficient investment income when compared with prior years. The Council’s Treasury Strategy requires investments to only be placed with institutions whose credit rating provides maximum security for the funds invested in compliance with the Council’s appetite for risks.

- The award of contract for its leisure facilities management, including Bushey Golf and Country Club to Hertsmere Leisure Trust to provide the leisure services for an initial 10 years, starting January 2012, with an option to extend for five years have led to additional income to the Council of £257,000 per year.

- A review of the staffing structure and streamlining of the senior management structure as resulted in efficiency savings to date of £1.9m in employee costs. This has enabled the Council to prepare a balanced budget over the years. However, the Council faces further challenges posed by the last Spending Review looking at 2015/16.

- Asset development in revenue generating property portfolio such as Elstree Film Studios, Cranbourne Industrial Estate and maximising the usage of the Civic Offices etc.

- Partnerships and consortium procurement wherever possible.

- Working towards the achievement of Value for Money gains.

- Continue to invest in IT infrastructure to ensure resilience and cost savings and enabling transformation of services.

- Working in partnerships and shared service delivery in order to achieve continuous Value for Money gains and effective service delivery.

- Maintained adequate reserves – Earmarked and General Fund

- Prepared and delivered a balanced budget with no significant variance at year end and reduced the Council's Net Budget Requirement despite additional pressure in service delivery.

- Significant savings from adopting smarter ways of procuring and awarding significant contracts such as Leisure Services and Ground maintenance contracts.

Corporate Plan Goals and Objectives

2.3.2 In order to realise its vision, the Council has identified five Corporate Goals that are based upon the Strategic Objectives of the "Hertsmere Together" Community Strategy. The five Corporate Goals each have a number of outcome-based objectives, which support the development of priorities for action.

- Safer communities

- Quality environments

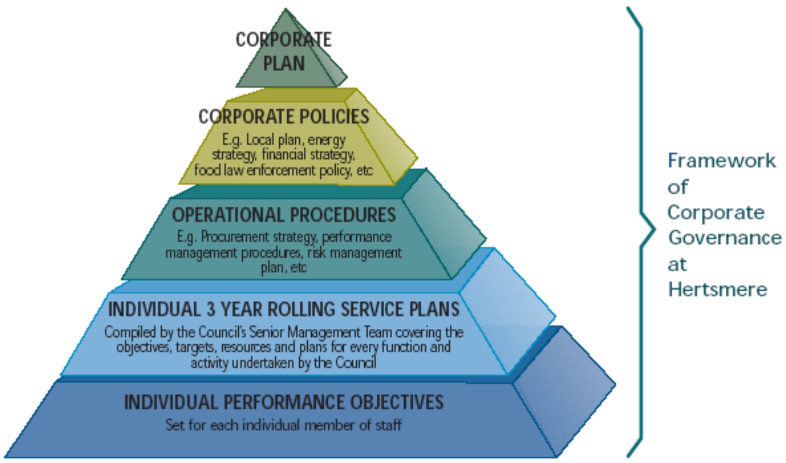
- Healthy, thriving communities

- Economic wellbeing

- Decent homes

2.3.3 The Corporate Plan is currently being held over until the Council has its "all out" elections in 2015. This will allow all elected councillors to have an input into the development of a new corporate plan which will be in place until the next elections after four years. There will be quarterly performance reports to monitor the delivery of the corporate priorities.

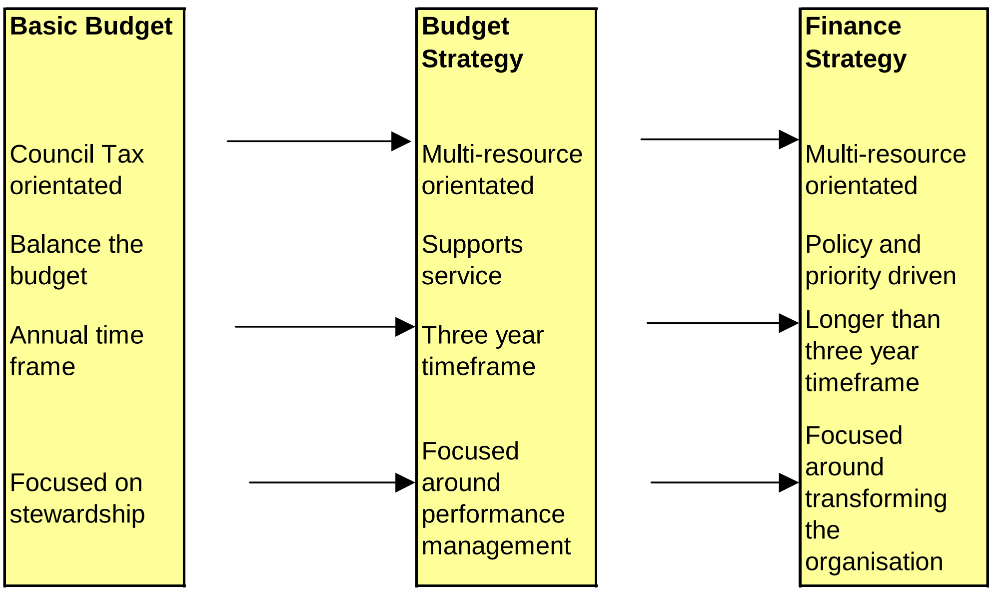
2.3.4 The Council's corporate priorities and those articulated within the Community Strategy are linked via the Council's Corporate Governance Framework. This provides the mechanism through which these priorities will be filtered down throughout the organisation as a whole.



Relationship between the Financial Strategy and Budget process.

2.3.5 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.



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

- The Council's Community Strategies.
- The resident survey carried out in 2011.
- The outcome of the External Auditors.
- The Council's Corporate Plan.
- Improvements made to the Service Plans.
- The Prudential regime for Capital Finance in Local Government.
- The Council's Housing Strategy and other key documents.
- Transformational Government and Information Services Strategy.
- The Value for Money agenda.
- The Localism Act and Welfare Reform including roll out of Universal credits.
- The current economic recovery.
- The Council's Performance Management Strategy.
- The New Finance Act.
- The Austerity Measures and the Chancellor's Autumn Statement and Budget Speech 2014.

2.3.7 The Council's finances fall into two main categories:

- Revenue: income and expenditure, which are of a recurrent nature i.e. on-going.

- Capital: income and expenditure, which are of a non-recurrent nature.

2.3.8 Annual revenue expenditure is financed by seven main sources:
- Revenue Support Grant
- Retention of Business Rates
- New Homes Bonus
- Council Tax
- Fees & Charges
- Investment Income
- Revenue Reserves (only in exceptional circumstances).

3 Background

Economic Update

3.1 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded during 2013 and the first quarter of 2014 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are currently very positive in indicating that growth prospects are also strong for the rest of 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy has been that wage inflation has been significantly below CPI inflation, so disposable income and living standards were being eroded, (although income tax cuts had ameliorated this to some extent). However, recent falls in inflation have created the potential for the narrowing of this gap and it could narrow further during this year, especially if there is also a recovery in growth in labour productivity.

3.2 Over the last four quarters, we have had a continuing run of strong economic news which has consolidated confidence that the UK economy is recovering strongly. However, the Governor of the Bank of England stated the economy “has only just begun to head back towards normal” after the slowest ever recovery from a recession. Widespread disbelief that unemployment would take nearly three years to fall to 7%, as the Bank forecast at the time of the August Inflation Report, has indeed proved to be well founded as the rate fell to 6.8% in Q1 2014 and then to 6.6% in quarter 2. Accordingly, this latest Inflation Report has seen the Bank provide a view of the economy as moving from a recovery supported by household spending to a more broadly based expansion sustained by:-

- Growth in business investment;
- A change from falling to rising real wages (average wage increases started to exceed the rate of CPI inflation within the private sector over the last quarter but more recently, this situation has reversed back again);
- Increasing employment;
- Productivity growth to support those real wage increases and improve export competitiveness.

3.3 At the August Monetary Policy Committee (MPC) meeting two members voted for an immediate rate rise prompting further suggestion that the economy might warrant higher interest rates before the end of the year. The MPC have also previously indicated that an earlier increase in Bank Rate could help them later with implementing a slower pace of increases in Bank Rate and keeping Bank Rate lower, than if there was a later timing for the first increase. Many forecasters have, therefore, brought forward their forecast for the first increase in Bank Rate to take account of the various comments that have been made by the MPC and Carney and the fact that economic recovery in 2014 is likely to be very robust.

3.4 Not only it is expected that fees and charges income will show moderate increases but the Council is likely to continue to find the collection of income difficult as both local businesses and individuals have struggled with the current state of the economy, albeit there has been a recent increase in the economic recovery. During this difficult time it is Hertsmere’s priority to minimise the effects of recession on its residents, and one of the ways it will do this is to keep council tax increases as low as possible. In 2014/15 there was a further freeze in the council tax due to the current economic climate. This means that the council tax has been frozen for five years running, despite the cumulative impact of inflation of 15.3% over the last 5 years.

3.5 Moving forward to 2015/16 and onwards, it has been assumed to increases in council tax of no more than 1.95%. It has been mentioned as part of the Localism Act that any increases above 2% (for 2014/15, this may change in future years) would require the Council carrying out a referendum. The difficult finance settlement announced in the autumn statement will have a profound effect as local authorities will have no choice but to take difficult decisions that may have an impact on local services. However the Council has always endeavoured to protect front line services and will endeavour to do so in the future.

Local Government Finance Act

3.6 The Local Government Finance Act was introduced to Parliament on 19 December 2011, and was given Royal Assent on 1 November 2012, becoming an Act. It takes forward proposals designed to encourage local economic growth, reduce the national financial deficit and drive decentralisation of control over local government finance.

3.7 The legislation represents a radical change to the local government finance system, which complements a wide package of financial measures that the Government is pursuing to support local authorities and local economies. It will:

- Enable local authorities to retain a proportion of the business rates generated in their area.
- Provides a framework for the localisation of support for council tax in England.
- Make changes to council tax rules to provide further flexibility on the council tax local authorities can charge on empty properties, and other small changes aimed at modernising the system.
- Community Right to Bid gives community groups the right to buy community buildings and facilities that were important to them.
- The introduction of the term ‘Settlement Funding Assessment (SFA), this combines formula grant, council tax freeze grant, council tax support grant, and a number of other small grants together

Business Rates Retention

3.8 The new system aims to give local authorities an incentive to encourage economic development by allowing them to retain 20% of their business rates growth locally. It replaces the formula grant system which funded areas based on needs and tax raising ability, but which also limited changes in funding from year to year.

3.9 Business rates are distributed across the country in a very different way to formula grant allocations. Thus just giving authorities the business rates collected in their area would produce significant increases in funding in some areas and equally significant reductions elsewhere. Government have set an initial “baseline” so that all councils receive funding broadly equivalent to their 2012/13 Formula Grant, whilst ensuring the overall level of Government funding for local government in England does not exceed the estimate set out in the 2010 Spending Review. A system of tariffs and top-ups has been built into the system to protect authorities from these changes. There are also Levy and Safety Net in place to distribute funds where local authorities achieving disproportionate level of business rate growth to authorities experiencing a reduction in their business rates yield above a given threshold (known as baseline funding). The Council may potentially lose £180K in business rates in the event of negative growth in business rateable values before it reaches the safety net threshold.

3.10 The Government have allowed Councils to work together and pool their Business Rates to into a single authority. This is a voluntary option for all Councils and the size and the geographic coverage is decided by the Authorities and does not have to be within their County boundaries. Although the Council is exploring the benefits in joining a pool for future years, the strategy has been prepared based remaining outside of the pool.

Local Support for Council Tax

3.11 The 2010 Spending Review included a commitment to localise support for council tax from 2013/14, subject to a 10% overall reduction in spending. The Welfare Reform Bill provides for the abolition of Council Tax Benefit. The Finance Act requires local authorities to establish a local council tax support scheme by 31 January 2013 The Council devised a scheme which was agreed by the Council on 16 January 2013 and also made technical reforms to the Council tax in order to ensure that the reduction in Government grant has no impact on the Council tax i.e. the Localisation of Council Tax Support scheme is self-financing.

3.12 The changes to the scheme mean that, except for those claimants who fall into a protected group, residents will no longer be able to receive 100% Council Tax Benefit and would be expected to pay at least 20% of the relevant Council Tax charge for their property. The discount (100%) for properties that are uninhabitable or undergoing major repairs will reduce to 50%. Unoccupied and unfurnished properties 100% exemption to apply for 2 months (was 6 months). Properties that are vacant for more than 2 years to have a 50% ‘empty homes premium’ levied on top of the 100% charge. This has helped the Council to negate the impact of a 10% reduction from Central Government.

3.13 The scheme has continued in 2014/15 in line with the current scheme, and it has been assumed for the purpose of the Strategy, that the scheme will remain the same going forward.

New Homes Bonus

3.14 There was concern with the re-working of the local government funding that the New Homes Bonus (NHB) might have been removed or diminished in some way. It is clear that the Government wants to incentivise authorities to promote both economic and residential development and that as part of that NHB will remain as a key funding stream. Funding for NHB is top sliced from the control totals of RSG and then re-allocated on the basis of relative performance in housing growth there will be a strong cumulative redistributive effect, this will penalise areas of low housing growth.

3.15 The amount of NHB payable for a year is determined by the annual change in the total number of properties on the council tax list in October. The numbers projected are broadly in line with figures produced by the planning department This means that the bonus payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average council tax figure, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years. The Chancellor's Spending Round 2013 announced a proposal to top slice the NHB to Local Enterprising Partnerships for them to distribute to authorities, however, as part of the Autumn Statement, made December 2013 this proposal was reversed for authorities outside of London. Details of Hertsmere figures for NHB can be found in table 11, paragraph 11.6.2. This shows the Council is being prudent and placing less reliance on NHB monies and has capped the amount of NHB being used to finance the Council on-going budget at £1.148m to take into account any future changes in the NHB and the fact that each element of NHB only lasts for six years and will eventually start to drop off.

Comprehensive Spending Review 2010 (CSR10)

3.16 In October 2010 the Government announced the Comprehensive Spending Review predicting an average loss of grant settlement of 7.25% over each of the four years. The total government grant (RSG and Business Rates redistributed) received by the Council at the beginning of the CSR 2010 (2010/11-base year) amounted to £7.464m. In 2011/12 the Council lost £1.134m, in 2012/13 a further £867k, in 2013/14 a further £514k and in 2014/15 a further £816k, making a total loss of £3.331m over the four years, representing 44.6% reduction when compared with the year of 2010/11 (as per table 2, paragraph 7.1.4).

3.17 In June 2013 the Government published Spending Round 2013, principally covers the finance settlement for 2015/16. Further cuts between 2015-16 and 2017-18 in the region of 2 to 7% have been mentioned in the Chancellor's Autumn Settlement. **Based on the Council's forecast, this would bring the cumulative cuts to Council's core grant since the CSR10 of £4.539m which represents a 60.8% reduction when compared with the base year of 2010/11**.

3.18 However, the Council also receives New Homes Bonus which the Council are capping at £1.148m until 2018/19 to place less reliance on when balancing the budget, due to the uncertainty of whether NHB will continue for six years for each tranche or whether the Government decides to top slice in the future (table 2, paragraph 7.1.4). **Hence the net reduction in total government grant (in cash terms) amounts to £3.391m (45%) since the CSR10 giving the Council a forecast total government grant by 2018/19 of £4.073m**. This does not take into account the impact of inflation. Had the Council received CPI increases on the baseline 2010/11 figure (£7.464m) each year, then the total reduction in government grant by 2018/19 would be around 80%.

3.19 It was also announced the Government's intention to work with local authorities to freeze the council tax again in 2015/16. The grant settlement includes £66k to enable the Council to freeze council tax based on a 1% council tax increase, which is guaranteed for two years for 2014/15 and currently only one year for 2015/16. It is currently assumed that the council tax freeze grant for 2011/12 and 2013/14 which have been rolled up into the Revenue Support Grant element and that consultation is out to include the 2014/15 within this as well will remain stable going forward into future years.

3.20 Despite the difficulty to balance ongoing demands for services against the limited financial resources available, the members and officers have identified significant savings over the years that have enabled the Council to restrict the increases in council tax.

Bridging the budgetary shortfall – ways to face the challenge

(a) Participatory Budgeting

3.21 In order to achieve a more affordable and sustainable budget the Council felt necessary to engage with the residents as part of the decision making process. The process use is known as “SIMALTO” which is a tried and tested method of getting residents views on services and their relative preferences. Participatory budgeting leads to improving relation with communities as a result of the consultation. It thus promotes a greater level of participation in the decision making process by residents, an increase in community pride, increase in community cohesion, enhance the relationship between members and electorate and promote a greater understanding of how we work, including how the council tax is spent. A company called Research for Today carried out the Participatory budget

3.22 The last exercise carried out in 2013/14 identified the following findings:

- There are high levels of satisfaction with the current level of most of the service delivery provided in Hertsmere (92%) which is better than the vast majority of the other local authorities which have undertaken this process.

- There was a general understanding of, and willingness from, residents to accept the austerity measures.

3.23 Adoption of the initiatives identified in the process resulted in budget savings of £348K and these was implemented from 2014/15 onwards.

3.24 Given the significant financial pressures and the statutory requirement to prepare a balanced budget, and at the same time maintaining as far as possible the current level of services, the Council will be embarking in a similar exercise in three years’ time with a view to find further savings in order to address the shortfall in funding from Central Government and to balance the future budget.

(b) Partnership Working / Shared Services

3.25 The Council is committed to seeking out innovative partnerships and funding opportunities. The Council works in partnership with local community groups and other service providers (such as County Council, Clinical Commissioning Groups and Police) to co-ordinate their services in accordance with community needs. The Council is also the lead 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 the community shop are prime examples of shared facilities.

3.26 The Council is constantly looking at ways with working with its partners to identify how it can generate additional income to support one off projects. This can be seen with the recent confirmation to receive Public Health Delivery Funding of £100,000 per annum for 2014/15 and 2015/16 to delivery on public health priorities which are mutually agreed between the Council and the County. Between 2012/13 to 2014/15 the Council has received £492,000 from different partners to fund projects outside of Council revenue budgets. The Council is currently working with local residents who have successfully received £1m from the Big Local Trust funding following the Council discussion with the Big Local Trust in championing to be a pilot scheme (one of 50 in the country) to enable this area to be recipient of some lottery money.

3.27 In addition, the Council shares resources with other neighbouring authorities across a number of services, including Finance, HR, Partnership & Community, Planning and Building Control, such as shared internal audit services, IS support, payroll services, disaster recovery, LLPG and shared posts: including procurement and risk management. The Council is currently exploring with other districts within Hertfordshire and the County, a shared anti-fraud service, following the Government decision to remove the housing benefit fraud activity away from Councils and into the DWP.

3.28 The Council is embracing the idea of an Enterprising Council, using the Localism Act 2011 which introduces a new General Power of Competence (GPC) which explicitly gives councils the power to do anything that an individual can do which is not expressly prohibited by other legislation. This activity can include charging or it can be undertaken for a commercial purpose, and could be aimed at benefiting the authority, the area or the local community. The Council has set up an innovation and trading panel which has both officers and members included in its memberships. The panels will be looking at ways to generate additional income i.e. invest to save programmes. The Council has unallocated NHB money as detailed in Table 11 and S106 monies detailed in Table 12 which may be used to fund these initiatives.

(c) Invest to save programmes

3.29 As part of the Capital budget for 2014/15, careful consideration has been given to the projects against the current economic background of reduced government grants and difficult financial times when the Council has to take difficult decisions. The total capital expenditure for the year 2014/15 amounts to £1.036m. The item agreed under this spend are all necessary either repairing damaged items to enable their continuing use, refurbishing to generate revenue or compliance with Health & Safety legislation. The Council is being careful on what it spends its money - both current and future capital programmes.

3.30 The council is looking at options available for Phase II of the development at Elstree Studios following the successful completion of Phase I being the remediation to the mound. Any future schemes will be reviewed as part of the invest to save programme and any future investments will be required to contribute to additional future revenue income.

3.31 The Council is continuing looking at new innovative ways to procure and provide services and have set aside reserves to investigate and finance these schemes such as the building control development company. Currently the finance for these schemes has not been included within this strategy due to the uncertainty of the schemes.

(d) Workforce Strategy

3.32 The significant reduction in government grant has led to a reduction in the Council's workforce. The organisational review carried out by the Council post CSR 2010 has resulted in savings of £1.9m and represents a reduction of 15% of the Council's workforce. The Council will continue to put in place more robust and innovative ways of achieving further savings.

(e) Value for Money (VfM)

3.33 There is an even greater need for the Council to explore initiatives which will help to improve the efficiency and effectiveness of service delivery and to maintain front line services. For further detailed information on the council's Value for Money Strategy refer to Appendix 5.

3.34 The VFM gains are summarised as follows; it shows that the Council has achieved savings of £5.301m over ten years.

Hertsmere Borough Council - Actual VfM gains 2005/06 to 2009/10 Actual CSR gains 2010/11 to 2013/14 Estimated CSR gains 2014/15 (A: Actual) (E: Estimate)		
	Year on Year Efficiency gains	Total Efficiency gains relative to 2004/05
Value For Money (VFM)	£'000	£'000
2005/06 (A)	366	366
2006/07 (A)	312	678
2007/08 (A)	466	1,144
2008/09 (A)	640	1,784
2009/10 (A)	539	2,323
Comprehensive Spending Review (CSR))		
2010/11 (A)	124	2,447
2011/12 (A)	1,802	4,249
2012/13 (A)	376	4,625
2013/14 (A)	187	4,812
2014/15 (E)	489	5,301

3.35 The Council is required to present a balanced budget; part of its funding stream is the amount of Government grants it receives. As reported in section 7.1.4 the level of grant in each year is continuing to fall.

3.36 The Council has achieved a balanced budget for 2014/15. Further savings will need to be achieved in 2015/16 amounting to £421k in order to balance its budget.

3.37 A cash releasing efficiency gain is achieved when, for a given area of activity, an organisation is able to:

- Reduce inputs for the same or improved outputs;
- Reduce unit costs to meet increased demand;
- Optimise use of assets to improve outputs.

3.38 The Council no longer is required to calculate efficiency gains as part of the Government reporting procedures, however, as good practice it will continue to identify savings and will be based on robust processes and it is essential that the proper arrangements be in place to monitor that those savings are achieved is as part of post implementation reviews.

Future transparency and inspection regime

3.39 The Councils External Auditors review of the Council's arrangements for securing financial resilience on an annual basis.

3.40 The review looks at: the key indicators of financial performance; its approach to strategic financial planning; its approach to financial governance; and its approach to financial control. The conclusion of the last review in 2013/14 was that the Council continues to have effective arrangements for financial management and budgetary control.

Local Area Agreements

3.41 Local Area Agreements have been abolished; historically in Hertfordshire LAA (1) was due for completion in 2009. The Local Strategic Partnership (LSP) received £537,000 in

2010/11. They spent £136k in 2010/11, £147k in 2011/12, £132k in 2012/13 £ and £13k in 2013/14. It is anticipated that the remaining £109k will be spent by the end of 2014/15.

3.42 This has resulted in providing initiative to promote amongst other things, healthier life styles e.g. Health Inequalities Funding (improving people's health); Fitlinx (working with Year 6 children to reduce obesity); Active Environment (providing outdoor fitness equipment), Business Breakfast Club, and Safer Streets.

Investors in People (IiP)

3.43 Investing in people provides a national framework for improving business performance through a planned approach to setting and communicating organisational objectives.

3.44 In working with the Investors in People Standard, the Council has to show that it meets all ten indicators of the Standard, which includes demonstrating that managers are effective in leading, managing and developing people and showing that people's contribution to the organisation is recognised and valued. The Council achieved bronze accreditation in Investors in People in April 2011 and has recently been award the higher silver accreditation in 2014 which will last for a further three years.

4 About Hertsmere

4.1 Local Context

4.1.1 Hertsmere Borough Council is situated to the north of London in southwest Hertfordshire. The Borough covers an area of 39 square miles and includes the communities of Bushey, Potters Bar, Radlett, Elstree and Borehamwood and is bordered by three London Boroughs. Despite its proximity to London, 80 per cent of the Borough is Green Belt, much of which is in agricultural use.

4.1.2 The population is 103,200 (2011). The borough is still the centre of Hertfordshire Jewish community, with around 67% of the Jewish population live in the borough, making up 14.38% of the population; larger than that of all the London Boroughs, except Barnet and Hackney. The borough also has a large Indian population of 3,723 people.

4.1.3 Unemployment is 1.5%, a small reduction from 1.7% in May 2014; this contrasts against the national average of 2.3 %. 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.

4.1.4 The majority of the housing in the Borough is owner-occupied with 17.4% in social and local authority rented housing and 13.8% private sector rented or rent-free. The average price of a semi-detached property is £348,300, which is above the Hertfordshire County, regional and national averages. The only higher average is Greater London.

4.1.5 Any changes in demographic factors will impact on the Council's entitlement of Government Grants, prioritisation of services, tax base for council tax, and growth in demand and use of services.

4.1.6 The national context as mentioned would impact the Council as follows:

- A slower than expected recovery may have significant impact on fees and charges generated by the Council.
- A higher level of unemployment would lead to an increase in homelessness and benefits claimants putting extra burden on the Council resources.

- The continual low level of Bank of England base rate would have an impact on the amount of interest income generated from Council investments.
- The level of grant received from Central Government would have a significant impact on the Council's resources and its capacity to maintain service delivery. The Council carried out a staffing organisation review with a view to achieve significant savings. This review has already had an impact on the Council's workforce plan; the Council's workforce was reduced by around15% since 2011/12.
- Changes which will take place while the new Universal Credit system is introduced may have an impact on the number of homelessness and rent arrears.
- The Localism Act will have wide ranging implications for the Council in areas such as local authorities' powers of competence, inspection regime, transparency, engagement with residents, community empowerment and charging for services.
- The introduction of support for council tax replacing the current council tax benefit system will result in a reduction in the Council's tax base and increase in the number of council tax bills being sent to individuals who previously would have received 100% benefit. However, the scheme should be self-financing.
- The introduction of business rates retention has resulted in element of risk being moved from central government to local authorities, especially during the current economic conditions in that the Council may not meet the baseline (the level of business rates the Government expects the Council to collect) figure and from the outstanding business rate appeals. In 2013/14 the Council received £1.3m safety net to assist with the deficit on the collection of Business Rates of £1.8m following the calculations of appeals (provision for all appeals including those which have not been raised and the Council decided not to spread over the 5 years). The Council also needs to be aware of the impact on planning decisions to build new homes on existing business premises in that it may generate additional NHB and council tax receipts, however, the Council will lose out on the receipts of business rate income (see table 3, paragraph 7.1.6)..
- The housing and stock market, changes in demographics and some notable changes to the Local Government Pension Scheme, (LGPS) it is possible that the future contribution rates may go up. As this stage it is difficult to predict the financial implications. Hence this strategy does not include the impact which may result from the next triennial valuations due to take place at 31 March 2016.
- The new auto enrolment regulations whereby staff is automatically enrol in the pension scheme will have an impact on additional charges to the Council.
- New Homes Bonus started in 2011 and has seen increases each year around £300k per annum. The projected numbers of new properties and unused properties brought back into use are broadly in line with the figures produced by the planning department. However, the level of grant to be paid also depends on the state of the economy and the commencement of major developments. It's worth noting that there is no direct correlation between the reduction in Revenue Support Grant and the amount of New Homes Bonus allocated to districts. The latter largely depends on the number of new properties being built and/or properties brought back into use. The rate of growth in the residential sector may slow down which in turn will have a negative impact on the amount of New Homes Bonus. Hertsmere has areas designated as green belt land which need to be protected. The Government have previously considered the top slicing of NHB and may well consider this again, in the future. The Council is being prudent and putting less reliance on NHB to balance the budget. The strategy is showing a capping of NHB being used of £1.148m with the remainder being placed into an equalisation account to protect future years, when NHB payments starts to fall.

4.2 Services provided by the Council

4.2.1 The Council's various services range from waste services to housing as explained below. These services are vital to both residents and the business community. For a full list of services provided by the Council refer to the Council's budget book which is on the Council's web site.

Waste & Street Cleansing

- The household recycling service has continued to perform effectively and efficiently, each collection made costs just 50p, the recycling rate has remained stable at 45.9%.
- The Service will be reviewed during 2014, in order to look to provide further capacity for recycling collections therefore enabling residents to assist in moving towards a target of 50%.

Community Safety

- Although not a statutory requirement the Council invests £128,000 a year in Police Community Support Officers (PCSO's) this contributes to a reduction in levels of crime.
- In 2010 the Council joined the Hertfordshire CCTV Partnership. The other members of the partnership are Stevenage, North Hertfordshire and East Hertfordshire. The partnership shares the CCTV management and monitoring services.

Cultural & Youth

- Elstree and Borehamwood Museum has been given a grant of £98,000 from the Heritage Lottery Fund and £70,000 from the Council which has enabled it to relocate to 96 Shenley Road community facility. The Council also supports the museums in Bushey and Potters Bar.
- The Council, in partnership with Arsenal Football Club, provides diversionary activities and curriculum coaching (Double Club) to schools in Hertsmere as well as running soccer schools for 4 weeks of the school holidays.
- The Council is also in receipt of a grant from Sport England to increase the levels of women and girls participation in support and physical activity.
- Students from every secondary school in Hertsmere are invited to attend an annual Youth Conference where they learn about how democracy works and have the opportunity to quiz local councillors in a political speed meeting.
- The Council also supports and works with partners to provide a wide range of youth and sporting activities across the borough.

Housing

- A number of initiatives have been implemented which have helped provide more temporary accommodation and reduce the cost, these include: The Private Leasing Agreements Converting Empties Scheme; bringing flats over shops back in house to home local families; and block booking through existing providers. Future demand is hard to predict with on-going changes to the coalition government policies. The full effect of Universal Credit and the proposed benefit cap will not be known until next year.

4.3 **ORS Residents survey**

4.3.1 Every three years the Council commissions an independent survey of its residents which, on the last occasion, covered the following main themes:

- Overall satisfaction
- Council services
- Online information
- Contact with the council
- The local area

4.3.2 The most recent survey was carried out in 2011 and the results showed that 91% of people surveyed were satisfied with their area as a place to live, and 60% of respondents felt that the Council provided good value for money, a rise on 52% in 2008.

4.3.3 Majority of residents (83%) agree that the quality of Hertsmere Borough Council services is good overall and 74% of residents are satisfied with the way the council runs things – an 8% increase on 2008 (66%).

4.3.4 Respondents who were satisfied with the way the council runs things cited bin collections, cleanliness and recreational facilities as key reasons. Of these who said they were dissatisfied, reasons given were road and pavement maintenance, potholes, council tax levels.

4.3.5 Overall this was an encouraging set of results, reflecting the work the council carries out, particularly in relation to partnership working within our Community Safety Partnership, where positively, the majority of residents did not report any of crime and disorder issues listed as being a big problem: this included teenagers hanging around; rubbish or litter laying around; vandalism, graffiti, people using or dealing drugs, drunk and rowdiness in public places, noisy neighbours, abandoned or burnt out cars. And three quarters of residents agree that police and other local public services are successfully dealing with any problems.

4.3.6 The next residents' survey is currently being commissioned and is scheduled to take place in late Autumn 2014, with publication of results in January 2015.

5 The Medium Term Financial Plan and Budget Strategy

Medium term financial plan

5.1 As shown in paragraph 6.3.1 and appendix 2, the current anticipated additional budget requirement to be funded through efficiency gains is £421k for 2015/16, £588k for 2016/17, £238k for 2017/18 and £119K for 2018/19. The Council will have to fund any additional demand on resources by achieving efficiency gains to prepare a balanced budget as these can be redirected towards the Council's priorities. 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 generate additional income from Council Tax and Government Grants is very limited.

5.2 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.

5.3 As part of prudent financial management, the Council has placed less reliance upon investment income to fund on-going expenditure. Most of the investment income has been used to fund one-off projects. The current reduction in the base rate has led to a significant reduction in the amount of investment income generated from the Council's portfolio of investments and cash flow management.

5.4 Despite the recent improvements in the economy, the Council continue to have limited financial resources. Hence the Council may have to rely on the General Fund balance and /or earmarked reserves in order to meet any budgetary requirement if the economic recovery turns out to be weaker and/or not as fast as anticipated. However, this would be a short-term measure, as the Council is obliged to present a balanced, affordable and sustainable budget in the long run. This will only be used as a last resort and in exceptional circumstances after having explored all other sources of income and efficiency savings. (subject to Council approval, as part of the future budget setting process).

5.5 The following key assumptions, have been used for the purpose of this financial strategy:

- Government grant i.e. Revenue Support Grant to be further reduced by 40% in 2015/16, 25% in 2016/17 and then by a further 35% per annum over the following two years – 2017/18 and 2018/19.

- Council Tax freeze in 2015/16 and increases of no more than 1.95% for the years 2016/17 to 2018/19, subject to any regulations to be brought in by central government in respect of referendum to be carried out as part of the consultation process before any increase in council tax is decided. **Any changes in Council tax will have to seek Full Council approval as part of the annual budget setting process.**

- 2% growth in Fees and charges. This is in cash terms i.e. both real growth and any inflationary increase. This does not take into account the impact of the decentralisation of Planning Fees.

- New homes bonus scheme: it has been anticipated that the allocation for the years 2015 to 2019 would not increase any further and remain capped at £1.148m. This follows the announcement as part of the Spending Review 2013 that £400m of the housing incentive funding would be handed to Local Enterprise Partnerships from 2015-16. Although this proposal has been reversed, it is prudent to place less reliance on NHB monies and by capping the amount of NHB being used to finance the Council on-going budget at £1.148m it helps to safeguard the Council from any future changes to the NHB scheme, including if they change the length each tranche of NHB is paid for (this is currently six years). The projected numbers of new properties and unused properties brought back into use are broadly in line with the figures produced by the planning department. However the level of grant to be paid also depends on the state of the economy and the commencement of major developments. It’s worth noting that there is no direct correlation between the reduction in Revenue Support Grant and the amount of New Homes Bonus allocated to districts. The latter largely depends on the number of new properties being built and/or properties brought back into use. The rate of growth in the residential sector may slow down which in turn will have a negative impact on the amount of New Homes Bonus. Hertsmere has areas designated as green belt land which need to be protected.

- Employee & related expenditure, includes pay award of 1% each year, pensions increase in 2016/17 of £66k for auto enrolment and changes to national insurance contribution of £200k from 2016/17 . **Any pay award would require Full Council approval as part of the annual budget setting process.**

- Net inflationary impact, net growth and increase in costs due to contractual obligations to increase by RPI. Utilities, fuel costs are projected to increase by 5%. This reflects the current economic and financial climate whereby the Council will have to keep tight control over costs and make better and effective use of resources. Part of the process will be through the application of its Procurement and VfM Strategy.

- Reserves movements: the use of LABGI is to be used in exceptional circumstances and in the main, for one off costs. Use of General Funds to be used as a last resort in exceptional circumstances as any reserves funding is not sustainable in the long term.

- Interest rate assumptions: Many economists, as well as the Council’s investment advisors, expect the base rate to start increasing from first quarter of 2015 and reaching 2% by 2017. This is likely to have a positive impact on the level of interest received from investments however any additional income generated will be used to fund one off projects and invest to save scheme. Due to the uncertainty of future rate rises, the timing of capital expenditure and potential new schemes the level of income is difficult to predict accurately beyond a year but it is anticipated that income will remain constant going forward.

- Capital: the biggest scheme to be undertaken relates to the works being undertaken at

Elstree Film Studios. This is taking place in two stages, first being the removal of the mound at the rear of the site and this has currently being financed by internal resources and second stage being the building of the workshops, this being financed from internal reserves or external funding. The second phase will be subject to a business case and would require Council's approval.

- Over the next three years (2014-2017) there will be significant changes as a result of the Welfare Reforms including the implementation of Universal Credit which will take three years to roll out. At the time of writing the implementation plan and eventual role of the Council in delivering the Welfare Reforms is not clear. Hence it is difficult to assess the financial impact on the Council. This will become clear as a result of the pilot schemes currently being run by the Department of Work and Pensions. This strategy will be updated in due course to reflect any financial implications arising therefrom.

Budget Strategy

5.6 The Council has been very prudent with its financial management and the external auditors have highlighted this over the years. The budget strategy and budget setting process will follow a similar process as adopted in prior years. This includes engaging stakeholders and an extensive process of consultation as set out in the budget timetable.

5.7 The Council carried out participatory budgeting in 2013/14, it was agreed that this exercise be repeated in three years' time. This will enable the Council to allocate its limited resources to those services the residents need as priority. It may also identify those non-statutory services that could potentially be reduced and therefore optimise the overall satisfaction levels of residents.

5.8 The Council's officers anticipated that, as part of the Spending Review 2015/16, there would be further government grant cuts on top of the already reduction in grants over the last three years, in the region of 10%. This means the Council need to continue to review how services are delivered in the future.

Key principles for the Financial Strategy

5.9 The financial strategy lays down the following key principles:

- To keep the level of council tax as low as possible against the background of continued austerity measures and reduction in grants.

- Investment of net capital receipts, earmarked for revenue generating projects, 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.

- Further explore alternative service delivery, to secure financial savings and efficiency gains, such as partnership working and shared services with neighbouring authorities and more innovative ways of delivering services which takes into account the provisions of the Localism Act.

- Maximise returns from the Council's portfolio of assets e.g. by developing our land.

- Further explore investments to save and "spend to save" schemes such as the use of office space at the Civic Offices which will deliver significant income.

- Additional gains to be achieved by adopting better and smarter procurement practices.

- All projects to be evaluated with risk of slippage and the financial impact there from.

- VfM to be a key driving force in evaluating the current and future service delivery.

- Options and investment appraisals to be based on whole life costing.

- Embedding of electronic service delivery following implementation of e-government agenda and embrace the transformational government agenda.

- Explore the use of trading powers to generate additional income and from the Localism Act.

- To identify resources available to achieve the Council's Asset Management Plan.

- To set aside, as far as possible, sufficient funds in order to provide for the replacement of major assets such equipment, vehicles etc.

- Contingencies to be set at an adequate and prudent level.

6 Revenue Account: Budget setting process

6.1 The Revenue Budget Setting Process

6.1.1 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:

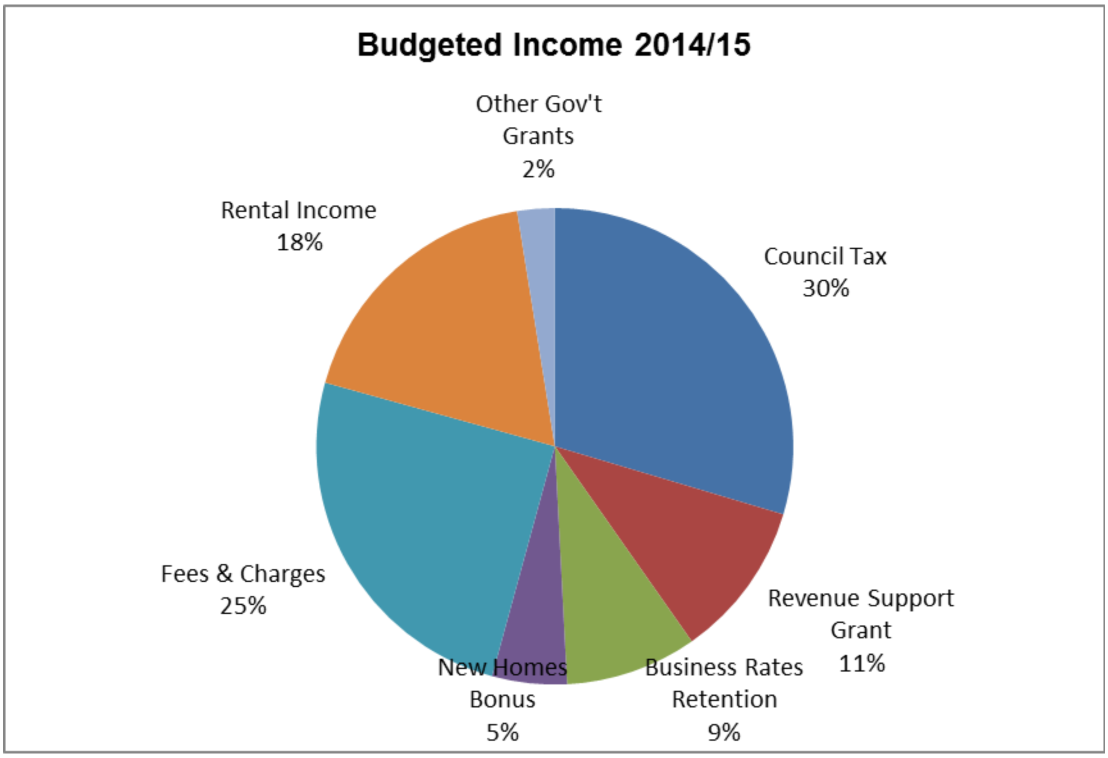
- What level of funding is required to provide each service for the forthcoming year.
- Which areas the Council considers to be its priorities for allocating funding.
- Whether any Value for Money gains or innovative service delivery solutions are possible for each service (e.g. through partnerships or outsourcing).
- Whether any additional income can be generated either in the form of Government or other 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.

6.1.2 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 & Performance Committee
- Business Ratepayers, through the Corporate & community planning processes outlined below
- Outcome of Participatory Budgeting process.

6.2 Funding the Annual Revenue Budget

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



6.2.2 Central Government sets the level of Revenue Support Grant (RSG), the Business rates Retention, New Homes Bonus and other government grants which are payable to Hertsmere each year. The Council therefore has very limited control over these sources of income as evidenced by the last finance settlement and significant reduction in government grants. The risk associated with the Business Rates and New Homes Bonus has been explained in paragraph 3.8 and 3.14.

6.3 High Level Budget Proposals 2015/16 to 2018/19

6.3.1 The following table shows the main proposals included in the 2015/16 to 2018/19 budgets. It shows the level of projected efficiency savings over the years 2015 to 2019 in order to balance the budget while at the same time maintaining service delivery.

Table 1. Key Budget Proposals	**(Increase) / Decrease**			
	2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Total Service Improvements & Corporate policy Implications including employee costs	58	(425)	(164)	(168)
Net inflationary impact, growth and contractual obligations	(75)	(110)	(121)	(131)
Net Increase/(Reduction) in Income	107	133	140	147
Net Increase on Prior Year's Budget requirement	**90**	**(402)**	**(145)**	**(152)**
New Homes Bonus	0	0	0	0
Net Reduction in Government Funding	(551)	(357)	(266)	(143)
Increase in Council Tax	40	171	173	176
Efficiency Savings to be achieved in year	**(421)**	**(588)**	**(238)**	**(119)**

7 Revenue Account: Grants & Council Tax

7.1 Central Government Funding

7.1.1 The overall Council's expenditure (net budget requirement) is financed from two sources: external grants and council tax levies. External grants were previously (up to 2012/13) funded by Central Government via Revenue Support Grant and redistributed National Non-Domestic Rates. However, from 2013/14 Central Government funding now comes from Revenue Support Grant (RSG), Retention of Business Rates and New Homes Bonus.

7.1.2 As shown in the table 2 below the amount of government grants as a percentage of net budget requirement since 2011/12 shows a significant reduction from 50.5% to 35% in 2018/19. This means that the Council is left to fund a gap of 15.5%.

7.1.3 It is expected that future RSG will show further reduction of 40% in 2015/16 followed by an average of 31% over the subsequent three years. In real terms this equates to a reduction of £864k in 2015/16 and then a further drop averaging £284k over each of the following years. The Retention of Business Rates shows an increase of £327k in 2015/16 followed by an average £60k each year over each of the following years. It is currently presumed that Business Rates will be revaluated in 2017, and therefore prudent to keep constant. Due to the uncertainty around the New Homes Bonus as well, it has been considered prudent to cap the funding for NHB at £1.148m per year and place any surplus into an equalisation account, to support any drop off in NHB in the future.

7.1.4 The following table shows the grant settlement (excluding council tax freeze grant) for the years 2011/12 to 2014/15 and the forecast settlement for 2015/16 to 2018/19.

Table 2.	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Difference between 2018/19 and 2010/11**
	Actual	**Actual**	**Actual**	**Projected**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	
Types of Grant	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
Government Grant before reduction	7,464	6,330	5,463	4,949	4,133	3,596	3,334	3,068	
Decrease in Cash Terms	(1,134)	(867)	(514)	(816)	(537)	(262)	(266)	(143)	
Government Grant (note 1)	6,330	5,463	4,949	4,133	3,596	3,334	3,068	2,925	(4,539)
New Homes Bonus	305	572	940	1,148	1,148	1,148	1,148	1,148	1,148
Total Government Grant	**6,635**	**6,035**	**5,889**	**5,281**	**4,744**	**4,482**	**4,216**	**4,073**	**(3,391)**

Note 1 – includes RSG and Business Rates Retention. Pre 2013/14, this was RSG and redistributed of national non-domestic rates. This excludes council tax freeze grant. For breakdown of total government grant, please refer to Appendix 2.

Note the total government grant on 2010/11 amounted to £7.464M (base year).

7.1.5 Under the old pooling arrangements National Non-Domestic Rates (NNDR) or business rates were collected from businesses by councils, pooled by central government and redistributed to councils on a population basis. From 2013/14 Council's will retain a proportion of Business Rates collected. Business Rates Retention combined with the revenue support grant (RSG), new homes bones and council tax make up local government funding.

7.1.6 The table below illustrates the actual, budget and forecasts for 2016-2019.

Table 3.	**2013/14 £'000 Actual**	**2014/15 £'000 Budget**	**2015/16 £'000 Forecast**	**2016/17 £'000 Forecast**	**2017/18 £'000 Forecast**	**2018/19 £'000 Forecast**
NDR collected by HBC	45,003	43,375	44,352	46,624	48,054	49,447
NDR Entitlement for HBC	892	2,423	2,858	2,883	2,918	2,976
Safety Net / (Levy)	1,308	0	(173)	(147)	(121)	(109)
NDR Entitlement for HBC after Safety Net	**2,200 ***	**2,423**	**2,685**	**2,736**	**2,797**	**2,867**
Less Council Tax support and Homeless prevention funding	0	401	336	337	337	337
Business Rate Retention	**2,200**	**2,022**	**2,349**	**2,399**	**2,460**	**2,530**

* - the NDR entitlement for HBC is after taking into account appeals lodged and at risk for lodging, which resulted in the Council receiving a safety net payment.

7.1.7 As shown in the table above the amount of business rates collected by the Council are estimated to increase by RPI each year, without any growth. It is forecasted from 2015/16 the Council will start to make payment to the Government as part of the levy mechanism that is in place. However, this will depends on the state of the economy, the changes to amount set aside to cover appeal costs, and local developments with regards to business within HBC.

7.2 Specific Grants

Disabled Facilities Grant

7.2.1 Disabled Facilities Grant (DFG) can be utilised as a contribution towards any expenditure incurred by the authority either under Part 1 of the Housing Grants, Construction and Regeneration Act 1996 or under Article 3 of the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002. This gives Local Authorities the scope to develop innovative ways of supporting housing adaptations.

Table 4. Disabled Facilities Grant	**2011/12 £'000 Actual**	**2012/13 £'000 Actual**	**2013/14 £'000 Actual**	**2014/15 £'000 Budget**
Grant Receivable	266	290	238	238

The Council expect a similar amount for the years 2015/16 to 2018/19.

Council Tax Freeze

7.2.2 Formula grant is fixed by the Government and therefore increases in service funding impact on the level of council tax that must be levied. Council tax setting induces significant tension in all budget-setting cycles, as there is a positive relationship between an increase in council tax and the quality and level of service provision.

7.2.3 Council Tax has remained the same since 2009/10. The Council received £164K in 2011/12 to provide a freeze in council tax which will be paid annually until 2015. Council received an additional £165k in 2012/13 for one year which is no longer payable. To assist the Council to continue a council tax freeze in 2013/14 we received £66k, equivalent to 1% increase in council tax, guaranteed for two years and a further £66k received in 2014/15, again guaranteed for two years. Rises of 2% and above from 2013/14 onwards are subject to a referendum.

7.2.4 The Government has also confirmed a 1% freeze grant for 2015/16 and have indicated that the 2014/15 freeze grant will be built into the spending review baseline, in the same way as the 2011/12 and 2013/14 has. While the current Comprehensive Spending Review is as far as Ministers can commit, it represents a fresh start in terms of Government financial planning and does not remove uncertainty about the continuation of council tax freeze grant funding beyond 2015/16. For the purpose of this strategy, it is envisaged that 2013/14 and 2014/15 freeze grant will continue within the RSG up to 2018/19.

7.2.5 The table below reflects the council tax positions for 2014/15 and the forecast for the next four years, assuming a council tax freeze for 2015/16 and an increase in council tax of up to 1.95% for the remaining years. The strategy assumes an increase in the tax base representing an increase of £40k each year.

Table 5.	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Budget	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Band D Levy (Incr. @ 1.95% for 2016/17 to 2018/19)	157.28	157.28	160.35	163.47	166.66
Council Tax	£6,711k	£6,751k	£6,922k	£7,095k	£7,271k

7.2.6 Hertsmere Borough Council acts as the billing authority for all council tax payments on behalf of Hertfordshire County Council, Police and Crime Commissioner for Hertfordshire and the Parish/Town Councils of Aldenham, Elstree and Borehamwood, Ridge, Shenley, South Mimms and Bushey & Potters Bar.

7.2.7 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.

7.2.8 The table below shows the distribution of Council Tax collected in Hertsmere.

Table 6.	%
Hertfordshire County Council	77.28
Hertsmere Borough Council	10.86
Police and Crime Commissioner for Hertfordshire	10.21
Parish Council Precepts	1.65
Total	**100.00**

8 Revenue Account: Income Generation

8.1 Fees and Charges

8.1.1 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 2014/15 is included in the 2014/15 Budget Book.

8.1.2 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.
- Some fees and charges are meant to breakeven, hence the Council recovers only the cost e.g Building Control and Land Charges.

8.1.3 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.

8.1.4 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. Fees and charges are reviewed as part of the budget setting process.

8.1.5 The table below shows the forecast for the years 2015/16 and onwards.

Table 7. Fees and Charges	**2014/15 Approved Budget Income & Forecast £**	**Additional Income £**
Planning & Building Control	916,700	
Housing Services	705,350	
Environmental Health	304,500	
Street Scene Services	3,087,740	
Engineering Services	115,700	
Asset Management	4,125,470	
Finance & Business Services	1,033,120	
Legal & Democratic Services	174,280	
Human Resources & Customer Services	159,970	
Income for 2014/15	**10,622,830**	
Income for 2015/16	**10,782,744**	159,914
Income for 2016/17	**10,965,961**	183,217
Income for 2017/18	**11,153,713**	187,752
Income for 2018/19	**11,346,133**	192,420

*Note: Fees and charges are expected to be increased on average by 2% each year - whereever possible.

9 Revenue Account: Net Budget Requirement

9.1 Background

9.1.1 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.

The Revenue Budget therefore reflects the financial implications of the Council's aims and objectives for the forthcoming year. The Net Budget Requirement (NBR) is the total Expenditure minus Total Income (fees and charges), the balance being funding from Government grant (i.e. RSG, Business Rates and New Homes Bonus) and Council Tax.

9.1.2 The Council has the following options to consider in achieving the above requirement:

- Reduce the annual expenditure requirement by making efficiency savings, increasing the level of fees and charges and/or raising additional income.
- By achieving ongoing annual Value for Money gains i.e. economy (optimum costs), efficiency (maximise output) and effectiveness (better outcome).
- Increase the level of council tax
- Alternate ways of service delivery to achieve Value for Money gains.

Table 8. Revenue Expenditure	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
	Actual	**Projected**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Net Budget Requirement	12,523	12,295	11,784	11,599	11,507	11,540

9.1.3 The table above is based on the net budget requirement after factoring in the efficiency savings highlighted in paragraph 6.3.1.

10 Revenue Account: Sensitivity Analysis

10.1 As per Appendix 2, the Council has carried out a sensitivity analysis with regard to the risks associated with the medium term financial plan.

Sensitivity Analysis for 2015/16 – all variables

10.2 The best case scenario shows that the Council will be able to achieve a balanced budget in 2015/16. However the worst case scenario shows a deficit of £790k. The most likely scenario has been used for the purpose of this exercise and shows efficiency savings of £421K in 2015/16. However there are various permutations and combinations which may materialise in practice. The Council must monitor these variables and act accordingly.

Sensitivity Analysis 2016/17 to 2018/19 – main variable government grant (to be updated)

10.3 The level of reduction in grant affects the level of efficiency gains and budget savings that must be made. A 1% reduction in RSG would require additional savings of £12.5k for 2015/16.

11 Balances and Reserves Policy

11.1 Introduction

11.1.1 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.

11.1.2 The external auditors make an assessment on the financial standing of the Council. Following the abolishment of the Audit Commission the Council's external auditor's scope of works has been increased, placing greater emphasis on Value for Money.

11.1.3 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer 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.

11.1.4 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.

11.1.5 There is no doubt that investment income has so far assisted the Council in maintaining and enhancing its General Fund reserves. However due to the significant reduction in the base rate the amount of investment income generated from the Council's portfolio of investment has reduced significantly. Hence, the Council is not anticipating any increase in the general fund reserve over the next four years as shown in the table below.

Table 9. Reserves	**31/03/14**	**31/03/15**	**31/03/16**	**31/03/17**	**31/03/18**	**31/03/19**
	Actual	**Projected**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Capital Reserve	£6.4m	£3.4m	£2.4m	£2.4m	£2.4m	£2.4m
General Fund Reserve	£9.4m	£7.6m	£7.6m	£7.6m	£7.6m	£7.6m
Earmarked Reserves	£15.4m	£12.7m	£11.8m	£10.9m	£10.7m	£10.4m

11.2 Reserves are defined by CIPFA as follows:

11.2.1 "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."

11.2.2 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 revaluation reserve, usable capital receipts, and capital adjustment account are examples of such reserves."

Revenue reserves are defined as follows:
"Revenue reserves result from events which have allowed monies to be set aside, surpluses, or decisions".

11.2.3 Another reserve not available for general use is the pension reserve. The pension reserve is a revenue reserve that represents the financing of employee pension costs 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.

11.2.4 As at 31 March 2014 the Council's pension fund showed a deficit of £34.1m. The pension fund liability reflects the outlook using assumptions that cover an extremely long term. The net liability reflects the valuation of assets which themselves can be subject to wide fluctuations over the long term. Any under performance or significant reduction in market capitalisation may lead to a significant increase in the pension deficit. The Council has always endeavoured to follow the actuary's advice in deciding the level on contribution to the pension fund and as part of prudent financial management will continue to do so.

11.3 Principles to Assess the Adequacy of Reserves

11.3.1 In order to assess the adequacy of unallocated general reserves (balances) when setting the budget, the Chief Finance Officer, in conjunction with the 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 1992, 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 to producing a balanced budget.

11.4 Earmarked Reserves

11.4.1 Earmarked reserves are set aside for specific purposes as detailed in Appendix 4.

11.4.2 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 Service Head and Portfolio holder decides upon the required level for each reserve and most appropriate strategy to achieve this.

11.5 Local Authority Business Growth Incentive

11.5.1 The first LABGI scheme was a three-year Government initiative from 2005/06 to 2007/08 designed to give local authorities an incentive to encourage local economic and business growth.

11.5.2 The Council has not received any new LABGI since 2009/10 and no further allocation from central government is envisaged.

11.5.3 The table below shows the current Reserves position for LABGI and up to 2015/16.

Table 10.	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Opening Balance	623	475	177	65	28
Receivable in year	0	0	0	0	0
Utilised/Allocated	(148)	(298)	(112)	(39)	(28)
Closing Balance	**475**	**177**	**65**	**28**	**0**

11.5.4 The Ward Improvement Initiatives Scheme (WIIS) allows councillors up to £2k per annum to spend on local issues within their ward. This scheme aims to enhance local empowerment and promote community involvement. A total amount of £156k has been provided for over the 2009/10, 2010/11 and 2011/12 budgets and funded from LABGI.

11.6 New Homes Bonus

11.6.1 New Homes Bonus (NHB) started in 2011/12 and was introduced by the Government to increase the number of homes and their use within a district. NHB is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new build homes, conversions and long-term empty homes brought back into use. Payments for each eligible property are calculated per home in terms of the national average Council Tax Band D.

11.6.2 The NHB settlement for 2011/12 was £303k and was not utilised / allocated during the year. The cumulative allocation of £940K has been utilised as part of the 2013/14 budget. It is also envisage that any future New Homes Bonus will be capped at £1.148m for the revenue budget and the remainder placed into an equalisation account to be used if the Government decides to change the way it allocates NHB in the future. The table below shows the current Reserves position for 2014/15 and projects this forward to 2018/19.

Table 11.	**2012/13 £'000 Actual**	**2013/14 £'000 Actual**	**2014/15 £'000 Budget**	**2015/16 £'000 Forecast**	**2016/17 £'000 Forecast**	**2017/18 £'000 Forecast**	**2018/19 £'000 Forecast**
Opening Balance	303	0	0	173	841	1,839	2,863
Receivable in year	573	940	1,321	1,816	2,146	2,172	2,235
Utilised for one off	(876)	0	0	0	0	0	
Utilised within revenue budgets		(940)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)
Closing Balance	**0**	**0**	**173**	**841**	**1,839**	**2,863**	**3,950**

11.6.3 The unallocated NHB monies may be utilised to fund projects such as invest to save programmes, including the Enterprising Council and any initiatives generated from the innovation and trading panels.

11.7 S106 Reserves and CIL

11.7.1 When planning permission is granted it is the Council's policy to secure S106 funding if necessary. The table below shows the S106 reserves as at 2013/14. S106 funding will assist with some of the initial costs of infrastructure and other costs as agreed per S106 agreement. It is worth noting that any ongoing costs resulting from any developments may have a revenue (whole life costs) impact on the Council's revenue budget and has to be considered as part of the budget setting process.

Table 12. Section 106	**2012/13 £'000 Actual**	**2013/14 £'000 Actual**	**2014/15 £'000 Projected**	**2015/16 £'000 Forecast**	**2016/17 £'000 Forecast**	**2017/18 £'000 Forecast**	**2018/19 £'000 Forecast**
Opening Balance	1,191	1,777	4,365	4,465	3,965	3,865	3,665
Receipts	705	2,879	600	500	400	300	300
Utilised	(119)	(291)	(500)	(1,000)	(500)	(500)	(500)
Closing Balance	1,777	4,365	4,465	3,965	3,865	3,665	3,465

11.7.2 However, from December 2014, the Community Infrastructure Levy Regulations will severely limit the ability of Section 106 obligations to fund general infrastructure projects. The Community Infrastructure Levy (CIL) is a new tariff which will allow funds to be raised from new developments in Hertsmere to fund a wide range of infrastructure that is needed as a result of development. This includes new or safer roads schemes, park improvements, green spaces, leisure Centre's and previously monies paid to the County

Council for highways and education etc. However, Section 106 agreements will continue to be the primarily mechanism for securing affordable housing through the planning system. It is anticipated that receipts for CIL will not start until end of 2015/16 and that from 2017, S106 will start to reduce and CIL will become the primarily mechanism for Hertsmere. This will not have any significant impact on the revenue budget of the Council as it will be administered as a separate fund largely to meet capital expenditure. The table below shows the anticipated CIL reserves up to 2018/19.

Table 13 **CIL**	**2015/16** **£** **Forecast**	**2016/17** **£** **Forecast**	**2017/18** **£** **Forecast**	**2018/19** **£** **Forecast**
Opening balance	0	277,875	226,625	317,875
CIL Receipts	**390,000**	**700,000**	**900,000**	**980,000**
Spend				
Admin	19,500	35,000	45,000	49,000
Local Community	92,625	166,250	213,750	232,750
Major Schemes	0	400,000	400,000	400,000
Other	0	150,000	150,000	150,000
Total Spend	**112,125**	**751,250**	**808,750**	**831,750**
Balance carried forward	**277,875**	**226,625**	**317,875**	**466,125**

11.8 General Fund Reserves

11.8.1 In order to maintain financial flexibility and good financial standing, in 1999 the Council 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.

11.8.2 The current s151 Officer in consultation with the Leader of the Council and the 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.

11.8.3 It has always been the aim of the Balances and Reserves Policy 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%. Over the last few years the Council has experienced some abnormal gains such as refund of over-declared VAT and refund of business rates resulting from revaluation of Council properties. As these were one off gains, it was prudent to set it aside as part of the Council general Fund and especially in times of significant cuts from central government and the uncertainties surrounding the economy.

11.8.4 Given the poor finance settlement, unprecedented economic conditions, stock market underperformance, financial turmoil and credit crunch, there is a possibility that the Council may have to utilise some of the General Fund reserves as a last resort. The sensitivity analysis shown in Appendix 2 demonstrates many of the variables associated with each cost and revenue, which in turn will require careful monitoring and management.

12 Capital Expenditure and Resourcing

12.1 Capital Expenditure – Strategic Objectives

- To approve all Capital Expenditure as per the Council's Capital Strategy.

- To work within the prudential indicators as set out by the 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% (with a minimum of 5% as benchmark and higher in case of high risk initiatives) to be achieved by income and/or revenue savings generated by any new discretionary capital commitments, invest to save and spend to save initiatives i.e. works at Elstree Studios and Civic Offices. This is also applicable to any enhancements to existing assets with a view to improve efficiency e.g. energy reduction.
- To evaluate thoroughly all-ongoing financial commitments with respect to their impact on the revenue budget based on whole life costing.
- To minimise all future commitments against the Council's Capital Reserve unless the sources of capital recipes are identified and ring-fenced at the outset such as Housing Fund.

12.2 Capital Projects for 2014/15 and beyond as per Capital Budget 2014/15.

Table 13. REF	**BID TITLE**	**£'000**
2014-01	Council Owned Car Parks	1,036
	Total new bids	**1,036**

12.2.1 The recommendation of the Asset Management Panel was to proceed with the projects. It was noted that in these difficult financial times when staff are losing their jobs we carefully consider and scrutinise every element of financial spend. The items proposed under this spend are all necessary either repairing damaged items to enable their continuing use, refurbishing to generate revenue or compliance with Health & Safety legislation. All the proposed items are urgent and vital and highlight that the Council is being careful on what it spends its money.

12.2.2 The table represents figures extracted from the Prudential Code for Capital Finance

Table 14. Capital Expenditure forecast	**2013/14 Actual £'000**	**2014/15 Projected £'000**	**2015/16 Forecast £'000**	**2016/17 Forecast £'000**
Central Services	1,607	640	0	0
Cultural, Social & Related Services	4,162	1,772	995	0
Environmental Services	572	1,460	205	615
Highways, Roads & Transport	267	34	15	0
Housing	517	2,702	0	0
Planning & Development Services	87	217	0	0
Total Capital Expenditure	**7,212**	**6,825**	**,1,215**	**615**

Securing external funding

12.2.3 The Council in partnership with Hertswood School has built a Community theatre which is both beneficial to the school and the community. This demonstrates that the Council has both secured significant funding and minimised any recurrent costs for the Community theatre as it will be the responsibility for the school to run and maintain this valuable facility theatre which will benefit both the school and community.

12.2.4 The theatre was opened in November, and was renamed The Ark following a competition to find a new name. The theatre is available for hire by local amateur dramatic groups, dance groups, local bands and schools for their performances.

12.2.5 The Council has recently secured external funding to finance capital expenditure at Elstree

Studios from the Local Enterprise Partnership (LEP) for the development. Once Phase II of the project has been evaluated and approved further funding is likely to be obtained from the LEP once various milestones have been met and alternatively from the Public Works Loan Board.

12.3 Capital Resourcing

Useable Capital Receipts

12.3.1 In order to be able to fund any future capital programmes without resorting to loan finance, there needs to be sufficient usable capital receipts, earmarked reserves and sinking funds such as those for leisure and vehicle replacement.

12.3.2 Once Phase II of the Mound project at Elstree Studios has been formally approved and funds drawn down from the LEP it is likely the Council will need to make a Minimum Revenue Provision in order to ensure the prudent financing of the project. This has currently not been included in this strategy due to the uncertainty of a number of factors and as nothing has yet been approved.

12.3.3 One of the main sources of funding available to support the capital programme has been capital receipts from disposals of the Council's assets.

12.3.4 The strategy requires the Council's policy to invest 80% of the net capital receipts generated in 2004/05 and onwards into revenue generating asset portfolio and/or cost saving 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. The balance (20%) of these proceeds is transferred to usable capital receipts and is used to fund capital projects. In cases where the Council is not able to identify any affordable housing or revenue generating investments, the earmarked amounts are invested in accordance with the Council's treasury management policy.

12.3.5 Over the years there has been a reduction in proceeds under the 'right to buy' scheme, which has been hitherto a major source of capital receipts. Moreover the number of properties to which the Council is entitled to receive a share of the disposal proceeds from LHA has diminished over the years. This is further exacerbated by the current stagnation of the housing market. As a result the amount of future capital receipts would not be sufficient to fund any significant future capital programmes.

12.3.6 As there are no remaining usable capital receipts for future projects all estimated capital receipts generated from 2009/10 onwards will be used to fund future capital programmes. In future no contributions will be made to the earmarked reserve for generating projects.

12.3.7 As shown in the table below, the Council has £2.4m earmarked for revenue generating projects or projects, which will benefit the community. The Asset Management Panel is responsible for recommending to Executive the utilisation of this fund and this is done on a case-by-case basis.

Table 15.	**2013/14 £M Actual**	**2014/15 £M Projected**	**2015/16 £M Forecast**	**2016/17 £M Forecast**	**2017/18 £M Forecast**	**2018/19 £M Forecast**
Opening Balance	11.1	6.4	3.4	2.4	2.4	2.4
Movements	(4.7)	(3.0)	(1.0)	-	-	-
Closing Balance	6.4	3.4	2.4	2.4	2.4	2.4

Earmarked Reserves/Sinking Fund

12.3.8 The Council as part of the budget strategy and budget setting process has adopted a policy to set aside regular amounts towards a sinking fund for the replacement of vehicles and leisure equipment. The table below shows the current position.

Table 16.	2013/14 £'000 Actual	2014/15 £'000 Projected	2015/16 £'000 Forecast	2016/17 £'000 Forecast	2017/18 £'000 Forecast	2018/19 £'000 Forecast
Opening Balance	13,606	15,437	12,673	11,826	10,940	10,690
Net movements	1,831	2,764	847	886	250	250
Closing alance	15,437	12,673	11,826	10,940	10,690	10,440

The above table includes funds earmarked for the replacement of waste vehicles, which are not included in the capital budget.

12.4 Capital budget: Management and Monitoring Process

12.4.1 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.

12.4.2 The Council has an Asset Management Panel which is responsible for all property related matters. The panel recommendations form an integral part of any Executive reports where resources are being secured. Also decision to invest, capital bids and sale of properties are considered by the panel which meets on a regular basis. A panel comprises of elected representatives including executive members and the Finance and Property Portfolio holder is Chairperson of the Panel meetings.

12.4.3 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.

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

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

12.4.6 The Service Heads will carry out regular performance monitoring exercises with their staff to ensure their personal responsibilities are adequately undertaken and that delegated activities are properly conducted to ensure capital projects are on time, within budget and deliver agreed objectives.

12.5 Capital Strategy and Asset Management Planning

12.5.1 The Capital Strategy (Appendix 3) sets out the strategic direction for the Council's capital programme and provides a background against which the Council will pursue funding opportunities in order to maximise capital investment. This strategy has taken into account the updated Asset Management Plan.

13 Influences, Pressures and Assumptions

Pay award and Pay related costs

13.1 There was a pay award in 2014/15 of 1% and a pay award 1% each year going forward have been included. For 2016/17 there are an additional cost of £66k included for auto enrolment and £200k for changes to the national insurance contribution rates.

13.2 The UK economy has started to show growth in 2013 and continued into first quarter of 2014 with inflation remaining around 2.4% to 2.8%for the first half of this year (for CPI 1.5% to 1.9%).

Pension Contributions

13.3 The employer's pension contribution rate will remain at 28.5% for the year 2014/15 and future years following a one off payment being made in 2013/14 of £472k. This is based on officers' best estimates. The pension payment consists of two elements, a service charge and payment towards the pension deficit. When a member of the scheme is made redundant their current pension deficit is crystallised and payment becomes due. With the level of redundancies this will place a strain on cashflow.

13.4 There were changes to the Local Government Pension Scheme from April 2014 that have significant impact on the Council's pension contributions. Firstly, changes to the scheme, these include moving from an Final Salary Scheme to a Career Average Revalued Earnings; accrual rate moving from 1/60th to 1/49th; 50:50 option (giving employees the option to only pay half their normal contributions, in exchange for only receiving half of their entitlement i.e. an accrual rate of 1/98th). The second change is Automatic Enrolment, where the Government has insisted that all entitled employees must be enrolled into a pension scheme, and it is the responsibility of the employee to opt out of the scheme. However, on the third anniversary of opting out, the employee will be re-enrolled and it is then the responsibility of the employee to opt out again. There is a provision of £66k in 2016/17 to cover increases in pension costs resulting from changes to the LGPS and auto enrollment.

13.5 Any further underperformance of the stock market may lead to a significant increase in the pension deficit. The Council has always endeavoured to follow the actuary's advice in deciding the level on contribution to the pension fund and as part of prudent financial management will continue to do so.

Inflation

13.6 Over the years the inflation faced by the Council has been higher than RPI and CPI as a result of significant increases in the price of fuel and gas, and other contractual obligations. The Council will negotiate with all suppliers with a view to reduce any increases resulting from contractual obligations

13.7 The current RPI as of May 2014 is 1.7%, with CPI at 1.5%. The Government's target of 2% had been exceeded for some months until recently when there has been a significant drop in rates. Recent developments, including sterling's further appreciation, falls in producer price inflation and very weak wages growth, suggest that CPI inflation could fall to as low as 1% later this year increasing the pressure for a bank rate rise.

13.8 Table below shows the latest forecast for RPI and CPI. The contractual expenditure included within the estimates (e.g. vehicle maintenance, software licences and ground maintenance) is based on RPI within the strategy.

Source: Bank of England March 2014

Table 17.				
	2015	**2016**	**2017**	**2018**
RPI	3.2	3.6	3.8	3.9
CPI	2.0	2.0	2.0	2.0

Economic Climate

13.9 The growth forecast for UK has been revised to 3.1 %, 2.7 %, and 2.5% for the years 2014, 2015 and 2016 respectively.

13.10 Despite the recent improvements in the UK economy the Government austerity measure continue to have an adverse effect on the Council's finances and its ability to continue to maintain service delivery. However the Council has managed to maintain front line services.

13.11 The Council together with other partners is working diligently to find ways in which much needed help can be provided to both the residents and business community.

13.12 The utilities and diesel expenses are forecasted above RPI at 5% for financial years 2016/17 to 2018/19. All other transport costs and supplies and services are forecasted at 1% for each of the years.

Income from fees and Charges

13.13 It has been assumed that fees and charges will increase by 2% per annum. This includes both real terms and increase due to inflation. It is worth noting that some fees are set by statutes and are meant to cover costs only. Income from fees and charges may see a reduction in demand if the economic recovery is weak and prolonged.

Council Tax

13.14 Council tax has been assumed no increase in 2015/16 and to increase by 1.95% from 2016/17 onwards. A possible reduction in the collection rate would mean that less income would be received.

Investments

13.15 The continued low bank interest rate means that the investment income generated will continue to be low compared with that received from earlier years. Whilst economic forecasts anticipate that the base rate is due to rise it is unlikely to see a return to the previous norm of 5% prior to 2008.

13.16 Although somewhat reduced since its peak in 2008 there is still a continued risk that some financial institutions may default in honouring their contractual obligations i.e. repayment of capital and /or interest.

Future base rates

13.17 The current base rate of 0.5% is at a historically low level and has been over the last 5 years. There are indications from the Bank of England that rates will likely begin to increase with market expectation that this could be as soon as Q1 2015. This is expected to be “limited and gradual” rise meaning that investment rates are likely to remain relatively low.

Source: Capita July 2014

Table 18.							
Decision	**Sep-14**	**Mar-15**	**Sep-15**	**Mar-16**	**Sep-16**	**Mar-17**	**Sep-17**
Base	0.50	0.75	1.00	1.25	1.50	2.00	2.00
Change	-	0.25	0.25	0.25	0.25	0.50	-

Housing and Housing / Council Tax Benefits

13.18 The recent trend indicates that increased unemployment has led to an increase in the demand for housing benefits due to repossessions. This in turn increases the number of benefit claims. This stretches the Council’s resources in both employee and financial terms. Moreover, the Grant from DWP will be reduced by 27% over the CSR period. There will also be significant changes to the way benefits processing will be done as a result of the introduction of Universal Credit. The final details of this scheme are still under consultation and DWP is running few pilots before the final roll out plan is decided. There are other issues with regard to staff and TUPE arrangements which requires further discussions and clarifications with DWP. Any changes may have an impact on the Financial Strategy, Council Finances, the workforce plan and the Asset Management Plan.

Grant Aid

13.19 The voluntary sector such as the Customer Advice Bureau (CAB) relies heavily on the Council for grant funding. The current recession could lead to a greater demand for these services and could lead to this sector calling for increased Council assistance.

13.20 As part of the 2011/12 budget process the Council has allocated an additional £37k to (CAB) in order to assist with the additional demand on their services as a result of the economic downturn, which has resulted in an increase in unemployment. This has remained unchanged into 2014/15.

Non pay related Costs

13.21 Non-pay related costs might also be higher than the rate of inflation e.g., contractual obligations and greater demand in services etc. It is also possible that there will be a reduction in the standard of goods and services provided by the Council’s suppliers, as they will be looking into ways of reducing costs. This will have to be monitored by the Council.

Business Rates Risks / Rewards

13.22 Under the new Business Rates regime, the Council will have the opportunity to retain a proportion of any new business rates it generates above the baseline set by Government, however, there is a risk to the Council if business rates collected fell below the baseline (i.e. if businesses were to close) the Council would lose that money, up to a limit before it hits safety net.

14 Risk Management

Introduction

14.1 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.

Responsibility

14.2 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.

14.3 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.

Strategy and Policy

14.4 The Council considers the assessment and minimisation of all types of risk to be vital and has a strategy in place to meet its requirements. The Risk Management Strategy was formally approved by the full Council in June 2008 and was updated in November 2012. 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

14.5 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”.

14.6 Known, and as far as possible, anticipated risks have been taken into account in all financial reports. However, Members will appreciate that the world economy is experiencing unprecedented changes, which no local authority is insulated from.

14.7 As far as can be apprehended in these circumstances, and in the judgement of the Chief Financial Officer, the budget is realistic and the reserves are adequate.

14.8 The Chief Finance Officer identified the risks inherent in the budget setting process as representing the greatest threats to the 2014/15 budget. This has been identified and any future risks and uncertainties have been factored in as part of the Financial Strategy based on information available at time of writing and to the best knowledge of officers. The mitigation plan is described in paragraph 14.9.

- 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.
- Unemployment may become an issue placing a greater strain on finances and staff resources.
- With the economic climate collection of rates may fall and the incidence of bad debts may increase.
- Repossessions may increase which will place a demand for housing and benefit support
- Continuous increases in the obligations placed upon the Council by Central Government, with little or no corresponding increase in funding.

Financial Strategy Risk and Mitigation Plan

14.9 The keys risks associated with the financial strategy are primarily based around the income the Council is expected to receive over the coming years. These are highlighted below with the control measures in place to reduce the likelihood of happening. The residual risk is regarded as medium risk and the Council will update the risk register in light of any new information.

Risk	**Control Measures in place**
Government reduces Revenue Support Grant further than anticipated	Keep abreast of Government policy and on the economy. To be prudent within the strategy.
Reduction in Business Rates if the local economy continues to fall	To encourage growth within the district. Additional money in place to assist businesses.

Reduction in New Homes Bonus from changes to policy or growth not materialising	To be prudent within the strategy and place less reliance on NHB to balance the budget. Keep abreast of Government policy.
Failure to achieve savings identified within the strategy	To start the process early to encourage discussions on how savings can be achieved.
Reduction in fees & charges from the recession	To be prudent with budget and to monitor on a monthly basis to be able to react to changes.

15 Council's Performance Assessment and Management

15.1 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 Value for Money in service provision.

15.2 The Performance Management Strategy sets out the Council's approach to managing performance. It should be read in conjunction with the Performance Management Operational Handbook, which sets out the details of the performance management processes at the Council.

15.3 Performance management is checking that the right things are being done and that things are being done right.

15.4 The Council's performance management model is:

PLAN, DO, REVIEW, REVISE. The performance management activities cascade up and down the organisation:

For further information about the Council's performance management strategy refer to the Council's website at www.hertsmere.gov.uk.

15.5 The Council monitors performance through a mixture of performance measures and outcomes on a quarterly basis, with performance reports considered by the Executive Performance Management Member Panel, Overview and Performance Scrutiny Committee and the Executive.

15.6 The Financial Strategy is closely linked with the Council's other strategies and plans such as: Community Strategy, Corporate Plan, Service Plan, Operational Plans, Asset Management Plan, Workforce Plans, Procurement Strategy, Risk Management Strategy, Value for Money Agenda, Reserves and Provisions Policy and Prudential Code Indicators in order to adopt a more coherent approach to financial and strategic planning.

15.7 As mentioned in the paragraph above, the Financial Strategy feeds into the budget strategy and budget setting process and is a living document. It will be tested regularly in light of any new information in order to ensure that it is up to date and continues to be a key document for financial planning.

16 Key partners and alliance

16.1 The Council is committed to seeking out innovative partnerships and funding opportunities in order to deliver the capital strategy and achieve value for money. The Council works in partnership with local community groups (i.e. County Council, Clinical Commissiong Group 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 Consultation Process

17.1 The consultation process is as follows:

Table 17.	
Meeting	**Date**
1st Executive	22/10/2014
2nd Executive	19/11/2014
Overview and Scrutiny	06/11/2014
Full Council	26/11/2014
Note: The reports and Appendices have also been discussed with Chief officers and Service Heads and their comments have been included and contribution much appreciated.	

18 Appendices

1. Action Plan
2. Revenue Financial Planning: 2015/16 to 2018/19 and risk sensitivity analysis

Hard copy available on request

3. Capital Strategy
4. Earmarked Reserves
5. Value for Money and Efficiency Strategy

Appendix 1

Action Plan

ACTION PLAN – TARGETS

The Financial Strategy sets the framework and parameters that need to be followed in the action plan and will form part of the budget setting process and service plans.

Action	By Whom	By When
To continue to monitor the impact following the recent recession and to take corrective measures whenever necessary.	Chief officers and Service Heads	Ongoing review. Action taken as and when required.
The long-term financial implications including whole life costing of any new initiatives should be considered prior to submission to Executive Committee for approval.	Chief officers and Service Heads	Ongoing
To achieve efficiency savings by improving service efficiency through new technology and new ways of working - customer centric services and partnership working. This will ensure that the financial strategy reflects service planning and the best value process.	Chief officers and Service Heads	Ongoing
Maximisation of return from the Council's Asset Portfolio and make use of freedom of trading powers and Localism Act.	Chief officers and Service Heads	Ongoing.
Monitor and maintain cost efficient and effective staffing structures.	Chief Officers, Head of Human Resources and Customer services Service Heads	Ongoing.
No further commitments are to be made against the Council's capital reserves except for essential structural repairs and maintenance, replacement of assets, any statutory obligations and invest and spend to save programmes and any other extraordinary items determined by the Executive as a result of the Corporate Plan.	Service Heads	Ongoing – To be reviewed six monthly.
To assess the adequacy of the council's capital and revenue reserves and to ensure that remedial action is put in place to deal with any significant fluctuations.	Director of Resources	Ongoing – To be reviewed annually and part of budget setting process.
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
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 charging strategies subject to meeting statutory constraints and as part of Participatory Budgeting process.	Officers	Ongoing – To be reviewed as part of budget setting process.
To promote economic development by working with the business communities with a view to maximise business rates whereby the Council retains 20% of any growth.	Chief officers and Service Heads	Ongoing – To be reviewed annually

Action	**By Whom**	**By When**
To encourage residential building programme with a view to maximise New Homes Bonus.	Chief officers and Service Heads	Ongoing – To be reviewed annually
Secure reduction in expenditure through competitive tendering, smarter procurement and via approved procurement policy.	Management Team	Ongoing
To continue investing any earmarked reserves for revenue generating projects with a view to optimise return from those investments.	Chief officers and Service Heads	Ongoing – To be reviewed annually
To maximise the number of social houses built by making use of S106, Housing Enabling Fund and in future Community Infrastructure Levy (CIL).	Chief officers and Service Heads	Ongoing – To be reviewed annually
The revised the Council's efficiency agenda using the CSR 2010 as amended and for the recent SR2015/16.The Council should achieve efficiency as mentioned in Appendix 2 in order to prepare a balanced, affordable and sustainable budget.	Chief officers and Service Heads	Ongoing – To be reviewed annually
To assess and manage the risk associated with the council's investments and emerging from the financial strategy.	Director of Resources and Head of Finance and Business Services	Ongoing – To be reviewed annually
To asses impact of any changes resulting from local government finance, LGPS, business rates retention, Council tax support scheme, Localism Act and Welfare Reforms and take appropriate actions accordingly	Chief officers and Service Heads	Ongoing – To be reviewed annually
To continue investigating the idea of an Enterprising Council through the setup of an innovation and trading panels to generate additional income i.e. invest to save programmes.	Members, Chief Officers and Service Heads	Ongoing

Appendix 2

Revenue Financial Planning

2014/15 – 2018/19 and

Scenario / Sensitivity Analysis.

Hertsmere Borough Council					
Revenue Financial Planning 2014/15 to 2018/19					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Budget	**Forecast**	**Forecast**	**Forecast**	**Forecast**
General Fund Budget Requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net Budget Brought Forward	12,295	12,295	11,784	11,599	11,507
Budgetary Increases / Savings:					
Employee & Related Expenditure Including Pension		39	394	128	128
Net Inflationary Impact, Growth and Contractual Obligations		(22)	141	158	171
Net (increase) / reduction in income		(107)	(132)	(140)	(147)
Funding requirement to be met by budget savings, efficiency gains, additional income streams and invest to save programmes		(421)	(588)	(238)	(119)
Net Council Budget Requirement	**12,295**	**11,784**	**11,599**	**11,507**	**11,540**
Net Council Budget Requirement After Reserves movements	**12,295**	**11,784**	**11,599**	**11,507**	**11,540**
Funding: See below					
Council tax freeze grant	303	289	195	196	196
Council Tax	6,711	6,751	6,922	7,095	7,271
Revenue Support Grant	2,111	1,247	935	608	395
Business Rates Retention	2,022	2,349	2,399	2,460	2,530
New Homes Bonus	1,148	1,148	1,148	1,148	1,148
	12,295	**11,784**	**11,599**	**11,507**	**11,540**
Year on Year (Decrease) / Increase on Net Budget Requirement excluding auto enrolment and NI employers contracted out contributions		(511)	(451)	(92)	33
Note: The assumptions made when compiling the above are set out in paragraph 13 of Appendix A.					
Assumptions:					
1% Pay award each year					
Freeze in Council tax for 2015/16 and then a 1.95% increase each year thereafter					
2% Fees and Charges Increase each year					

Appendix 2

Scenario / Sensitivity Analysis for 2015/16 to assess risk

Description		Most Likely (included in strategy)	Best Case	Worst Case	Difference between Scenario A and B
Pay related costs, including pension cost	£	(135)	-	(270)	(270)
	%	1.00%	0.00%	2.00%	
Income from Fees and Charges	£	151	189	75	(114)
	%	2.00%	2.50%	1.00%	
Council Tax (including council tax freeze grant)	£	100	171	100	(71)
	%	1.00%	1.95%	1.0%	
Government Grant (RSG)	£	(844)	(844)	(897)	(53)
	%	-40.00%	-40.00%	-42.50%	
Business Rates	£	327	354	202	(152)
	%	16.15%	17.50%	10.00%	
Return on Investments	£	-	33	-	(33)
	%	0.00%	0.25%	0.00%	
Future income streams : Enterprising Council; related companies; and partnership working	£	0	100	-	(100)
			Increase £100K	Decrease £100K	
Other costs / Contractual Obligations/Growth in services	£	(20)	47	-	(47)
Total reduction in budget required		**(421)**	**50**	**(790)**	**(840)**
Savings and Efficiency gains to be achieved	£	421	(50)	790	

(figures shown in brackets, represents increase in cost or reduction in income and vice versa)

Note: Scenario A (may be classed as the best case scenario) shows that the Council will be better off by £50k whereas in case of scenario B (may be classed as the worst case scenario) shows a deficit figure of £790K. However there are various permutations and combinations which may materialise in practice. The Council must monitor these variables and take corrective measures accordingly.

The main variances between scenario A and B are: no pay award included within the best and 2% within the worst; fees and charges increasing by 2.5% included within the best and only 1% within the worst; and income from related companies (i.e. EFS) includes increase of £100k, whilst the worst includes no increase. There is also a difference in Business Rates income of £152k which largely depends on growth commercial properties for business rates and hence largely depends on the state of the economy and total cost of appeals when settled.

Appendix 3

CAPITAL STRATEGY 2014/15

1. CAPITAL STRATEGY

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 corporate responsibility, Council objectives and spending priorities.

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.

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.
- Investment in the Council's assets such as Elstree Film Studio.

Capital Investment Background

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. The transfer generated nearly £50M of capital receipts which helped the Council to invest in Leisure facilities amounting to £28M, Community Assets £11.2M and Other land and buildings including Bushey Golf and Country Club and Elstree Film Studios amounting to £8.6M.

- Redemption of Outstanding Debt – The Council is a debt free (External debt) authority.

Capital Expenditure Programme

The Council has completed a significant 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.

Significant completions in since 2011/12 include:

- Replacement of Synthetic Pitches.
- The new finance, revenues and benefit system.
- Refurbishments of garages
- Disability Access Works
- Improvements to Civic office heating and ventilation and building of Police accommodation.
- Replacement of Civic Office windows.
- Investment in developing the Council's land such as Windmill lane
- Replacement of street scene vehicles.
- Developing Disaster recovery infrastructure.
- Multi-Function Devices rolled out across the Council
- Remediation of land at the rear of Elstree Film Studios

Capital Strategy Framework

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 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 2014-2017, these are shown in section 4 on pages 12 to 15 below.

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 & CIL, UCR, external contributions and revenue to capital)
    - Revenue 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.

The key components of the framework are outlined below:

- **Debt Structure:** The Council will maintain an external debt free status 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. 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 2014 amounted to £3.7m.

- **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 and Community Strategy 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 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 and CIL as means of alternate capital funding e.g. Community Theatre, Rose Garden, CCTV operations, Elstree Film Studio and Arsenal Football Club. The partnership network includes partners from public, private and voluntary sectors.

- **Procurement Strategy:** In October 2007, The Council approved the Corporate Procurement Strategy 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 procurement strategy in currently under review to take into account the challenges the Council has to face as a result of the latest austerity measures.

  The key role that Value for money now plays in the delivery of local services means that procurement is centre stage. As such, procurement is everyone's concern and recognising its 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 Transformational - Government agenda etc).

- **Additional Capital Resources (Inform Bidding):** Decisions to bid for additional resources (i.e. lottery bids, regeneration funding, Local Enterprise Partnership) 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

1 AIMS, KEY PRIORITIES AND TARGETS OF THE CAPITAL PROGRAMME

The projects in the capital expenditure programme 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: **SAFER COMMUNITIES.**

The Council is committed towards the continued work of providing safer communities for residents by:

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

Priorities and targets:

- To progress the redevelopment of the "Borehamwood Village Hall" in Shenley Road into a multi-purpose community facility including the museum.

- GOAL 2: **QUALITY ENVIRONMENTS**

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.

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.
- 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 cleaner and unpolluted environment. Roadside air quality monitoring equipment has been purchased and installed with results regularly published in the local press.

GOAL 3: HEALTHY, THRIVING COMUNITIES

The Council will carry on promoting healthy, thriving communities by:

- Improving the range of recreational facilities and activities.
- Promoting and creating opportunities for residents to engage in a healthy lifestyle.

Priorities and targets:

- Improve the range of recreational facilities and activities for our residents.

- Continued investment subject to business case and within the terms and conditions of the Leisure contract 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.

GOAL4: ECONOMIC WELLBEING

The Council will act as an enabler with a view to encourage economic wellbeing by:

- Sustaining existing economic prosperity in the Borough.
- Targeting initiatives to address social and economic inequalities in the Borough.
- To identify initiatives in order to promote economic development within the Borough specifically looking at the high street deprived areas and areas having potential for growth and job creation.

Priorities and targets:

- Continue to work closely with local business community, SME's and third sector in order to enhance economic prosperity within the borough. The Council has set up a working group made up of officers and members in order to take the project forward.

- Optimise return from Council's assets by seeking opportunities to re-utilise/dispose of underutilised sites or to develop land with a view to sell or use for housing needs within the Borough. Current schemes include Grove Road, Windmill Lane, Radlett Café and Garages and will generate revenue stream or capital receipts.

- Adoption of development plan documents as part of review of Hertsmere Local Plan.

- Identification and development of Greenways routes.

- Looking at schemes to regenerate the high streets and also targeting empty properties both residential and commercial with a view to bring them back into use.

GOAL 5: DECENT HOMES

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.

Priorities and targets:

- Promoting independent living and more disabled people living in suitable homes i.e. DFGs.
- Improve percentage of decent homes.
- Maximise the benefit from choice based lettings.
- Work closely with the housing association to develop affordable social housing.
- Reduce the number of empty dwellings.
- Promote domestic energy efficiency.
- To work in partnership with Local Authority Mortgage Scheme (LAMS) lenders in order to partly address the issue relating to the supply of affordable housing. The Council has already committed £1M towards this scheme and an additional £1M has been received from County.

2 CAPITAL INVESTMENT PRIORITY

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.

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.

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.

The Code prescribed the prudential indicators 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.

The Code also lays down clear governance procedures for setting and revising prudential indicators, with the Director of Resources 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.

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.

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 underutilised assets and reinvestment into alternative capital projects. E.g. Hartspring site sale to a Housing Association for affordable housing and Battlers Green.

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

3 CAPITAL BUDGET PROGRAMME ESTIMATES 2014/15 ONWARDS

	TOTAL SCHEMES 2013-14	NEW PROJECTS 2014-15	SCHEME ESTIMATE 2014-15	TOTAL EXPEND TO 31-Mar-14	ESTIMATED EXPENDITURE PROFILE 2014/15	2015/16	2016/17
	£	£	£	£	£	£	£
ASSET MANAGEMENT	10,043,820	-	**10,043,820**	5,085,610	3,963,210	995,000	-
ENGINEERING	254,770	-	**254,770**	245,563	9,207	-	-
PLANNING & BUILDING CONTROL	626,000	-	**626,000**	586,548	24,452	15,000	-
HOUSING SERVICES	397,224	377,717	**774,941**	-	774,941	-	-
PARTNERSHIPS & COMMUNITY ENGAGEMENT	666,897	-	**666,897**	610,493	56,404	-	-
STREET SCENE SERVICES	421,800	2,166,000	**2,587,800**	142,067	1,625,733	205,000	615,000
FINANCE & BUSINESS SERVICES	1,292,926	89,500	**1,382,426**	1,083,726	298,700	-	-
HR & CUSTOMER SERVICES	**215,000**	**14,864**	**229,864**	157,971	71,893	-	-
TOTAL GROSS ESTIMATE	**13,918,438**	**2,648,081**	**16,566,519**	**7,911,979**	**6,824,540**	**1,215,000**	**615,000**
LESS: FUNDING	**(5,849,856)**	**(1,707,717)**	**(7,557,573)**	**(1,864,399)**	**(5,632,674)**	**(50,000)**	**(50,000)**
TOTAL NET ESTIMATE	**8,068,582**	**940,364**	**9,008,946**	**6,047,580**	**1,191,866**	**1,165,000**	**565,000**

COST CENTRE	CAPITAL SCHEME DESCRIPTION	TOTAL SCHEMES TO 31-Mar-14	NEW SCHEMES 2014-15	SCHEMES ESTIMATE 2014/15	EXPEND TO 31-Mar-14	SCHEME BALANCE	ESTIMATED CAPITAL EXPENDITURE PROFILE EXPEND IN 2014/15	EXPEND IN 2015/16	EXPEND IN 2016/17
		£	£	£	£	£	£	£	£
HV106	Wyllyots Centre Improvements	1,000,000	-	**1,000,000**	5,000	995,000	-	995,000	-
HV108	Refurbishment of lock-up garages	532,000		**532,000**	464,398	67,602	67,602	-	-
HV129	Civic Offices Furniture	89,200	-	**89,200**	85,233	3,967	3,967	-	-
HV131	Disability Access Works	605,620	-	**605,620**	577,001	28,619	28,619	-	-
HV148	Shop Improvements	50,000		**50,000**	49,447	553	553	-	-
HV149	Civic Offices - Heating & Ventilation	260,000	-	**260,000**	203,580	56,420	56,420	-	-
HV152	Civic Offices Meeting / Training Room	20,000	-	**20,000**	15,926	4,074	4,074	-	-
HV159	Radlett Café	250,000	-	**250,000**	79,969	170,031	170,031	-	-
HV168	Replacement of Synthetic Sports Pitches	180,000	-	**180,000**	169,743	10,257	10,257	-	-
HV169	Management of Asbestos in HBC Buildings	75,000	-	**75,000**	13,400	61,600	61,600	-	-
HV170	Housing Site Feasibility Studies	70,000	-	**70,000**	-	70,000	70,000	-	-
HV171	Works to Council Owned Shops	161,000	-	**161,000**	82,020	78,980	78,980	-	-
HV172	Furzefield Centre Roof	85,000	-	**85,000**	500	84,500	84,500	-	-
HV178	Grove Road - Houses	560,000		**560,000**	20,888	539,112	539,112	-	-
HV180	Buckingham Road	971,000		**971,000**	9,293	961,708	961,708	-	-
HV181	Hackney Close	430,000		**430,000**	4,047	425,954	425,954	-	-
HV182	Civic Offices - Perimeter Fan Coils	205,000		**205,000**	-	205,000	205,000	-	-
HV194	EFS - Mound Clearance	4,500,000		**4,500,000**	3,305,167	1,194,833	1,194,833	-	-
Total Gross Estimate for Asset Management		**10,043,820**	**-**	**10,043,820**	**5,085,610**	**4,958,210**	**3,963,210**	**995,000**	**-**
HV168	Funding from Leisure Centres Building Reserve	(188,000)	-	**(188,000)**	(168,993)	(19,007)	(19,007)	-	-
HV172	Funding from Leisure Centres Building Reserve	(85,000)		**(85,000)**	-	(85,000)	(85,000)	-	-
HV178	Funding from Housing Enabling Fund	(29,207)		**(29,207)**	(20,888)	(8,319)	(8,319)	-	-
HV178	S 106	(530,793)		**(530,793)**	-	(530,793)	(530,793)	-	-
HV180	Funding from Housing Enabling Fund	(554,040)		**(554,040)**	-	(554,040)	(554,040)	-	-
HV194	EFS - Mound Clearance (LEP loan)	(2,000,000)		**(2,000,000)**	-	(2,000,000)	(2,000,000)	-	-
Total Net Estimate for Asset Management		**6,656,780**	**-**	**6,656,780**	**4,895,730**	**1,761,050**	**766,050**	**995,000**	**-**
Engineering Services									
HV135	Adoption of HBC owned highways	254,770	-	**254,770**	245,563	9,207	9,207	-	-
Total Net Estimate for Engineering Services		**254,770**	**-**	**254,770**	**245,563**	**9,207**	**9,207**	**-**	**-**
Planning & Building Control									
HV126	Potters Bar Town Centre Improvements	250,000	-	**250,000**	245,997	4,003	4,003	-	-
HV127	Watling Chase Community Forest	75,000	-	**75,000**	50,000	25,000	10,000	15,000	-
HV187	Planning Improvement Programme - Software	301,000	-	**301,000**	290,551	10,449	10,449	-	-
Total Gross Estimate for Planning & Building Control		**626,000**	**-**	**626,000**	**586,548**	**39,452**	**24,452**	**15,000**	**-**
HV187	Funding from New Homes Bonus	**(200,000)**	**-**	**(200,000)**	(185,724)	(14,276)	(14,276)	**-**	**-**
Total Net Estimate for Planning & Building Control		**426,000**	**-**	**426,000**	**400,824**	**25,176**	**10,176**	**15,000**	**-**

COST CENTRE	CAPITAL SCHEME DESCRIPTION	TOTAL SCHEMES TO 31-Mar-14	NEW SCHEMES 2014-15	SCHEMES ESTIMATE 2014/15	EXPEND TO 31-Mar-14	SCHEME BALANCE	ESTIMATED CAPITAL EXPENDITURE PROFILE EXPEND IN 2014/15	EXPEND IN 2015/16	EXPEND IN 2016/17
Housing Services									
HV162	Disabled Facilities Grant (DFG)	397,224	377,717	**774,941**	-	774,941	774,941	-	-
Total Gross Estimate for Housing Services		**397,224**	**377,717**	**774,941**	**-**	**774,941**	**774,941**	**-**	**-**
HV162	Investment Income Funding	-	(140,000)	**(140,000)**	-	(140,000)	(140,000)	-	-
HV162	Earmarked Reserves (prior year investment income)	(397,224)	-	**(397,224)**	-	(397,224)	(397,224)	-	-
HV162	Government Grant	-	(237,717)	**(237,717)**	-	(237,717)	(237,717)	-	-
Total Net Estimate for Housing Services		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Partnerships & Community Engagement									
HV133	Crime and Disorder major initiatives	354,032	-	**354,032**	348,532	5,500	5,500	-	-
HV174	PRG - Capital Expenditure	242,865	-	**242,865**	195,654	47,211	47,211	-	-
HV189	Elstree & Borehamwood Museum	70,000	-	**70,000**	66,307	3,693	3,693	-	-
Total Gross Estimate for Partnerships & Com. Engagement		**666,897**	**-**	**666,897**	**610,493**	**56,404**	**56,404**	**-**	**-**
HV174	Reserve Funding (PRG)	(242,865)	-	**(242,865)**	(195,654)	(47,211)	(47,211)	-	-
HV189	Elstree & Borehamwood Museum LABGI Funding	(70,000)	-	**(70,000)**	(66,307)	(3,693)	(3,693)	-	-
Total Net Estimate for Partnerships & Com. Engagement		**354,032**	**-**	**354,032**	**348,532**	**5,500**	**5,500**	**-**	**-**
Street Scene Services									
HV107	Enhance Sports Pavilions / Pitches	250,000	-	**250,000**	12,100	237,900	237,900	-	-
HV128	Restock Brick Planters	19,000	-	**19,000**	9,085	9,915	9,915	-	-
HV134	Pride in Hertsmere	93,000	-	**93,000**	89,835	3,165	3,165	-	-
HV137	Parking - Car Parks	-	1,036,000	**1,036,000**	-	1,036,000	216,000	205,000	615,000
HV164	Purchase of Street Scene Vehicles	-	1,130,000	**1,130,000**	-	1,130,000	1,130,000	-	-
HV186	Composers Park Improvement Scheme	59,800		**59,800**	31,047	28,753	28,753	-	-
Total Gross Estimate for Street Scene Services		**421,800**	**2,166,000**	**2,587,800**	**142,067**	**2,445,733**	**1,625,733**	**205,000**	**615,000**
HV137	Reserve Funding	-	(200,000)	**(200,000)**	-	(50,000)	(50,000)	(50,000)	(50,000)
HV164	Reserve Funding	-	(1,130,000)	**(1,130,000)**	-	(1,130,000)	(1,130,000)	-	-
HV186	Lottery Funding	(56,300)	-	**(56,300)**	-	(56,300)	(56,300)	-	-
HV186	Revenue Funding	(3,500)	-	**(3,500)**	-	(3,500)	(3,500)	-	-
Total Net Estimate for Street Scene Services		**362,000**	**836,000**	**1,198,000**	**142,067**	**1,205,933**	**385,933**	**155,000**	**565,000**

COST CENTRE	CAPITAL SCHEME DESCRIPTION	TOTAL SCHEMES TO 31-Mar-14	NEW SCHEMES 2014-15	SCHEMES ESTIMATE 2014/15	EXPEND TO 31-Mar-14	SCHEME BALANCE	ESTIMATED CAPITAL EXPENDITURE PROFILE EXPEND IN 2014/15	EXPEND IN 2015/16	EXPEND IN 2016/17
Finance and Business Services									
HV158	New Financial System (Finance/Rev Ben)	957,051	-	**957,051**	799,803	157,248	157,248	-	-
HV166	Government Secure Intranet	41,000	-	**41,000**	30,702	10,298	10,298	-	-
HV175	Desktop refresh	141,625	-	**141,625**	124,606	17,019	17,019	-	-
	Microphone	-	89,500	**89,500**	-	89,500	89,500		
HV188	Disaster Recovery	153,250	-	**153,250**	128,615	24,635	24,635	-	-
Total Gross Estimate for Finance & Business Services		**1,292,926**	**89,500**	**1,382,426**	**1,083,726**	**298,700**	**298,700**	**-**	**-**
HV158	Funding From FRB system reserve	(957,051)	-	**(957,051)**	(799,803)	(157,248)	(157,248)		
HV166	Funding from Reserves	(41,000)	-	**(41,000)**	(30,702)	(10,298)	(10,298)	-	-
HV175	Funding From Reserves	(141,625)	-	**(141,625)**	(124,606)	(17,019)	(17,019)	-	-
HV188	Funding From Infrastructure Reserve	(153,250)	-	**(153,250)**	(128,615)	(24,635)	(24,635)	-	-
Total Net Estimate for Finance & Business Services		**-**	**89,500**	**89,500**	**-**	**-**	**-**	**-**	**-**
Human Resources & Customer Services									
HV190	Franking Machines	-	14,864	**14,864**	14,864	-	-		
HV183	Multi-functional devices	215,000	-	**215,000**	143,107	71,893	71,893	-	-
TOTAL GROSS ESTIMATE FOR HR & CUSTOMER SERVICES		215,000	-	**229,864**	157,971	71,893	71,893	-	-
HV183	Funding From Revenue Savings	(175,000)	-	**(175,000)**	(118,107)	(56,893)	(56,893)	-	-
HV183	Funding from Reserves	(25,000)	-	**(25,000)**	(25,000)	-	-	-	-
Total Net Estimate for HR & Customer Services		**15,000**	**14,864**	**29,864**	**14,864**	**15,000**	**15,000**	**-**	**-**
	Total Net Estimate for the Authority	**8,068,582**	**940,364**	**9,008,946**	**6,047,580**	**3,021,866**	**1,191,866**	**1,165,000**	**565,000**
	Add Back Funding	5,849,856	1,707,717	**7,557,573**	1,864,399	5,632,674	5,632,674	50,000	50,000
	Total Gross Estimate for the Authority	**13,918,438**	**2,648,081**	**16,566,519**	**7,911,979**	**8,654,540**	**6,824,540**	**1,215,000**	**615,000**

Appendix 4

Earmarked Reserves 2014/15

The most commonly established earmarked reserves are listed below as at 2013/14.

Category of Earmarked Reserves	Reserves available after commitments	Rationale
Sums set aside and / or balances carried forward for major schemes, such as capital developments, assets purchases or to fund major reorganisation	£5,818,723	Where expenditure has been approved and planned as part of the Council's capital programme, it is prudent under commitment accounting to set aside funds and any underspend balances in order to meet future commitments.
Insurance Reserves	£160,407	Self-insurance whenever is more cost effective 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. This also covers any uninsured loss.
Reserves and balances of trading and business units	£230,779	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	£1,436184	Amounts set aside to meet future commitments and includes projects/initiatives work in progress.
Pension Fund reserves	£386,714	Reserves to meet any future shortfall in pension fund deficit and to meet any strain in pension fund and one off costs resulting from any possible staff restructuring.
Land drainage	£2,071,951	Reserves to fund land drainage and flood related costs. Capital programmes already approved by Council.
Leisure and Vehicle Sinking Fund	£5,148,694	Amounts set aside to meet any structural repairs and maintenance, replacement of certain leisure assets and vehicles (mainly refuse vehicles).
Local Authority Business Growth Incentive	£184,489	Amount set aside to encourage local economic prosperity and business growth
Total	**£15,437,941**	

Appendix 5

Value for Money and Efficiency Strategy

4 VALUE FOR MONEY AND EFFICIENCY STRATEGY

The Council has a statutory duty for delivering value for money with 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.

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.

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.

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.

The implementation of Mietool, a user friendly spreadsheet resource developed by RSE Consulting, will assist the council with monitoring VfM plans and achievements and further embed the VfM ethos within the council.

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

Policy and approaches to 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 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.

Responsibility

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.

Value for Money

A cash-releasing VfM gain is achieved when, for a given area of activity, an organisation is able to:

- Reduce inputs (money, people, assets, etc) for the same or improved outputs;
- Reduce unit costs to meet increased demand (e.g. an increase in planning / housing benefits applications managed with existing resources); or
- Optimise use of assets to improve outputs from them.

Not everything that leads to reduced costs is an eligible VfM gain:

- Reclassification: re-labelling of activity (e.g. reclassifying inspection as advice);
- Service Cuts: cuts that result in poorer services for the public;
- Cuts in payments to Voluntary & Community Sector: which lead to either cuts in service or service quality;
- Higher charges: either an increase in prices or introduction of new charges for services provided;
- Transfer of costs and subsidies within the public sector: if public services as a whole do not benefit, no efficiencies should be recorded.

In general, actions that lead to improved service quality for the same inputs are not cash-releasing and therefore not VfM gains. Actions that lead to a deterioration in the overall effectiveness of a service are cuts and not VfM gains.

The Council has embraced the agenda of delivering identifiable Value for Money 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.

Scrutiny & Good Practice for Reporting

To display a high degree of strategic awareness of the wider VfM agenda, and aim to be genuinely efficient by strategically improving work processes, Councils needs to have the following in place.

- **Leadership**: The VfM agenda needs to be lead by council members and managed directly by the Management Team, with gains identified as part of a strategic plan for the whole organisation.

  The cost and quality of each service area is often assessed on an annual basis.

  Responsibility for the VfM agenda at executive level is clearly defined, either through a VfM champion or a group of executive members, responsible for establishing direction and internal targets.

  Processes need to be in place that monitor service areas to ensure consistency in measuring gains, to challenge key assumptions, to follow up on whether the gains were realised and why (or why not).

- **Process:** The definition of a VfM gain is well understood and council members make decisions about how gains should be utilised. VfM gains are identified and calculated correctly, using baseline data of high quality and used consistently. Internal Audit carries out risk assessments of the VfM programme.

- **Buy-in:** stakeholders buy into the process with service areas closely involved in identifying, calculating and realising benefits.

- **Realisation:** benefits realisation is established as an integral part of the VfM agenda. The likelihood or risk of realising a gain is considered in calculations with realised benefits appropriately captured and measured.

The table below shows the actuals / targets that relate to the Council's Value for Money and Comprehensive Spending Review (CSR) gains since 2005/06:

Hertsmere Borough Council - Actual VfM gains 2005/06 to 2009/10 Actual CSR gains 2010/11 to 2013/14 Estimated CSR gains 2014/15		
	Year on Year Efficiency gains	Total Efficiency gains relative to 2004/05
VFM	£'000	£'000
2005/06 (A)	366	366
2006/07 (A)	312	678
2007/08 (A)	466	1,144
2008/09 (A)	640	1,784
2009/10 (A)	539	2,323
CSR		
2010/11 (A)	124	2,447
2011/12 (A)	1,802	4,249
2012/13 (A)	376	4,625
2013/14 (A)	187	4,812
2014/15 (E)	489	5,301

Approach to Delivering the Value for Money

Procurement:

- Competitive tendering.
- Updating 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.
- Considering partnership contracts as the first approach to all procurements. This could either be by utilising existing framework contracts (such as the Office of Government Commerce) or collaborating with other Hertfordshire / Regional public sector bodies).
- Introduction of the e-market place should result in economies of scale and reduction of process costs..
- 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:

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- Better use of our existing assets portfolio and developing Council's land to build residential dwellings with a view to sell with capital gain or to rent for the Borough housing needs.
- Promotion of home and flexible working will also reduce the need for office space.

The Council will have to put in place more robust and innovative ways of achieving further Value for Money gains. As the Council becomes more and more efficient, the challenge of achieving further Value for Money savings will welcome more difficult to realise.