Hertsmere Borough Council

Financial Strategy

2016/17 – 2019/20

Contents

1. Executive Summary

1.1 Hertsmere Borough Council is situated to the north of London in southwest Hertfordshire and has a population for 2014 of 102,400. 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 2.5) 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) covers a four year period, 2016/17 to 2019/20 and 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 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 Fund reserves as a last resort given the poor finance settlement and economic conditions. However it does still underpin the key principle that use of reserves in the long term is unsustainable. 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.

1.6 The Strategy has been updated to reflect ongoing reductions in Government funding which will continue to reduce until at least 2019/20 and will see the Revenue Support Grant (RSG) element of the Settlement Funding Assessment (SFA or Finance Settlement) completely phased out by then or earlier for some authorities.

1.7 The final 2016/17 Finance Settlement, announced on 8 February 2016 included provisional SFA figures for the four year period to 2019/20 which was welcome news and will provide a degree of certainty for Local Authorities over the medium term. In accepting this four year settlement, which it is indicated will be the minimum level of funding over this period, local authorities are required to produce an Efficiency Plan setting out what measures it intends to make over the medium term to manage its finances and deliver a balanced budget. The Efficiency Plan is set out in within this Financial Strategy at the end of appendix 5.

1.8 The Strategy also takes into account current economic conditions including the recent signs of recovery, and the anticipated growth prospects for 2016 and over the medium term.

1.9 In addition to the funding pressures that Hertsmere will face over the medium term there will also be spending pressures in terms of:

- increased demand on services such as homelessness, benefits and waste collection due to changes in welfare support as well as an increasing population
- legislative changes such as Pension Auto Enrolment, the Living Wage and the Minimum Wage
- regulatory changes such as Planning

- contractual obligations
- and general inflation

1.10 As a result of these combined pressures the Council, in line with other local authorities, is facing a significant challenge over the medium term and beyond. Overall this strategy sets out a funding gap of £953k over the next four years.

1.11 The medium term financial forecast estimates additional budget requirements to be funded through efficiency savings and additional income generation amount to £594k for 2017/18, £223k for 2018/19 and £136k for 2019/20 as detailed in paragraph 6.4 and appendix 2. This forecast makes some key assumptions, as detailed in paragraph 5.5, that include a 1% pay award each year, contract increases in line with inflation, pension auto enrolment and an annual council tax increase of £5 each year to 2019/20.

1.12 A balanced budget for 2016/17 was presented to and approved by Council on 24th February 2016. This budget includes the use of nearly £1.2m of New Homes Bonus (NHB) grant funding, around 50% of the total NHB grant of £2.4m for 2016/17. The remainder of this non ring-fenced grant will be held in a reserve for future one off investment such as invest to save projects that will generate additional income streams or drive efficiencies. This prudent approach to use of the NHB grant has been applied for several years now given the uncertainty of the long term sustainability of this funding stream and this prudent approach is continued in this updated strategy. The NHB is currently under review by the Government and the overall funding available is set to reduce by £800m by 2019/20, one of the main changes will be a reduction in the payment of the grant from six years to four years, further changes are also being consulted on. Hertsmere's share of NHB is projected to be just £1.4m in 2019/20 and will likely fall below this in future years.

1.13 Hertsmere prides itself on its commercial and innovative approach particularly in respect of income generation. The Council owned Elstree Studios already contributes almost £1.5 million per annum in rent and further investment planned at the studios as well as the planned development of Newberries car park will also result in additional commercial income. The Council have also recently set up a Property Company to further enhance this commercial approach.

1.14 Hertsmere also works in partnership where possible to achieve value for money and deliver services in the most efficient and effective way for example the Council shares its Civic Offices with the Police and NHS and has shared service arrangements for internal audit, fraud investigation and customer services among others.

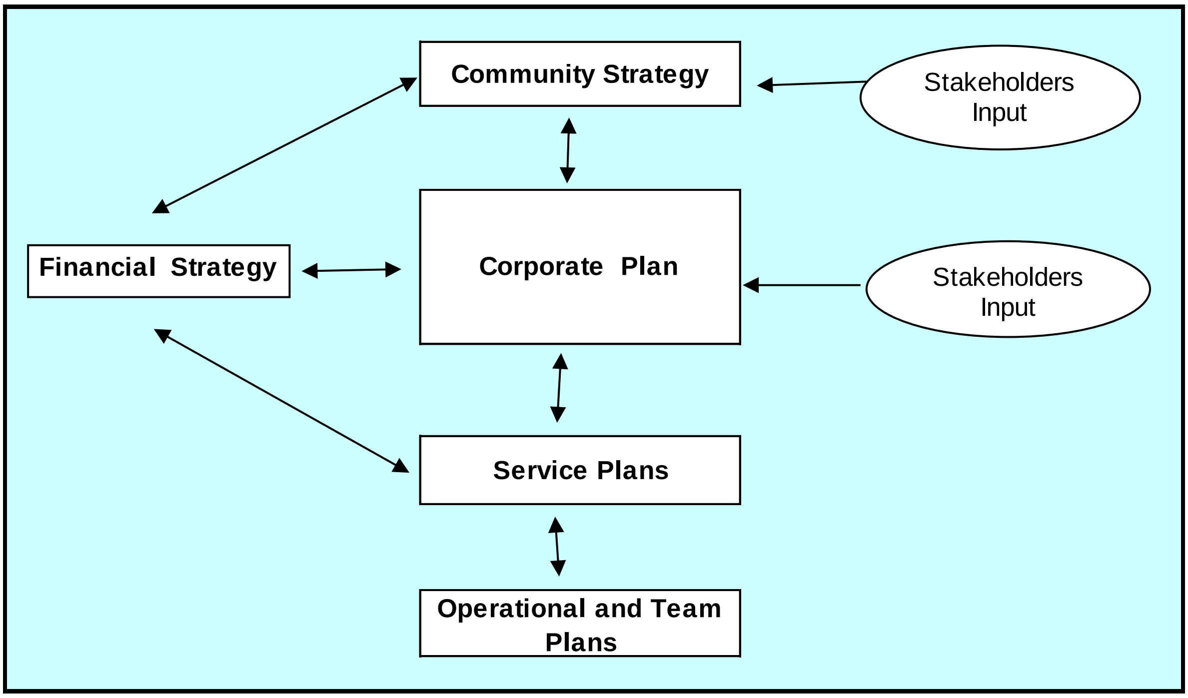
1.15 Hertsmere actively involves its residents in setting priorities for spending by carrying out 'participatory budgeting' exercises. These exercises have contributed to ongoing annual savings of over £1 million since 2011.

1.16 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. Hence this Strategy will be further revised for the financial years 2017/18 onwards taking into account influences such as the roll out of Universal Credit, changes to government funding including the phasing out of Revenue Support Grant, Business Rates retention and New Homes Bonus, demand on services and the potential to achieve efficiencies and future revenue income generating opportunities.

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 figure 1, below. The strategy also 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.

Figure 1 – Financial Strategy and the Council's Policy Framework



Aims and Objectives of the Financial Strategy

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

- To set out how the Council wants to structure and manage its finances (typically for 3-5 years) and to ensure that this fits with and supports the Council's objectives as per the Council's Corporate Plan. The strategy should provide a framework, overall direction and parameters for resourcing of the Council's service delivery, and ensure that the financial plans are achievable and sustainable.

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

- To ensure that the Council's finances are resilient in order to face future challenges such as ongoing austerity measures and the global economic impact.

- 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.

- 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

2.3 The Strategic Financial Objectives are:

- 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.

- 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.

- The Council has a duty to deliver services that provide best value to its residents, within the resources available to it. To deliver best value within a balanced budget the Council continuously reviews and challenges its services and the way they are provided.

- 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. Examples include the planned investment in Elstree Studios to develop a new stage and the development of Newberries Car park and the setting up of a Development Company that will look for further opportunities for commercial development to maximise income generation making the best use of the Council's assets and return on investment that will support the general fund towards long term self-sufficiency. In cases where there is a time lag in securing investment opportunities, interest earned on this sum will be utilised for Revenue Budget purposes.

- Where the Council will dispose of housing land at market value, 80% of the net capital receipts generated from such 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 housing build. All other (non-housing land) estimated usable capital receipts generated since 2010/11 are used to fund future capital expenditure. 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.

- 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.

- To provide loans to subsidiary companies at reasonable rates with a view to generate additional returns from cash balances which are surplus to the Council's immediate spending requirements. This has to take into account the capital financing requirement of the Council and Prudential Code regime.

- 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.

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

Achievements

2.4 Over the years the Council has taken various initiatives to maximise the Council's revenue resources in order to ensure continuous and sustainable improvement in services these include:

i) Transfer of its social housing stock, using the capital receipt to invest in refurbishment of existing infrastructure and in new infrastructure such as leisure centres avoiding costly borrowing.

ii) 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 resulted in additional income to the Council of £257,000 per year.

iii) A review of the Council's management structure which resulted in ongoing efficiencies of £1.9m per annum.

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

v) Partnerships and consortium procurement wherever possible.

vi) Working towards the achievement of Value for Money gains.

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

viii) Working in partnerships and shared service delivery in order to achieve continuous Value for Money gains and effective service delivery amounting to close to £0.5m reduction in costs per annum.

ix) Maintained adequate reserves – Earmarked and General Fund

x) Prepared and delivered a balanced budget with no significant variance at year end despite additional pressure in service delivery.

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

xii) Business rates maximisation through enforcement, challenge of exemptions, identifying new businesses and encouraging economic growth.

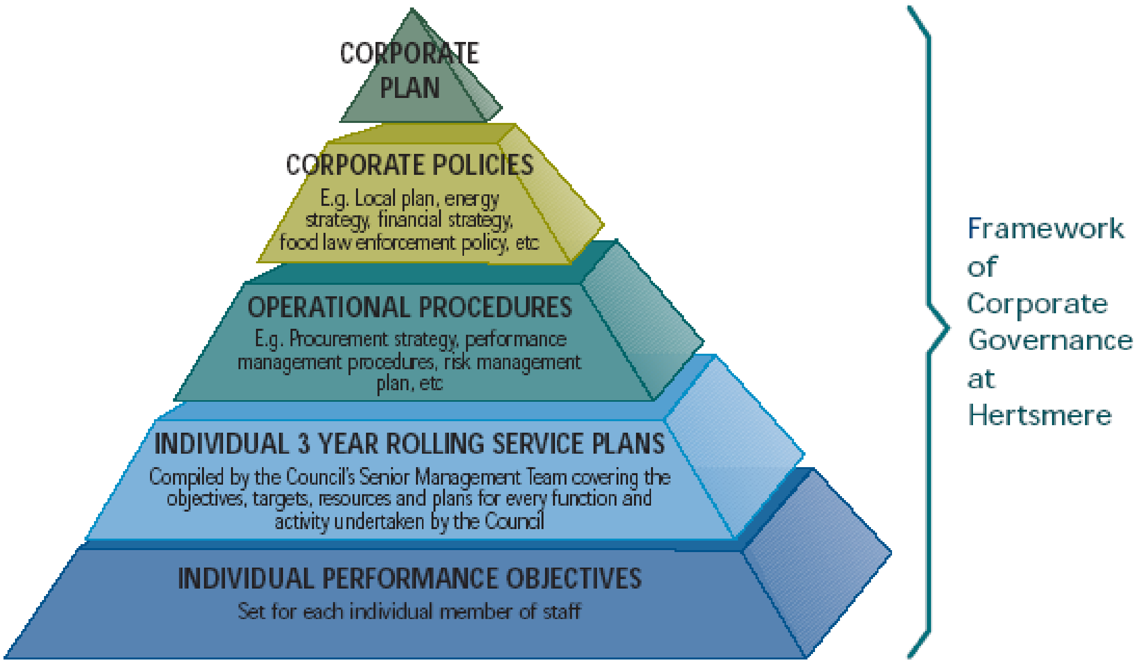
Corporate Plan Goals and Objectives

2.5 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

2.6 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 as depicted in Figure 2 below:

Figure 2 – Hertsmere's Corporate Governance Framework



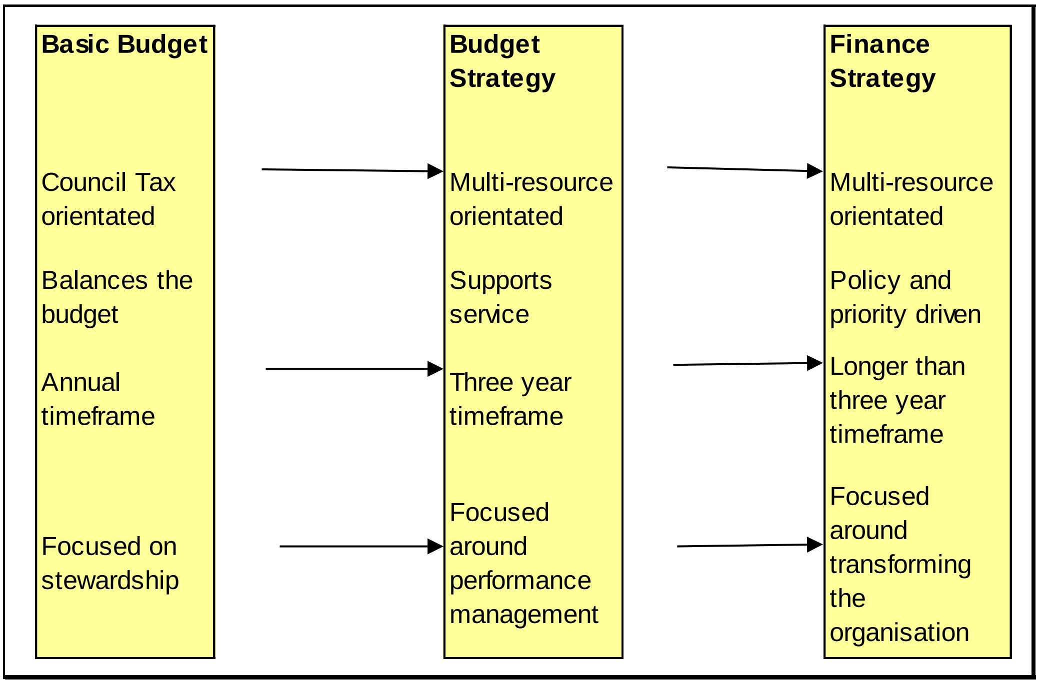
2.7 The Operations Review Committee receive quarterly performance reports to monitor the delivery of the corporate priorities.

2.8 The Corporate Plan 2009-2015 is currently being reviewed and updated.

Relationship between the Financial Strategy and Budget process.

2.9 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 in figure 3 below.

Figure 3 – Relationship between the Finance Strategy and Budget Process



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

- The Council's Community Strategies.
- The resident survey carried out in 2015.
- The outcome of external audit and internal audit recommendations and feedback.
- 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 service delivery culture.
- 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 2015.

2.11 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.

2.12 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 The following paragraphs summarise the recent economic analysis and views of Hertsmere's Treasury Advisors, Capita (as at February 2016).

3.2 UK GDP growth rates of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country, the 2014 growth rate was also the strongest UK rate since 2006. The overall growth rate for 2015 remained strong at 2.2%. The Bank of England's November Inflation Report included a forecast for growth of around 2.5% – 2.7% over the next three years, however for the recovery to become more balanced and sustainable in the longer term it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure.

3.3 As anticipated, February's 2016 Monetary Policy Committee (MPC) meeting elicited no change in policy. However, there was a small surprise with Ian McCafferty switching from a vote to raise official rates, to one of no change. In addition to the policy meeting, the Bank also released its latest Inflation Report, which included a reduction in the forecast for growth and near-term inflation, although the latter was still expected to push back to 2% over the medium term horizon.

3.4 There is still considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge Quantitative Easing (QE) is already in place. There are arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

3.5 The forecast for the first increase in Bank Rate in the UK has been pushed back progressively during 2015 from Q4 2015 to Q1 2017 with some predictions now expecting no move until 2018. When rates do start to increase it is anticipated to be at a much slower pace with rates set to be at much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

3.6 The Government's revised Budget in July 2015 eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20.

3.7 Looking forward economic forecasting remains difficult with so many external influences weighing on the UK. Only time will tell just how long this current period of strong economic growth will last.

Government Funding and Policy

Comprehensive Spending Review 2015 (CSR15)

3.8 The Comprehensive Spending Review 2015 (CSR15) announced as part of the Chancellor's Autumn Statement on 25 November 2015, as anticipated, confirmed the continued reduction in Central Government funding for Local Authorities. The most significant announcement for Local Authorities was the confirmation that the Revenue Support Grant (RSG) element of the Settlement Funding Assessment (SFA or Finance Settlement) will be completely phased out by 2019/20 and earlier for some Local Authorities. Other announcements affecting local government are set out below, there is still little clarity in respect of many of these announcements and more detail is expected over the coming months:

- Local Government retention of 100% of business rates by 2020. There is no detail on this as yet but there will continue to be an equalization process to ensure that individual LA's do not lose significant funding so tariffs and top-ups will continue in some form or another and there could also be a baseline reset. There is also set to be a Business Rates revaluation in 2016/17. The 100% retention of Business Rates will also come with additional responsibilities for Local Authorities such as Benefits Administration for non-working age, Attendance Allowance and Public Health, details of which are also yet to be confirmed.

- More flexibility for local authorities on the use of proceeds from the sale of assets, along with an extension of the "One Public Estate" programme.

- The New Homes Bonus funding pot is set to decrease by £800m subject to a consultation process which will likely see the NHB payments reduce from six years to four years.

- An increase of £1.5bn in the Better Care Fund available to County and Unitary authorities

- For Social Care authorities i.e. Hertfordshire County Council, there will be the ability to raise a "Social Care" precept, equal to 2% of total council tax.

- The Council Tax Freeze Grant is not set to continue in 2016/17 in fact Government spending forecasts assume Council Tax increases over the next four years as well as Council Tax base increase. This strategy therefore assumes Council Tax increase in line with Government assumptions. The final finance settlement revised the referendum limit for all district councils allowing them to raise council tax annually by up to £5 or 2% whichever is greater until 2019/20.

Universal Credit (UC)

3.9 Universal Credit is now being rolled out across the country, but initially only for new cases and only for single adults. UC was rolled out in Hertsmere in September 2015 and the Council have entered into an agreement with the Department for Work and Pensions (DWP) to provide support for those applying for Universal Credit by providing access to the online application process and support with personal budgeting advice. To date there has been no real impact on Hertsmere's benefit caseload. As UC continues to be rolled out over the next 2-3 years and the caseload is migrated to the DWP there will be both financial and staffing implications for Hertsmere which will be reported on as more detail is available.

Bridging the budgetary shortfall – ways to face the challenge

Participatory Budgeting

3.10 In order to achieve a more affordable and sustainable budget the Council has periodically engaged with the residents as part of the decision making process. The process used 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 relations 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, enhances the relationship between members and electorate and promotes 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.

3.11 Findings from these exercises show that:

- 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.

3.12 Adoption of the initiatives identified through this process has resulted in ongoing annual budget savings of over £1m.

Partnership Working / Shared Services

3.13 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 the 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.

3.14 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, shared anti-fraud service, IDS support, payroll services, disaster recovery, LLPG and shared posts: including procurement and risk management. The current initiatives amount to annual ongoing savings of close to £0.5m. New initiatives continue to be explored and the Council, with other districts within Hertfordshire is currently in the process of setting up a Building Control Company that will improve resilience and generate efficiencies through economies of scale and will open up potential for additional commercial work generating a new income stream for all authorities involved.

3.15 The Council is embracing the idea of an Enterprising Council, using the Localism Act 2011 which introduced 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 set up a reserve which may be used to fund these types of initiative.

Invest to save programmes

3.16 Hertsmere prides itself on its commercial and enterprising approach and is continuously looking for ways it can generate additional and new income streams to support its revenue budget and ultimately, against the current economic background of reduced government grants and difficult financial times, move the Council to a position of financial self-sustainability. Invest to save applies to both revenue and capital initiatives.

3.17 Revenue projects may involve a one off investment to change the way in which a service is provided in the future, making that service more efficient, for example a current project to back scan planning documents will lead to an electronic archive which can be accessed online and will also free up valuable office space that can then be let commercially generating a new income stream.

3.18 There are two Capital projects currently in the development stage that will both lead to new commercial income streams.

- The proposed development at Newberries car park to provide a new hotel and retail store will generate an ongoing income from commercial rent whilst retaining the existing car park.
- Further development at the Council owned Elstree Film Studios, which will see a new stage on the back lot, previously the mound, will generate additional commercial rent from new productions.
  .

3.19 The Council is also in the process of establishing a Development Company.

3.20 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.

Workforce Strategy

3.21 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.

Value for Money (VfM)

3.22 With ongoing reductions in funding as well as spending pressures such as increased demand for services i.e. Homelessness and inflation i.e. contracts, 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 maintain front line services. For further detailed information on the council's Value for Money Strategy refer to Appendix 5.

3.23 The Council is required to deliver a balanced budget and has managed to continue to achieve this through ongoing efficiencies, whilst accommodating budget pressures. A balanced budget for 2016/17 was presented to Council for approval on 24 February 2016. Further savings amounting to £953k will need to be achieved over the medium term.

3.24 Under the previous Value for Money regime 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.

3.25 Whilst requirements for reporting efficiency gains have since changed the Council, as good practice, have continued to identify savings based on robust processes and monitor the implementation of those savings. The latest four year finance settlement will requires Local Authorities to set an Efficiency Plan that informs the Authority's approach towards delivery of a balanced budget. The Efficiency Plan is set out in Appendix 5..

3.26 The VFM gains since 2005/06 are summarised in table 1 below and shows that the Council has achieved savings of £6.097m over 12 years.

Table 1 – Efficiency gains 2005/06 to 2016/17

Hertsmere Borough Council - Actual VfM gains 2005/06 to 2009/10 Actual CSR gains 2010/11 to 2015/16 Estimated CSR gains 2016/17 (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 (A)	489	5,301
2015/16 (A)	438	5,739
2016/17 (E)	358	6,097

Future transparency and inspection regime

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

3.28 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.

Investors in People (IIP)

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

3.30 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 was awarded the higher silver accreditation in 2014 which will last for a further three years.

4. About Hertsmere

Local Context

4.1 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.

4.2 The population is 102,400 (2014). The borough is still the centre of the Hertfordshire Jewish community, with around 67% of the County's Jewish population living in the borough, making up 14% of the population; larger than that of all the London Boroughs, except Barnet and Hackney. The borough also has a large Indian population.

4.3 Unemployment is 1.1%, a small reduction from 1.2% in August 2015; this contrasts against the national average of 1.6%. 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.

4.4 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 three bedroom semi-detached property is around £400,000, which is above the Hertfordshire County, regional and national averages. The only higher average is Greater London.

4.5 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.

4.6 The national context as mentioned could impact the Council as follows:

- A slower than expected economic 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 the Bank of England base rate would have an impact on the amount of interest income generated from Council investments.
- The ongoing reduction in Central Government grant will continue to impact on the Council's resources and its capacity to maintain service delivery. The Council has already carried out a significant staffing organisation review to achieve significant savings, which has impacted on the Council's workforce plan reducing staffing levels by around 15% from 2011/12.
- Changes which will take place as the Universal Credit system continues to be rolled out may have an impact on the number of homelessness cases and potentially increase rent arrears.
- The introduction of business rates retention has resulted in an element of risk transferring from central government to local authorities, especially during times of economic downturn. The move to 100% retention of business rates to Local Authorities will also come with additional responsibilities.
- The housing and stock market, changes in demographics and recent changes to the Local Government Pension Scheme (LGPS) could impact on employer contribution rates. The next triennial valuation is due to take place as at 31 March 2016.
- Pension auto enrolment regulations whereby all staff will automatically be enrolled in the pension scheme will increase costs to the Council. This will impact Hertsmere from

September 2017.

- Potential changes to the New Homes Bonus scheme announced in the Chancellor's Autumn Statement will see a reduction in the overall funding available. Proposed changes are being consulted on and could mean a reduction to payments from six years to four years from 2017/18 and potentially a change in the calculation method meaning if housing growth is not above the base then no New Homes Bonus will be due. Whilst the Council will receive New Homes Bonus of around £2.3m for 2016/17 it is being prudent and putting less reliance on NHB to balance the budget.

Services provided by the Council

4.7 The Council's various services range from waste services to housing as explained below. These services are vital to residents, the business community and the voluntary sector. For a full list of services provided by the Council refer to the Council's budget book which can be found on the Council's web site.

4.8 Waste & Street Cleansing:

- The household recycling service has continued to perform effectively and efficiently, with an anticipated recycling rate of 45% in 2015/16.
- However the uncertainties in the recycling market and the fluctuating prices for recyclables has meant that the cost of recycling collections is increasing.
- The Service will therefore be undertaking a review during 2016, in order to look to provide further capacity for recycling collections, enabling residents to assist in moving towards a target of 50%, whilst looking at ways to negate the cost.

4.9 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.

4.10 Cultural & Youth:

- The Council supports museums in Elstree and Borehamwood, 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.

4.11 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 benefits system including the benefits cap and the rolling out of Universal Credit over the next few years.

ORS Residents survey

4.12 Every three years the Council commissions an independent survey of its residents which covers the following main themes:

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

4.13 The most recent survey was carried out in January 2015 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.

4.14 The 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%).

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

4.16 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 the 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.

5. The Medium Term Financial Plan and Budget Strategy

Medium term financial plan

5.1 The Council are required to approve a balanced budget in advance of each financial year in that the planned spend on service provision is fully funded from the Council's own income generation and funding received from Government Grants and raised through local taxation namely the Council Tax and Business Rates (National Non Domestic Rates (NNDR)).

5.2 In addition to the annual budget setting the Council annually reviews its financial position over the medium term, 3-5 years, taking into consideration any likely additional demand on resources and potential changes in funding streams to identify the likely budget requirement and how any potential funding gap may by met through efficiencies, new ways of delivering services and additional income generation. Bridging the funding gap has been a familiar theme in recent years due to the struggling economy and continued reductions in Central Government funding as a result of the Government's austerity measures.

5.3 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.

5.4 A balanced budget for 2016/17 was presented to Council on 24 February 2016. The anticipated budget gap over the medium term to 2019/20 is set out in section 6 below and shows an overall gap of £953k.

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

- Government funding through the Settlement Funding Assessment (SFA) will continue to reduce over the period of this Financial Strategy with the Revenue Support Grant being completely phased out and actually showing a negative balance by 2019/20 due to the tariff/levy adjustment in that year. The four year settlement figures are set out later in paragraph 8.4 and show potentially the minimum likely settlement figures to 2019/20.

- Council Tax increases of £5 per annum over the period of this strategy. This is in line with the Governments assumptions on Council Tax increases in their Core Spending Power forecasts and follows the late change in legislation to enable all District Authorities to raise Council Tax by the greater of £5 or up to 2%, beyond which a local referendum would be required. Any changes in Council tax will require Full Council approval as part of the annual budget setting process.

- Growth in existing Fees and charges in line with RPI inflation. This is in cash terms i.e. both real growth and any inflationary increase.

- New homes bonus scheme: the Chancellor has confirmed that the New Homes Bonus (NHB) is set to continue indefinitely, however the overall funding pot will reduce by £800m which will instead be used to fund social care through the better care fund. Changes to the scheme are subject to consultation in early 2016 and DCLG's preferred options will likely see the scheme be reduced to four years from the current six years and may also see the introduction of a minimum annual growth level for new homes below which no NHB would be payable. 2016/17, is the sixth year of NHB so Hertsmere will receive an additional year's allocation taking its NHB to just over £2.3m. However with the proposed changes likely to be implemented from 2017/18, future allocations will be significantly reduced, with DCLG's forecast for Hertsmere being £1.4m by 2019/20, Hertsmere's own estimate is actually lower than this at £1.3m. It is therefore deemed prudent not to increase the amount of NHB relied on for the General Fund at this time and it is proposed to hold the amount of NHB at a similar level to 2015/16 (£1.148m) over the medium term. It is also worth noting that the NHB is a finite pot so allocations may well be divide up based on Housing Growth but must still be contained within the available funding. Land is also a finite resource and Hertsmere also has areas designated as green belt land which need to be protected.

- Employee & related expenditure, includes pay award of 1% each year, pensions increase from September 2017 of £50k (full year equivalent) for auto enrolment and changes to national insurance contribution of £30k 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. Other costs such as utilities and fuel costs are projected to increase by up to 5% per annum reflecting the uncertainty in these supplies. The Council will continue to keep tight control over costs and make better and effective use of its resources. Part of the process will be through the application of its Procurement and VfM Strategy.

- Reserves movements: reserves are held for the purpose of one off spending either to invest in innovative ideas that will drive future efficiency or lead to new income streams or in exceptional or unforeseen circumstances to fund one off costs or loss of income. Reserve funding should not be applied for general spending as it 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 the first quarter of 2017 albeit rates are not anticipated to rise that quickly and will unlikely again see the heights they have done in the past. Whilst an interest rate hike will have a positive impact on investment returns this will not be significant, particularly as Hertsmere's cash balances reduce over time as it invests in capital projects. Investment returns will now be built into the overall general fund, shown within the Corporate budgets.

- Capital: There were no new additions to the capital programme through the 2016/17 budget process, however two major schemes have been considered by the Executive and Council separate to this process, namely Newberries Car Park hotel and retail development and Elstree Film Studios back lot development. Both schemes are being developed, a budget of £400k has already been built into the capital programme for the first stage of Newberries to take this project to planning stage and further budget for both projects will be added to the Capital programme as and when approved through Council, both schemes will likely require PWLB borrowing.

- Universal Credit will continue to be rolled out over the next few years and will likely start to impact on Hertsmere's benefits service provision by 2017/18 as around 50% of the current caseload will shift over to DWP. The timescale for the complete transition to Universal Credit, which does not apply to pensioners (those over working age), could take up to 10 years, beyond the term of this strategy.

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 exercise 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 a 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 As anticipated the Spending Review 2015 has confirmed further government grant cuts on top of those already seen since 2010/11 which 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 ongoing income streams.
- 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 the 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 as equipment, vehicles etc.
- Contingencies to be set at an adequate and prudent level.

6. Revenue Account: Budget setting process

The Revenue Budget Setting Process

6.1 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.

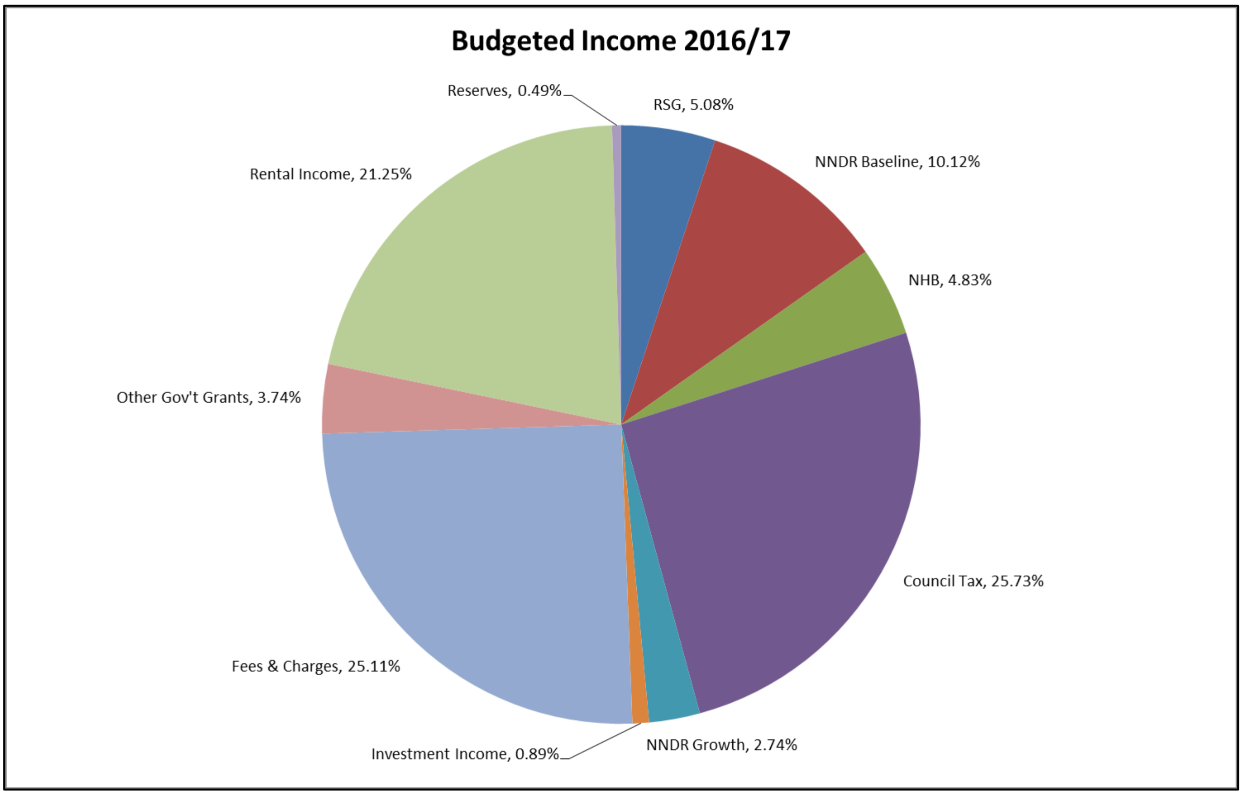
6.2 In order to gain a clear understanding of each of the factors listed above and prior to presenting a proposed budget to full Council for approval, consultation is undertaken formally with the following groups:

- 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.

Funding the Annual Revenue Budget

6.3 The gross expenditure of the Council's services is funded through various sources of income. In terms of its core funding the Council's net spend or Net Budget Requirement is funded from Central Government grants and local taxation. Central Government funding is received through the Settlement Funding Assessment (SFA of Finance Settlement), which includes the Revenue Support Grant (RSG) and the Business Rates (NNDR) Baseline Need, and through the New Homes Bonus. Local Taxation includes the Council Tax and Business Rates growth over and above the baseline less County Council's share and a 50% levy payment back to Government. Other income streams are included within the net budget requirement and offset some of the gross spend, these include fees and charges, rental income and other government grants. The various income sources are set out in figure 4 below:

Figure 4 – Budgeted Income 2016/17



High Level Budget Proposals 2016/17 to 2019/20

6.4 Table 2 below shows the main proposals included in the 2016/17 to 2019/20 budgets. It shows the level of projected efficiency savings required over the period in order to balance the budget while at the same time maintaining service delivery.

Table 2 – Key Budget Proposals

	(Pressure)/Efficiency				
	2015/16 Budget £'000	**2016/17 Budget £'000**	**2017/18 Forecast £'000**	**2018/19 Forecast £'000**	**2019/20 Forecast £'000**
Total service improvements & corporate policy implications including employee costs	(578)	(746)	(333)	(336)	(315)
Budget savings & efficiencies identified	537	358	0	0	0
Net Increase/(Reduction) in Income	440	343	124	267	331
Net Change in Budget requirement	**399**	**(45)**	**(209)**	**(69)**	**16**
Net Reduction in Government Funding	(763)	(582)	(588)	(357)	(355)
New Homes Bonus	0	25	0	0	0
Business Rate Growth	252	323	6	6	6
Increase in Council Tax	112	279	197	197	197
Net Change in Fundung	**(399)**	**45**	**(385)**	**(154)**	**(152)**
Efficiency Savings to be achieved in year	**0**	**0**	**(594)**	**(223)**	**(136)**

7. Revenue Account: Central Government Funding and Local Taxation

Government Funding

7.1 The overall Council's net expenditure (net budget requirement) is financed from government grants and local taxation. Government grants include general grant funding in the form of the Settlement Funding Assessment (SFA or finance settlement, see paragraph 7.2 to 7.5 below) and the New Homes Bonus (see paragraph 7.18 to 7.21 below), other specific government grants can also be received and where appropriate will be included within the relevant service's net budget. Local taxation includes Council Tax levies and retained business rates (over and above the baseline).

Settlement Funding Assessment (SFA or Finance Settlement)

7.2 The SFA is the general grant funding awarded to Local Authorities each year and is made up of two main elements: the Revenue Support Grant (RSG) and Business Rates (NNDR) baseline funding. The final SFA for 2016/17 was announced on 8 February 2016, later than anticipated, possible due to the level and robustness of responses to the consultation on the provisional settlement on 8 February 2016. The final settlement confirmed for Hertsmere the 2016/17 SFA and included headline figures for the four-year period to 2019/20. The final settlement also addressed some of the concerns raised through the consultation the most significant for Hertsmere being:

- All district councils will be allowed to raise Council Tax by no more than £5 a year (or 2% where this is greater), over the period of the four year settlement, without triggering a referendum. This option was previously only available to district councils in the bottom quartile for Council Tax with a Council Tax of £144.59 or lower. It is therefore recommended elsewhere on this agenda that Hertsmere raise its Council Tax for 2016/17 by £5 raising much needed additional levies of £76,335 per annum. This is a more sustainable approach to resourcing the Council's services for now and in the future instead of being reliant on reserves and the New Homes Bonus grant.
- Transitional funding of £150m has been made available in both 2016/17 and 2017/18 for those authorities most affected by funding reductions. Hertsmere's share of this funding is £39,716 in 2016/17 and £39,574 in 2017/18.
- To give Councils time to consider the four-year finance settlement the Chancellor has given councils until Friday 14 October to respond to the offer.

7.3 Whilst this four year settlement is welcome as it provides some certainty, it is subject to being accepted by local authorities and requires them to prepare an efficiency plan that will address the funding pressures over the medium term. This finance strategy sets out throughout, Hertsmere's overall financial position over the medium term, identifying the pressures and risks it faces and the potential budget gap, it also discusses how it intends to address these issues over the period of the Strategy. Appendix 5 specifically sets out Hertsmere's Value for Money and Efficiency Strategy, including the Efficiency Plan.

7.4 As shown in Table 3 below, the four-year settlement confirms the complete phasing out of RSG by 2019/20 and in fact shows a negative RSG in that year as a result of a tariff/top up adjustment which has been brought into the Governments calculations for Local Authority Core Spending Power. For 2016/17 Hertsmere's RSG has reduced by £736k, a year on year reduction of 39%:

Table 3 – Settlement Funding Assessment (SFA) 2016/17 to 2019/20

	Actual SFA 2015/16	Provisional SFA 2016/17	Provisional SFA 2017/18	Provisional SFA 2018/19	Provisional SFA 2019/20
	£	£	£	£	£
RSG (incl 2015/16 CTFG)	2,057,609*	1,253,479	613,119	221,017	0
NNDR Baseline	2,471,239*	2,491,833	2,540,843	2,615,800	2,699,405
Top-up/Tariff Adj.					(216,981)
Total	**4,528,848***	**3,745,312**	**3,153,962**	**2,836,817**	**2,482,424**

*N.B. 2015/16 figures have been grossed up, in the 2015/16 budget, these figures were shown net of the CTS funding which was included in the Council Tax Requirement, however it is part of the base grant allocation, so is included for a direct comparison.

7.5 Since the Comprehensive Spending Review 2010 (CSR10) general government funding has been reducing as part of the Government's austerity measures. For Hertsmere this has resulted in a total reduction in general government grant of around £4.3m or 49% with general Government funding now representing just 31% of Hertsmere's overall funding compared to 54% back in 2010/11 (£7.9m). This means that the cost of providing the Council's services is falling increasingly on council tax payers. This is evident with 53% of the Net Budget Requirement in 2016/17 to be funded from Council Tax compared to 45% in 2010/11.

Business Rates

7.6 From 2013/14 the Government changed the business rates element of the settlement moving from a redistribution of business rates (NNDR) from a central pool to a system that enabled Local Authorities to retain a proportion of the rates that they raise, thereby providing an incentive to authorities to promote business growth in their areas. Government set an initial "baseline" so that all councils initially received 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 was built into the system to protect authorities from these changes. At the time the Chancellor indicated that there would be an extensive review of the business rates system.

7.7 As shown in table 3 the 2016/17 SFA includes the Revenue Support Grant (RSG) element of £1.253m, which is a guaranteed fixed sum, and the Business Rates Retention element (or Baseline Need) of £2.492m. The baseline has initially been set at a sum determined by expected levels of collection of business rates but will ultimately be determined by the actual collection levels for the year. These will be increased by growth in business activity in the borough but decreased by contractions in activity for example through successful appeals to reduce rateable values or failing businesses leaving vacant premises.

7.8 The Council benefit by the retention of an element of any excess receipts over the baseline need caused by growth but will suffer loss through successful appeals or failed businesses. However, there is protection built into the system known as the "Safety Net" so should the rateable value fall substantially there is a minimum level of grant that will be received, for 2016/17 the "safety net" is £2.305m. To mitigate any potential loss and to strategically utilise any retained growth an earmarked reserve was established in 2013/14 into which any initial surpluses are paid, in order to equalise the effects of uncertainty and losses in future years for example due to successful appeals and lower collection rates.

7.9 The Chancellor recently announced that further changes to Business Rates will mean that by 2020 Local Government will be able to retain 100% of Business Rates. This will also mean additional responsibilities are passed over to Local Government. There are no details on how this is to be rolled out as yet, although there will need to be a system similar to the current top-up and tariff arrangement to ensure no major changes in funding for individual authorities, it may also mean the resetting of the baseline.

7.10 Further to the proposed changes to business rates retention, the next business rate revaluation is set to take place in 2017 which could impact on the rateable value due to Hertsmere.

Local Council Tax Support (LCTS) funding

7.11 The Government abolished the national council tax benefits subsidy (CTBS) in March 2013 and it was replaced by a localised Council Tax Support (LCTS) scheme. Funding for the local scheme was cash limited and represented a 10% reduction in the funding previously received through CTBS, from 2013/14. It also meant that the risk of increased claims passed to the Council. In recognition of this, funding of £763k was identified within Hertsmere's finance settlement for 2013/14 and is now included as part of the overall SFA.

7.12 The CTS funding forms part of the overall SFA and was initially split between RSG and NNDR baseline funding albeit it is no longer separately identified (refer to table 4, para 7.17 below). As such the element included within the RSG, £462k, will also be phased out as this grant disappears thereby increasing the burden on local tax payers.

Homelessness Prevention Funding

7.13 Identified within the SFA is the Homelessness Prevention funding which used to be a specific grant but has since been rolled into the overall SFA and is therefore no longer ring-fenced for Homelessness Prevention. Ultimately the element of this funding which forms part of RSG, £40k (refer to table 4, para 7.17 below) is set to be phased out as the RSG diminishes.

Council Tax Freeze Grant

7.14 Since 2010/11 the Council Tax Freeze Grant was paid to those authorities who chose not to increase Council Tax. In general, this additional funding has also been rolled into the SFA. In total Hertsmere received £363k of Council Tax Freeze Grant in 2015/16.

7.15 With the Freeze Grant being included within the overall SFA, albeit still separately identified, the element that is included in the RSG, £295k for 2015/16, will essentially be phased out with the RSG increasing the burden on local taxpayers.

7.16 The Council Tax Freeze Grant is not set to continue in 2016/17, in fact Council Tax increases (2% for lower tier authorities) have been factored into the Government's forecast for Local Government spending power.

RSG – Rolled-In Funding

7.17 With the RSG set to be phased out by 2019/20, funding streams that have previously been rolled into the RSG base grant as discussed above will effectively also be phased out meaning an additional burden to local taxpayers. For 2015/16 the element of these funding streams rolled into the base RSG funding amounts to around £796k as set out in table 4 below. The remaining elements of these funding streams that form part of the NNDR baseline funding are also set out below for information:

Table 4 – Funding Streams Rolled into base RSG 2015/16

Funding Stream	RSG Element £	NNDR Baseline Element £	Total £
Council Tax Support	461,706	307,161	768,867
Council Tax Freeze Grant	294,693	68,338	363,031
Homelessness funding	40,237	29,497	69,734
Total Rolled-In Funding	**796,636**	**404,996**	**1,201,632**

New Homes Bonus (NHB)

7.18 In addition to the SFA, Local Authorities also receive funding known as the New Homes Bonus (NHB). This funding is an incentive to encourage Local Authorities to build or support house building in their area and is determined by the annual change in the total number of properties on the council tax list in the previous October. This applies to both new housing and empty properties brought back in to use. The calculated figure is then shared 20% to the county council and 80% to the district, with the amount being payable for six years.

7.19 The NHB is not ring-fenced and can therefore be used to fund the revenue budget, however proposed changes to the NHB that will reduce the level of this funding mean it would not be prudent to rely entirely on this grant to balance the revenue budget in the medium to long term.

7.20 Consultation will take place on changes to the NHB, "sharpening the incentive" as the Chancellor stated, with the governments preferred options including reducing the NHB from six years to four and the introduction of a threshold below which no NHB would be payable. These changes will save around £800m that will be used to fund social care through the Better Care Fund. By 2019/20 the DCLG's core spending data show Hertsmere's NHB reducing to around £1.4m by 2019/20, similar to Hertsmere's own projections, however Hertsmere projection beyond this show a further reduction to around £1.3m.

Table 5 – New Homes Bonus grant 2011/12 to 2016/17 and forecast 2017/18 onwards

NHB PAYMENTS										
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
2011-12	305,115	305,115	305,115	305,115	305,115	305,115				
2012-13		266,699	266,699	266,699	266,699	266,699				
2013-14			368,316	368,316	368,316	368,316				
2014-15				380,798	380,798	380,798	380,798			
2015-16					606,488	606,488	606,488	606,488		
2016-17						427,843	427,843	427,843	427,843	
2017-18							330,232	330,232	330,232	330,232
2018-19								330,232	330,232	330,232
2019-20									330,232	330,232
2020-21										330,232
2021-22										
	305,115	**571,814**	**940,130**	**1,320,928**	**1,927,416**	**2,355,259**	**1,745,361**	**1,694,795**	**1,418,539**	**1,320,928**

7.21 Due to the uncertainty of this funding, this strategy therefore keeps NHB at a similar level to 2015/16 over the medium term as set out in table 6 below, with the remainder being held in an equalisation reserve:

Table 6 – New Homes Bonus utilisation

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amount Received	1,321	1,927				
Provisional Allocation			2,355			
Forecast				1,745	1,695	1,419
Budget Funding	**1,148**	**1,148**	**1,173**	**1,173**	**1,173**	**1,173**
To equalisation reserve*	173	779	1,182	572	522	246

Specific Grants - Disabled Facilities Grant

7.22 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 7 – Disabled Facilities Grant

	2012/13 £'000 Actual	**2013/14** £'000 Actual	**2014/15** £'000 Actual	**2015/16** £'000 Fstimate
Grant Receivable	**290**	**238**	**245**	**295**

7.23 The Council expect a similar amount for the years 2016/17 to 2019/20.

Local Taxation

Council Tax

7.24 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.

7.25 Council Tax remained the same between 2009/10 to 2015/16, the Council choosing to freeze the level of Council Tax during this period to support local residents during difficult economic times. As such from 2011/12 Hertsmere took advantage of the Council Tax Freeze grant, which with the exception of the grant paid in 2012/13, which was one-off, has been rolled into baseline funding, the SFA. Since 2011/12 Council Tax Freeze Grant amounting to £363k has been included within the Council's SFA.

7.26 Had the Council decided not to accept the freeze grant and had instead increased Council Tax from 2011/12 onwards by the capped level of 2%, this would have amounted to additional Council Tax income in 2015/16 of £636k.

7.27 Table 8 below reflects the council tax positions for 2015/16 and the forecast for the next four years, assuming an annual council tax increase of up to £5. An increase in the taxbase is also factored in for 2016/17 which amounts to an increase of £82k.

Table 8 – Council Tax Forecast

	2015/16 Budget	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
Average Band D Levy (Incr. @ £5 pa)	£157.29	£162.29	£167.29	£172.29	£177.29
Council Tax Requirement	£6.130m	£6.410m	£6.607m	£6.804m	£7.001m

7.28 The £5 increase in 2016/17 is the first increase in seven years. Over this period the Council has been successful in balancing it's budget in spite of ongoing funding reductions and without increasing Council Tax. It has also managed to maintain and improve its services through more efficient and effective service delivery and through its commercial approach which has generated additional income. Over this same period had the equivalent inflationary increase been applied to the Council Tax per band D property this would have meant an increase of around £25 which would be the equivalent of a Council Tax now of around £182 compared to the actual Council Tax, an average of £162 for 2016/17.

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

7.30 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 including Hertsmere Borough Council.

7.31 Table 9 below shows the distribution of Council Tax collected in Hertsmere.

Table 9 – Council Tax Distribution

	%
Hertfordshire County Council	77
Hertsmere Borough Council	11
Police and Crime Commissioner for Hertfordshire	10
Parish Council Precepts	2
Total	**100**

Retained Business Rates

7.32 Hertsmere collect Business Rates on behalf of the Government and pay the monies collected into a central pool from which funds are redistributed nationally to local government and to other areas of public spending. As described in paragraph 7.2 an element of Business Rates is paid back to Hertsmere as part of the SFA, this element is the Business Rates baseline funding.

7.33 Following changes to Business rates legislation in 2013/14 the Council benefit from the retention of an element of business rates growth over the baseline need however it will also suffer a loss through successful appeals or failed businesses. However there is protection built into the system known as the "Safety Net" so should the rateable value fall substantially there is a minimum level of grant that will be received, which for 2016/17 is £2.305m. To mitigate any potential loss and to strategically utilise any retained growth an earmarked reserve was established in 2013/14 into which any initial surpluses are paid, in order to equalise the effects of uncertainty and losses in future years for example due to successful appeals and lower collection rates.

7.34 To exploit the retention of business rates growth, in November 2014 the Executive agreed to the appointment of four temporary staff to specifically identify growth by challenging existing exemptions and identifying new rateable value. To date they have directly been successful in adding around £250k to the element of business rates retained by Hertsmere.

7.35 The Chancellor recently announced that further changes to Business Rates will mean that by 2020 Local Government will be able to retain 100% of Business Rates. This will also mean additional responsibilities are passed over to Local Government including housing benefits administration, Attendance Allowance and Public Health. There are no details on how this is to be rolled out as yet, although a system similar to the current top-up and tariff arrangement will continue to ensure no major changes in funding for individual authorities, it may also mean the resetting of the baseline.

7.36 Further to the proposed changes to business rates retention, the next business rate revaluation is set to take place in 2016/17 which could impact on the rateable value due to Hertsmere.

Business Rate Pooling

7.37 In 2015/16 the Council carefully reviewed a proposal to join a Business Rates pool with Hertfordshire County Council and other Hertfordshire districts. Such pooling arrangements can yield benefits over and above the entitlement of an individual authority to retain an element of growth in rates. However, at the time it was determined that the anticipated benefits from membership of the Pool in 2015/16 were not sufficient to justify the potential risk to the Council of any unprotected losses. One of the significant concerns at the time was the potential level of rating appeals which resulted in Hertsmere having a significant appeals provision. A recent change in legislation has now restricted any new appeals being backdated prior to April 2015 which has substantially reduced the risk of appeals and reduced Hertsmere's provision. In November 2015 the Executive were therefore requested to reconsider Hertsmere's position on Pooling and it was agreed that Hertsmere could join a Business Rates Pool in 2016/17 with Hertfordshire County Council and other Hertfordshire Districts.

7.38 Whilst guidance on the 2016/17 pooling arrangements have not yet been confirmed, Hertfordshire pooling application for 2016/17 was reflected in the provisional finance settlement, so it is assumed that the new make-up of the pool which includes Hertsmere has been accepted. However, as the future of pooling is uncertain with changes to the Business Rates retention on the horizon it is recommended that any potential return from the pool, initially estimated to be around £677k for Hertsmere for 2016/17 be treated as one off income and should not be used at this stage to fund ongoing general fund expenditure.

8. Revenue Account: Income Generation

Fees and Charges

8.1 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 2016/17 can be found on the Council's website.

8.2 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 set based on cost recovery in accordance with legislation such as Building Control and Land Charges.

8.3 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.

8.4 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.

8.5 Table 10 below shows the forecast for 2016/17 onwards.

Table 10 – Fees and Charges Forecast

	2016/17 Approved Budget Income & Forecast £	Additional Income £
Planning & Building Control	971,700	
Housing Services	816,000	
Environmental Health	316,500	
Street Scene Services	3,031,670	
Engineering Services	91,310	
Asset Management	4,460,570	
Finance & Business Services	328,400	
Legal & Democratic Services	188,500	
Human Resources & Customer Services	20,500	
Income for 2016/17	**10,225,150**	
Income for 2017/18	**10,389,333**	**164,183**
Income for 2018/19	**10,556,800**	**167,467**
Income for 2019/20	**10,727,616**	**170,816**

***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 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.

9.2 The Net Budget Requirement (NBR) is the Council's gross expenditure less income from fees and charges and other grants and contributions. The NBR is funded from Government grant (RSG, Business Rate Baseline grant and New Homes Bonus), Business Rates growth and Council Tax.

9.3 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.

9.4 Table 11 below sets out the net budget requirement after factoring in the service pressures and efficiency savings set out in paragraph 6.4.

Table 11 – Net Budget Requirement

	2015/16 Budget £m	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m
Net Budget Requirement	11.895	11.940	11.555	11.401	11.249

10. Revenue Account: Sensitivity Analysis

10.1 Various assumptions have been made in preparing this Financial Strategy and these assumptions carry an element of risk. It is therefore prudent to consider how the Financial Strategy might be impacted by potential changes in these assumptions, a scenario/sensitivity analysis has therefore been carried out covering the four year period of the strategy, this analysis is set out at appendix 2.

10.2 Also set out in appendix 2 is the "Revenue Financial Planning 2016/17 to 2019/20", this includes the most likely case in terms of sensitivity incorporating all the assumptions as set out in this strategy. This shows that Hertsmere are facing a potential funding gap over the period to 2019/20 of £953k.

10.3 The best case scenarios considers how this gap might change if these assumptions were all to improve for example cost pressure reduce or income and funding increases. The best case shows that the overall funding pressure could reduce by as much as £1.8million. On the other hand the worst case scenario shows that the funding gap could widen by as much as £2.3million if the assumptions were to all change in a negative way putting more pressure on service cost or lower levels of income.

10.4 These best and worst case scenarios are extremes and based on all variables moving together in the same direction which of course is highly unlikely but does show the potential impact of external factors on the Council's budget.

10.5 Whilst there is a greater degree of certainty in respect of Government funding with the four year settlement these figures are not set in stone and Government policy could still change. Of particular uncertainty still is the New Homes Bonus and Business Rates retention which could have a significant effect on the overall level of funding.

10.6 The Council must monitor these variables and act accordingly.

11. Balances and Reserves Policy

Introduction

11.1 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.

11.2 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.

11.3 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.

11.4 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.

Table 12 – Reserve Forecast

	31/03/15 Actual £m	31/03/16 Projected £m	31/03/17 Forecast £m	31/03/18 Forecast £m	31/03/19 Forecast £m	31/03/20 Forecast £m
Capital Reserve	£6.3	£5.8	£4.4	£4.4	£3.4	£3.4
General Fund Reserve (incl. CFAA*)	£7.9	£8.0	£8.1	£8.3	£8.4	£8.6
Earmarked Reserves	£18.5	£16.2	£15.7	£14.5	£13.3	£12.1

* Collection Fund Adjustment Account

11.5 Reserves are defined by CIPFA as follows:

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

11.6 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."

11.7 Revenue reserves are defined as follows:

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

11.8 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.

11.9 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.

Principles to Assess the Adequacy of Reserves

11.10 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 mitigate against over-committing financially, the Council is committed to producing a balanced budget.

Earmarked Reserves

11.11 Earmarked reserves are set aside for specific purposes, 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.

New Homes Bonus

11.12 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. Currently 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.

11.13 Prior to 2013/14 the NHB was only used for one off spending, then since 2013/14 it has formed part of the funding for the revenue general fund. In 2013/14 the full NHB was utilised for this purpose then from 2014/15 the amount was capped at £1.148m for two years with the remainder being placed into an equalisation account to be used if the Government decides to change the way it allocates NHB in the future.

11.14 In the Comprehensive Spending Review 2015, the Chancellor announced that NHB would remain indefinitely but the overall funding would be reduced by £800m which will instead fund social care through the better care fund. A consultation on changes to the scheme is currently underway and will likely see the scheme reduce to four years funding and may see the introduction of a minimum threshold for new homes below which no NHB would be payable.

11.15 Hertsmere were right to be cautious in the application of this grant which is now set to reduce. The DCLG's forecast for Hertsmere's NHB by 2019/20 is around £1.4m whereas Hertsmere's own forecast is slightly lower at £1.3m. The forecast usage for revenue funding from 2016/17 is to remain at a similar level to that of the past two years as set out in table 13 below which also shows the current and forecast reserves position for 2014/15 and projects this forward to 2018/19.

Table 13 – New Homes Bonus Equalisation Reserve

	2013/14 £'000 Actual	2014/15 £'000 Budget	2015/16 £'000 Forecast	2016/17 £'000 Forecast	2017/18 £'000 Forecast	2018/19 £'000 Forecast	2019/20 £'000 Forecast
Opening Balance	**0**	**0**	**173**	**952**	**2,134**	**2,706**	**3,228**
Receipts	940	1,321	1,927	2,355	1,745	1,695	1,419
Utilised	(940)	(1,148)	(1,148)	(1,173)	(1,173)	(1,173)	(1,173)
Closing Balance	**0**	**173**	**952**	**2,134**	**2,706**	**3,228**	**3,474**

11.16 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.

Community Infrastructure Levy (CIL) and S106 Reserves

11.17 Hertsmere formally adopted the Community Infrastructure Levey (CIL) In September 2014, implementing CIL charges from 1st December 2014. The CIL is collected locally and allows a levy to be raised from new developments to fund a wide range of infrastructure needs. With new planning permission now being subject to CIL, S106 will start to reduce and CIL will become the primarily mechanism for infrastructure funding 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. Due to CIL only being payable once a development starts, Hertsmere has only started to see CIL receipts in 2015/16. Table 14 shows the anticipated CIL reserves up to 2019/20:

Table 14 – CIL Reserve

	2015/16 £ Projected	2016/17 £ Forecast	2017/18 £ Forecast	2018/19 £ Forecast	2019/20 £ Forecast
Opening balance	**0**	**81,000**	**294,000**	**369,000**	**384,000**
CIL Receipts	100,000	700,000	900,000	980,000	980,000
Forecast Spend:					
Admin	5,000	35,000	45,000	49,000	49,000
Parish Councils	14,000	71,000	86,000	97,000	97,000
Local Schemes		200,000	250,000	270,000	270,000
Other		100,000	150,000	180,000	180,000
Total Spend	**19,000**	**406,000**	**531,000**	**596,000**	**596,000**
Closing Balance	**81,000**	**294,000**	**369,000**	**384,000**	**384,000**

11.18 Table 15 below shows the S106 reserves as at 2015/16 and the forecast over the medium term. S106 funding assists with some of the initial costs of infrastructure and other costs as agreed per S106 agreement. Since the introduction of CIL, new S106 agreements will only cover affordable housing and major developments that require specific infrastructure.

Table 15 – S106 Reserves

	2015/16 £'000 Projected	2016/17 £'000 Forecast	2017/18 £'000 Forecast	2018/19 £'000 Forecast	2019/20 £'000 Forecast
Opening Balance	4,145	7,815	8,315	7,315	6,815
Receipts	3,900	2,000	1,500	1,000	1,000
Utilised	(230)	(1,500)	(2,500)	(1,500)	(1,500)
Closing Balance	7,815	8,315	7,315	6,815	6,315

N.B. included within the S106 balances is £4.5m which is for provision of affordable housing

General Fund Reserves

11.19 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.

11.20 The s151 Officer in consultation with the Leader of the Council and the Finance and Property Portfolio Holder has since 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.

11.21 It has always been the aim of the Balances and Reserves Policy to increase, as a minimum, the level of the Council's General Fund reserves in line with the anticipated inflationary increase. 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.

12. Capital Expenditure and Resourcing

12.1 Capital Expenditure – Strategic Objectives

- To approve all Capital Expenditure in accordance with the Council's Capital Strategy.
- To work within the prudential indicators as set out by the capital regime known as the Prudential Code and reported in the Treasury Management Strategy 2016/17 to 2018/19.
- To achieve an optimal rate of return (with a minimum of 5% as benchmark in the 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. Newberries Car Park development.
- To evaluate thoroughly all capital commitments with respect to their impact on the revenue budget based on a whole life costing approach.
- To minimise all future commitments against the Council's Capital Reserves.

Capital Projects

Table 16 – Capital Programme 2016/17 to 2018/19

£	2016/17	2016/17	2017/18	2018/19	Total
Central Services	32,588	478,845	63,296	0	**574,729**
Cultural, Social & Related Services	38,186	432,131	0	995,000	**1,465,317**
Environmental Services	366,833	194,915	607,167	0	**1,168,915**
Highways, Roads & Transport Services	178,485	334,600	217,152	0	**730,237**
Housing Services	1,284,473	821,900	430,000	430,000	**2,966,373**
Planning & development Services	244,120	691,960	0	0	**936,080**
Capital estimates*	**2,144,685**	**2,954,351**	**1,317,615**	**1,425,000**	**7,841,651**
Capital Receipts	(286,067)	(1,307,109)	(4,607)	(995,000)	**(2,592,783)**
Housing Enabling Fund	(708,869)	(132,742)	0	0	**(841,611)**
Innovation & Investment Fund	0	(400,000)	0	0	**(400,000)**
S106	(280,961)	(25,000)	0	0	**(305,961)**
Reserves	(600,239)	(659,500)	(883,008)	0	**(2,142,747)**
RCCO (Revenue Contribution to Capital)	0	(140,000)	(140,000)	(140,000)	**(420,000)**
Grant	(268,549)	(290,000)	(290,000)	(290,000)	**(1,138,549)**
Capital resources utilised	**(2,144,685)**	**(2,954,351)**	**(1,317,615)**	**(1,425,000)**	**(7,841,651)**

**the detailed capital project estimates are shown in section 3*

New capital bids for 2016/17 and beyond

12.2 In addition to the schemes noted above (in table 16) the following major projects are expected to be added to the programme from 2016 onwards. Appendix 3 lists the individual schemes on a project by project basis.

- Elstree Film Studios - the development of a 21,000 sq. ft. stage plus 26,000 sq. ft. ancillary areas (C/15/18 - agreed by Council on 16 September 2015 – subject to setting out detailed plans for financing, procurement and project management)

- Newberries Car Park – the design and development of a 11,000 sq. ft. Retail/Food store and 80 room hotel. (EX/15/50 – on 14 December 2016 Executive recommended to Council approval to progress the design and development to planning stage).

12.3 Due to the financial magnitude and complexity of these projects, as they are progressed the capital resource requirements will be established and factored in to the capital programme.

Capital Resourcing

Useable Capital Receipts

12.4 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 already in place for leisure and vehicle replacement.

12.5 One of the main sources of funding available to support the capital programme has been traditionally capital receipts from the disposal of the Council's assets such as right to buy disposals.

12.6 The strategy requires the Council to invest 80% of the net capital receipts generated into affordable housing, 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 the usable capital receipts reserve and is used to fund other capital projects.

12.7 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.

12.8 Over the years there has been a steep decline in proceeds received 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 has diminished over the years. As a result the amount of future capital receipts is unlikely to be sufficient to fund any significant future capital programmes.

12.9 As at March 16 there was a balance of £6.284m held in the capital receipts reserve with c£3.4m committed to funding capital projects in the existing programme.

Table 17 – Usable Capital Receipts forecast

£m	2015/16 Actual	2016/17 projected	2017/18 projected	2018/19 projected	2019/20 projected
Opening Balance	**6.3**	**5.8**	**4.4**	**4.4**	**3.4**
Committed	-1.0	-1.4	0.0	-1.0	0.0
Disposals	0.5	0.0	0.0	0.0	0.0
Closing Balance	**5.8**	**4.4**	**4.4**	**3.4**	**3.4**

12.10 As shown in the table 17 above, £3.4m headroom is estimated as at 2019/20 to fund 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.

Earmarked Reserves/Sinking Fund

12.11 The Council as part of the budget strategy and budget setting process has adopted a policy to set aside regular amounts to pay for the replacement and upkeep of key strategic assets. Table 18 below shows the current position.

Table 18 – Vehicles & Leisure equipment sinking fund

£m	2015/16	2016/17	2017/18	2018/19	2019/20
Opening Balance	**6.9**	**3.1**	**3.0**	**2.9**	**2.8**
Transfers in	0.2	0.2	0.2	0.2	0.2
Transfers out	-4.0	-0.3	-0.3	-0.3	-0.3
Closing Balance	**3.1**	**3.0**	**2.9**	**2.8**	**2.7**

Table 18 includes funds earmarked for the replacement of waste vehicles, which is outside of the capital budget.

Capital budget: Management and Monitoring Process

12.12 The progress of Council funded projects is monitored both from a financial perspective (through monthly financial monitoring) and through regular progress reports submitted to committees on all significant schemes including appropriate partners or stakeholders.

12.13 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.

12.14 The Council has an Asset Management Panel (AMP) 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 decisions to invest, capital bids and sale of properties are considered by the panel which meets on a regular basis. The panel is comprised of elected representatives including executive members and the Finance and Property Portfolio holder is Chairperson of the Panel meetings.

12.15 The investment appraisal process includes an evaluation and approval process from the initial project bid right through to a final 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.

12.16 Procedures have been established to monitor and report significant deviations to plan, including forward-looking prudential indicators covering the capital investment plans as stipulated by The Prudential Code for capital finance.

12.17 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 the specified objectives.

Capital Strategy and Asset Management Planning

12.18 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.

Securing external funding

12.19 The Council will be undertaking significant capital investment in the near future (i.e. Newberries Car Park and Elstree Film Studios), which will likely require some borrowing thus increasing the Council's Capital Financing Requirement (CFR).

12.20 The Council has therefore set aside prudent sums from revenue and reserves to fund an on-going Minimum Revenue Provision, in accordance with the Prudential Code. This approach will allow for the write down of debt over a period commensurate with the life of the newly created asset.

12.21 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 certain milestones are achieved, as noted above it is possible that further borrowing will be necessary.

13. Influences, Pressures and Assumptions

Economic Climate

13.1 The Bank of England November Inflation Report included a forecast for UK growth over the three years of 2015, 2016 and 2017 to be around 2.7%, 2.5% and 2.6% respectively, although statistics since then show a lower outturn for 2015 of 2.2%.

13.2 Despite recent improvements in the UK economy the Government austerity measures are set to continue until at least 2019/20 in order to eliminate the deficit and funding cuts will continue to have an adverse effect on the Council's finances. However despite these reductions the Council has managed to maintain front line services and will continue to look at options for more efficient service delivery and additional income to continue their provision.

Inflation

13.3 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

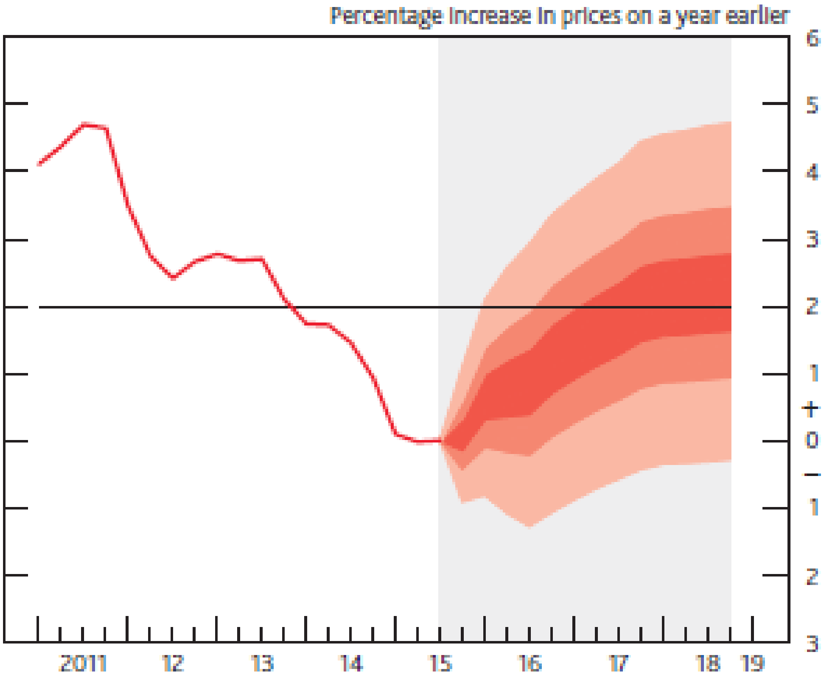
13.4 The current RPI as of January 2016 is 1.3%, with CPI at 0.3%. The November Bank of England Inflation Report forecast was subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn. However oil prices do fluctuate and can be difficult to predict so there remains a deal of uncertainty around fuel and utility costs.

13.5 Table 19 and figure 5 below shows the latest forecasts for CPI. The contractual expenditure included within the strategy (e.g. vehicle maintenance, software licences and ground maintenance) are based on inflation forecasts.

Table 19 – CPI inflation forecast

Year	**2016**	**2017**	**2018**
CPI	0.8	1.9	2.2

Figure 5 – CPI Fan chart



Source: Bank of England February 2016 Inflation report

UK Base Rate

13.6 The current base rate of 0.5% is at an historically low level and has been over the last 7 years. Based on indications from the Bank of England the market expectation is for the first base rate increase to be in Q1 2017. Further rate rises are expected to be gradual meaning that investment rates are likely to remain relatively low.

Table 20 – UK Base Rate Forecast

Decision	March-16	Sep-16	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19
Base	**0.50**	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**1.75**
Change	**-**	**0**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**

Source: CAPITA Asset Management March 2016

Investments

13.7 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 in the 1st quarter of 2017, it is unlikely to see a return to the previous norm of 5% prior to 2008.

13.8 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.

Pay award and Pay related costs

13.9 A pay award of 1% has been agreed for 2016/17 and pay awards of 1% each year going forward have been included in this strategy. From 2016/17 additional costs of £50k (full year equivalent) for pension auto enrolment and £30k for changes to the national insurance contribution rates have been factored into pay related costs.

13.10 There is a risk in respect of the Minimum Wage and Living Wage. As these rates increase, whilst they will not necessarily impact directly on Hertsmere's pay scales there will likely be an impact for some of our contractors, there is also the risk of a domino effect as pay at the lower end of the spectrum increases nationally which may follow up the pay scales to retain pay differential in the job market.

Pension Contributions

13.11 The employer's pension contribution rate is currently 28.5% which includes an element for the past service deficit, 12.4% and 16.1% in respect of future service costs. These rates will be reviewed as part of the next actuarial review which is due as at 31 March 2016. Actuarial reviews are carried out every three years and assess the liabilities and assets in the fund and calculate the current deficit. Following this review future contribution rates will be set in order to bring the fund back into balance within an agreed repayment period, this was set at 20 years in the last actuarial review in 2014.

13.12 Changes to the Local Government Pension Scheme from April 2014 were factored into the current employers contribution rate during the last actuarial review and will be reassessed as part of the next review.

13.13 Pension auto enrolment has been factored into the budget from 2017/18. This is 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. On the third anniversary of opting out, the employee will automatically be re-enrolled and the onus is one again on the employee to opt out again. Auto enrollment is effective for Hertsmere from September 2017 and the annual cost is estimated to be £50k.

13.14 The performance of the stock market has a significant impact on the return on the pension fund assets and will impact on the pension deficit and assumptions about future pay, interest rates, pension fund membership will all impact on the future service contribution rates. The Council has always endeavoured to follow the actuary's advice in deciding the level of contribution to the pension fund and as part of prudent financial management will continue to do so.

Income from fees and Charges

13.15 It has been assumed that fees and charges will increase by 2% per annum. This includes both real terms and increases due to inflation. It is worth noting that some fees are set by statute 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

13.16 Council tax has been assumed to increase by £5 per annum from 2016/17 onwards. A possible reduction in the collection rate would mean that less income would be received.

Housing and Housing / Council Tax Benefits

13.17 The demand for benefits is influenced by various economic factors such as economic growth or decline, changes in inflation affecting household spending power and changes in the job market and levels of unemployment. Currently the economy is growing but there is still significant uncertainty and a risk of a further recession. The current roll out of Universal Credit will also impact on demand for benefits, ultimately the Council's caseload will reduce by around 50% and as this happens staff arrangements will need to be reviewed and arrangements will require 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

13.18 Voluntary sector organisations such as the Citizen's Advice Bureau (CAB) rely heavily on the Council for grant funding and despite the recent economic conditions and ongoing reduction in this. As part of the 2011/12 budget process the Council was also able to allocate an additional £37k to the CAB in order to assist with the additional demand on their services as a result of the economic downturn. Whilst this funding has been built into the 2016/17 budget, given the level of ongoing funding reductions the Council will need to review its position on voluntary sector grants from 2017/18.

Non pay related Costs

13.19 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

13.20 Under the current Business Rates regime, the Council are able 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 fall below the baseline (i.e. if businesses were to close) the Council will lose that money, up to a limit before it hits safety net.

13.21 Changes to the current scheme were announced as part of the Autumn Statement 2015 that will see 100% retention of Business Rates by Local Government. Whilst this will mean more funding from Business Rates within Local Government this will come with additional responsibilities including Housing Benefit Administration and Public Health. The scheme will also need to address current levels of funding and Tariffs and Top ups will need to continue. More detail on the changes are expected during 2016/17.

Service Demand

13.22 Hertsmere's population has been increasing, by about 2,500, over the last two years putting increasing pressure on demand led services such as waste collection. There becomes a tipping point at which there will be a significant increase in costs, for example for an additional collection round.

13.23 Other demand led services such as homelessness, housing benefits and council tax benefits continue to be impacted by changes to the benefits system such as the ongoing roll out of Universal Credit. The cost of housing in Hertsmere, being so close to London is also a factor in these service areas.

Regulatory Changes

13.24 Potential changes to the Planning system that may enable developers to seek private planning advice and approval will not only impact on or be contrary to Hertsmere's planning policies it would also impact on Hertsmere's income stream disproportionately to its costs as there will still be a legislative requirement to provide the planning service. Other legislative changes such as VAT on land charges may also impact on demand for the service where this increases fees in this competitive market.

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 state 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 state 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. A revised Risk Management Strategy was formally approved by the full Council on 24 April 2013. The Strategy is reviewed and, if necessary, revised annually. 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 comprehended 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 SFA funding 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 falls or appeal levels change	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 due to changes in demand, competition etc.	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.

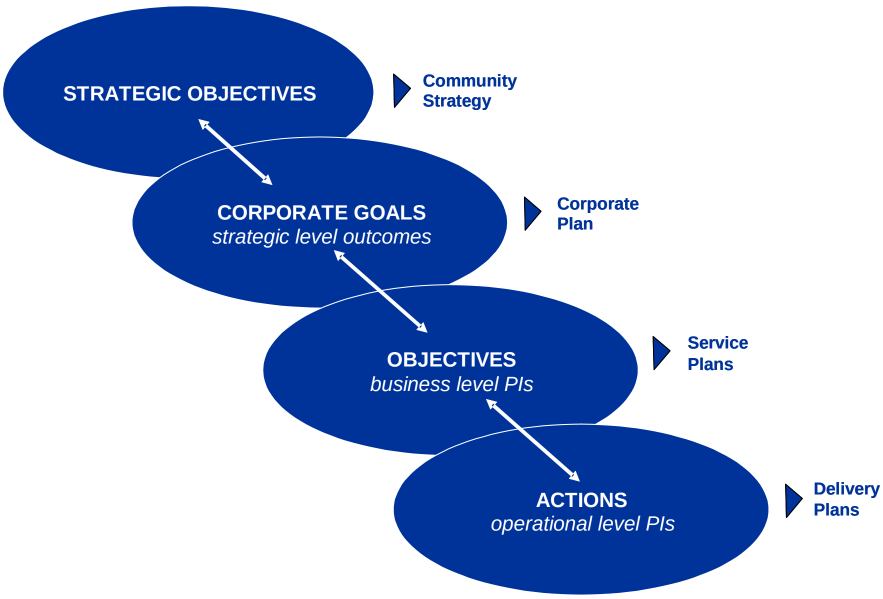
15.2 The Performance Management Strategy sets out the Council's approach to managing performance. It should be read in conjunction with the Performance Management Operational Handbook, which sets out the details of the performance management processes at the Council.

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 shown in figure 6 below:

Figure 6 – Hertsmere's Performance Management Model

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 financial strategy and achieve value for money. The Council works in partnership with local community groups (i.e. County Council, Clinical Commissioning 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 timetable for consultation through to adoption of the Financial Strategy is as follows:

Meeting		Date
Policy Review Committee	To receive draft Financial Strategy for consideration and comment back to Executive	23 March 2016
Executive	To receive draft Financial Strategy for consideration and to consider comments from the Policy Committee	20 April 2016
Executive	To receive an updated version of the draft Financial Strategy for consideration and recommendation to Full Council for adoption	22 June 2016
Full Council	To consider and adopt the Financial Strategy	6 July 2016
Note: The reports and Appendices have also been discussed with the Portfolio Holder for Finance and Property, Chief officers and Service Heads and their comments have been included and contribution much appreciated.		

18. Appendices

1. Action Plan
2. Revenue Financial Planning: 2016/17 to 2019/20 and risk sensitivity analysis
3. Capital Strategy
4. Earmarked Reserves
5. Value for Money and Efficiency Strategy incl. Efficiency Plan

Appendix 1

Action Plan

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.

Appendix 1 – Action Plan

Action	By Whom	By When
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
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 the 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

2016/17 – 2019/20

and

Scenario / Sensitivity Analysis.

Appendix 2 – Revenue Financial Planning 2016/17 to 2019/20

Hertsmere Borough Council					
Revenue Financial Planning 2015/16 to 2019/20					
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Budget	**Forecast**	**Forecast**	**Forecast**	**Forecast**
General Fund Budget Requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net Budget Brought Forward	11,895	11,895	11,940	11,555	11,401
Budgetary Increases / Savings:					
Employee & Related Expenditure Including Pension		335	284	286	264
Net Inflationary Impact, Growth and Contractual Obligations		53	49	50	51
Net (increase) / reduction in income		(343)	(164)	(167)	(171)
Additional income, EFS, Newberries		0	40	(100)	(160)
Required budget savings and efficiency gains		**0**	**(594)**	**(223)**	**(136)**
Net Budget Requirement	**11,895**	**11,940**	**11,555**	**11,401**	**11,249**
Funding:					
Government Grant:					
Revenue Support Grant	1,825	1,250	613	221	0
Council tax freeze grant	68	0	0	0	0
Transitional Funding	0	40	40	0	0
Business Rates Baseline Need	2,471	2,492	2,541	2,616	2,699
Top-up/Tariff Adjustment	0	0	0	0	(217)
New Homes Bonus	1,148	1,173	1,173	1,173	1,173
Local Taxation:					
Business Rate Growth	252	575	581	587	593
Council Tax	6,131	6,410	6,607	6,804	7,001
Total Funding	**11,895**	**11,940**	**11,555**	**11,401**	**11,249**
Year on Year Increase/(Decrease) on Net Budget Requirement		45	(385)	(154)	(152)
Note: The assumptions made when compiling the above are set out in paragraph 14 of Appendix A.					
Assumptions:					
1% Pay award each year					
£5 Council tax increase each year					
2% Fees and Charges Increase each year					

Appendix 2 – Revenue Financial Planning 2016/17 to 2019/20

SENSITIVITY ANALYSIS 2016/17 TO 2019/20 £'000	BEST CASE	PER STRATEGY	WORST CASE
Net Budget Requirement			
	0.5% pa	**1% pa**	**2% pa**
Employee Pay Award & Related Expenditure (Including Pension, Auto Enrolment, NI)	777	1,169	1,953
	0%	**1%**	**2%**
Net Inflationary Impact, Growth and Contractual Obligations	0	203	406
	5%	**2%**	**0%**
Net (increase) / reduction in income	(1,838)	(845)	(183)
	b/f 1year		**Delay 1yr**
Additional income, Elstree Film Studios, Newberries Car Park	(380)	(220)	(60)
Change in Net Budget Requirement	**(1,441)**	**307**	**2,116**
Funding			
Reduction in Revenue Support Grant	2,110	2,110	2,110
	3.0% pa	**2.3% pa**	**0.0% pa**
Increase in Business Rate Baseline Need	(297)	(228)	(21)
	2% pa	**1% pa**	**0% pa**
Business Rate Growth	(359)	(341)	(323)
	£5 pa	**£5 pa**	**2% pa**
Increase in Council Tax Requirement (from 2017/18, £5 already agreed 16/17)	(870)	(870)	(671)
New Homes Bonus	-	(25)	-
Change in Funding	**584**	**646**	**1,095**
Potential Budget Gap	**(857)**	**953**	**3,211**

Appendix 3

CAPITAL STRATEGY 2016/17

Appendix 3 – Capital Strategy

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 the requirements of the Capital Finance system and 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, the capital programme, capital strategy framework, key priorities and targets, management and monitoring framework and investment priorities.

Major developments impacting capital decisions:

- *introduction of CIPFA's Prudential Code as set out in The Local Government Act 2003.*
- *introduction of capital receipts flexibility to enable councils to use up funds from asset sales for transformation projects*
- *investment in the Council's assets such as Elstree Film Studio and Newberries Car Park*

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.*

- *looking ahead the council will be embarking on major capital investment programmes at Elstree Film*

Appendix 3 – Capital Strategy

Studios (the development of a 21,000 sq. ft. stage plus 26,000 sq. ft. ancillary areas) and Newberries Car Park (design and development of a 11,000 sq. ft. Retail/Food store and 80 room hotel)

THE CAPITAL 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 the residents of Hertsmere.

Significant recent completions 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*

THE 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 2016-2019 are shown below in section 3.

Objectives:

Appendix 3 – Capital Strategy

- *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, Usable Capital Receipts, 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 the Council's Financial Strategy.
- **Leisure Sinking Fund:** Over the years, the Council has been making provision towards the Leisure Sinking Fund (to undertake major works required to sustain the leisure estate). As the Leisure estate is now managed under full repairing leases by Hertsmere Leisure Trust this reserve will in future be set against capital reserve rather than a revenue reserve and utilised to write down the Councils Capital Financing Requirement which is expected to rise once the Elstree Film Studios and Newberries Car Park developments are underway.

- **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.

Appendix 3 – Capital Strategy

- **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 thorough 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 used for the appraisal of future capital programmes.

Appendix 3 – Capital Strategy

- **Options for Partnering and Funding:** A key requirement of the capital investment appraisal is to explore alternative options for partnering and funding projects e.g. utilising external funding such as grants, S106 and CIL as well as developing partnerships such as the 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:** The Corporate Procurement Strategy sets a clear framework for purchases throughout the Authority, which reflects the Councils Corporate Plan and stands alongside the Councils Contract Standing Orders and Constitution.

- **Additional Capital Resources:** 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.

- **Key Priorities:** 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.

Appendix 3 – Capital Strategy

2. AIMS, KEY PRIORITIES & TARGETS OF THE CAPITAL PROGRAMME

When setting its capital programme the council must have regard to the overall service objectives and be consistent with the strategic plan.

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. ❑ Over the years the Council has made significant capital investment such as the purchase of a purpose-built depot & refuse vehicles. ❑ Roadside air quality monitoring equipment has been purchased and installed.
GOAL 3: HEALTHY, THRIVING COMMUNITIES **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 by investing in parks and open spaces. ❑ Promoting and creating opportunities for residents to engage in a healthy lifestyle

Appendix 3 – Capital Strategy

GOAL 4: 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:** ❑ 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. ❑ 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. Disabled Facilities Grants. ❑ 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. ❑ 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. ❑ Identify opportunities to develop our property portfolio

Appendix 3 – Capital Strategy

GOVERNANCE FRAMEWORK

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 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 CIPFA Prudential Code requires each council to produce a three year forecast of its capital expenditure. When setting its capital programme the council has regard to

- service objectives (by ensuring that capital spending plans are consistent with the councils strategic aims)
- stewardship of assets (as demonstrated by the councils asset management planning)
- value for money (use of options appraisal techniques); and
- sustainability (e.g. implications of borrowing, impact on revenue budgets)
- affordability (implications for council tax payers)
- practicality (considers the achievability of capital plans through regular monitoring and reporting)

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.

PRIORITISING CAPITAL INVESTMENT

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*

Appendix 3 – Capital Strategy

community will be considered favourably.

- *Disposal of underutilised assets will be re-investment 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.

Appendix 3 – Capital Strategy

CAPITAL BUDGET PROGRAMME ESTIMATES 2015/16 ONWARDS

	CAPITAL ESTIMATES					FUNDING SOURCES							
DEPARTMENT	2015/16 FORECAST	2016/17	2017/18	2018/19	TOTAL	Capital Receipts	Innovation & Investment Fund	Housing Enabling Fund	S106	RCCO (Revenue Contr to Capital)	Specific Reserves	Gov Grants	TOTAL FUNDING SOURCES
	£	£	£	£	£	£	£	£	£	£	£	£	£
ASSET MANAGEMENT	**1,275,897**	1,667,933	0	995,000	**3,938,830**	(2,331,758)	(400,000)	(841,611)	(280,961)	0	(84,500)	0	**(3,938,830)**
ENGINEERING SERVICES	**0**	4,600	4,607	0	**9,207**	(9,207)	0	0	0	0	0	0	**(9,207)**
PLANNING & BUILDING CONTROL	**0**	29,003	0	0	**29,003**	(4,003)	0	0	(25,000)	0	0	0	**(29,003)**
ENVIRONMENTAL HEALTH	**268,549**	430,000	430,000	430,000	**1,558,549**	0	0	0	0	(420,000)	0	(1,138,549)	**(1,558,549)**
PARTNERSHIPS & COMMUNITY ENGAGEMENT	**35,961**	0	0	0	**35,961**	0	0	0	0	0	(35,961)	0	**(35,961)**
STREET SCENE SERVICES	**545,318**	762,815	819,712	0	**2,127,845**	(247,815)	0	0	0	0	(1,880,030)	0	**(2,127,845)**
FINANCE AND BUSINESS SERVICES	**13,041**	60,000	63,296	0	**136,337**	0	0	0	0	0	(136,337)	0	**(136,337)**
HUMAN RESOURCES & CUSTOMER SERVICES	**5,919**	0	0	0	**5,919**	0	0	0	0	0	(5,919)	0	**(5,919)**
TOTAL THREE YEAR CAPITAL ESTIMATES	**2,144,685**	**2,954,351**	**1,317,615**	**1,425,000**	**7,841,651**	**(2,592,783)**	**(400,000)**	**(841,611)**	**(305,961)**	**(420,000)**	**(2,142,747)**	**(1,138,549)**	**(7,841,651)**

Appendix 3 – Capital Strategy

PROJECT CODE	CAPITAL SCHEME DESCRIPTION	CAPITAL ESTIMATES 2015/16 FORECAST	2016/17	2017/18	2018/19	TOTAL	FUNDING SOURCES Capital Receipts	Innovation &	Housing Enabling	S106	RCCO (Revenue	Specific Reserves	Gov Grants	TTOTAL FUNDING
		£	£	£	£	£	£	£	£	£	£	£	£	£
HV106	Wyllyots Centre Improvements	0	0	0	995,000	**995,000**	(995,000)	0	0	0	0	0	0	**(995,000)**
HV108	Refurbishment of lock-up garages	40,150	121,858	0	0	**162,008**	(162,008)	0	0	0	0	0	0	**(162,008)**
HV131	Disability Access Works	0	23,620	0	0	**23,620**	(23,620)	0	0	0	0	0	0	**(23,620)**
HV148	Shop Improvements	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV149	Civic Offices - Heating & Ventilation	0	31,350	0	0	**31,350**	(31,350)	0	0	0	0	0	0	**(31,350)**
HV151	Civic Offices - Access System	0	100,000	0	0	**100,000**	(100,000)	0	0	0	0	0	0	**(100,000)**
HV152	Civic Offices Meeting / Training Room	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV159	Radlett Café	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV168	Replacement of Synthetic Sports Pitches	0	3,973	0	0	**3,973**	(3,973)	0	0	0	0	0	0	**(3,973)**
HV169	Management of Asbestos in HBC Buildings	1,585	58,875	0	0	**60,460**	(60,460)	0	0	0	0	0	0	**(60,460)**
HV170	Housing Site Feasibility Studies	0	70,000	0	0	**70,000**	0	0	(70,000)	0	0	0	0	**(70,000)**
HV171	Works to Council Owned Shops	2,225	76,755	0	0	**78,980**	(78,980)	0	0	0	0	0	0	**(78,980)**
HV172	Furzefield Centre Roof	0	84,500	0	0	**84,500**	0	0	0	0	0	(84,500)	0	**(84,500)**
HV178	Grove Road	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV180	Buckingham Road	708,869	222,041	0	0	**930,910**	(159,299)	0	(771,611)	0	0	0	0	**(930,910)**
HV181	Hackney Close	307,055	99,859	0	0	**406,914**	(125,953)	0	0	(280,961)	0	0	0	**(406,914)**
HV182	Civic Offices - Perimeter Fan Coils	0	205,000	0	0	**205,000**	(205,000)	0	0	0	0	0	0	**(205,000)**
HV185	Police Accommodation & C O Windows	12,043	0	0	0	**12,043**	(12,043)	0	0	0	0	0	0	**(12,043)**
HV192	Cemetery Expansion	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV194	EFS - Mound Clearance	203,970	170,102	0	0	**374,072**	(374,072)	0	0	0	0	0	0	**(374,072)**
HV198	EFS Post Mound Project	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV199	Newberries Car Park Project ***NEW***	0	400,000	0	0	**400,000**	0	(400,000)	0	0	0	0	0	**(400,000)**
ASSET MANAGEMENT TOTAL		**1,275,897**	**1,667,933**	**0**	**995,000**	3,938,830	**(2,331,758)**	**(400,000)**	**(841,611)**	**(280,961)**	**0**	**(84,500)**	**0**	**(3,938,830)**
HV135	Adoption of HBC owned highways	0	4,600	4,607	0	9,207	(9,207)	0	0	0	0	0	0	(9,207)
ENGINEERING SERVICES TOTAL		**0**	**4,600**	**4,607**	**0**	9,207	**(9,207)**	**0**	**0**	**0**	**0**	**0**	**0**	(9,207)
HV126	Potters Bar Town Centre Improvements	0	4,003	0	0	**4,003**	(4,003)	0	0	0	0	0	0	**(4,003)**
HV127	Watling Chase Community Forest	0	25,000	0	0	**25,000**	0	0	0	(25,000)	0	0	0	**(25,000)**
PLANNING & BUILDING CONTROL TOTAL		**0**	**29,003**	**0**	**0**	**29,003**	**(4,003)**	**0**	**0**	**(25,000)**	**0**	**0**	**0**	**(29,003)**
HV162	Disabled Facilities Grant (DFG)	268,549	430,000	430,000	430,000	**1,558,549**	0	0	0	0	(420,000)	0	(1,138,549)	**(1,558,549)**
ENVIRONMENTAL HEALTH TOTAL		**268,549**	**430,000**	**430,000**	**430,000**	**1,558,549**	**0**	**0**	**0**	**0**	**(420,000)**	**0**	**(1,138,549)**	**(1,558,549)**
HV133	Crime and Disorder major initiatives	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV174	PRG - Capital Expenditure	35,961	0	0	0	**35,961**	0	0	0	0	0	(35,961)	0	**(35,961)**
HV189	Elstree & Borehamwood Museum	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
PARTNERSHIPS & COMMUNITY ENGAGEMENT TOTAL		**35,961**	**0**	**0**	**0**	**35,961**	**0**	**0**	**0**	**0**	**0**	**(35,961)**	**0**	**(35,961)**
HV107	Enhance Sports Pavilions / Pitches	0	237,900	0	0	**237,900**	(237,900)	0	0	0	0	0	0	**(237,900)**
HV128	Restock Brick Planters	0	9,915	0	0	**9,915**	(9,915)	0	0	0	0	0	0	**(9,915)**
HV134	Pride in Hertsmere	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV196	Street Scene Plant & Equip	0	0				0	0	0	0	0	0	0	**0**
HV137	Parking - Car Parks	178,485	330,000	212,545	0	**721,030**	0	0	0	0	0	(721,030)	0	**(721,030)**
HV164	Purchase of Street Scene Vehicles	366,833	185,000	607,167	0	**1,159,000**	0	0	0	0	0	(1,159,000)	0	**(1,159,000)**
STREET SCENE SERVICES TOTAL		**545,318**	**762,815**	**819,712**	**0**	**2,127,845**	**(247,815)**	**0**	**0**	**0**	**0**	**(1,880,030)**	**0**	**(2,127,845)**
HV158	New Financial System (Finance/Rev Ben)	13,041	60,000	63,296	0	**136,337**	0	0	0	0	0	(136,337)	0	**(136,337)**
HV166	Government Secure Intranet	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV175	Desktop refresh	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV188	Disaster Recovery	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
HV197	Telephone System	0	0	0	0	**0**	0	0	0	0	0	0	0	**0**
FINANCE AND BUSINESS SERVICES TOTAL		**13,041**	**60,000**	**63,296**	**0**	136,337	**0**	**0**	**0**	**0**	**0**	**(136,337)**	**0**	(136,337)
HV183	Multi-functional devices	5,919	0	0	0	5,919	0	0	0	0	0	(5,919)	0	(5,919)
HUMAN RESOURCES & CUSTOMER SERVICES TOTAL		**5,919**	**0**	**0**	**0**	5,919	**0**	**0**	**0**	**0**	**0**	**(5,919)**	**0**	(5,919)
TOTAL		2,144,685	2,954,351	1,317,615	1,425,000	7,841,651	(2,592,783)	(400,000)	(841,611)	(305,961)	(420,000)	(2,142,747)	(1,138,549)	(7,841,651)

Appendix 4

Earmarked Reserves

Appendix 4 – Earmarked Reserves

The most commonly established earmarked reserves are listed below;

Category of Earmarked Reserves	**At Apr 15**	**Rationale**
Sums set aside for major schemes, such as capital developments or asset purchases or to fund major reorganisations	(10,140,245)	Where expenditure has been approved and planned as part of the Councils capital programme it is prudent to set aside funds and underspend balances to meet future commitments
Land Drainage	(1,665,580)	To fund land drainage and flood related costs
Insurance reserves	(165,657)	Reserves held to meet potential and contingent liabilities
Pension reserves	(886,714)	To meet future pension fund deficits and one off costs arising from staff restructuring
Reserves of trading and business units	(460,709)	Surpluses arising from in-house trading retained to cover potential losses in future years
Reserves retained for service departmental use	(3,967,635)	Sums set aside to meet future commitments, this includes projects and other initiatives still in progress
Reserves for unspent revenue grants	(1,224,755)	
Other reserves <£20k	(62,116)	

Appendix 5

Value for Money and Efficiency Strategy

Incl. Efficiency Plan

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

VALUE FOR MONEY AND EFFICIENCY STRATEGY

Value for Money

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 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.

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

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.

Efficiency

In 2014/15 the reporting requirements for Value for Money changed with external auditors no longer required to produce a specific report on VfM albeit they are still responsible for assessing VfM and giving an opinion.

Under the old regime (Comprehensive Spending Review (CSR) 2005) Local Authorities were required to measure their VfM gains and show the cashable and non-cashable efficiencies achieved.

The table below shows the efficiency targets and actual efficiencies achieved from the Council's Value for Money and Comprehensive Spending Review (CSR) gains since 2005/06:

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

Hertsmere Borough Council Efficiency gains 2005/06 to 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 (A)	489	5,301
2015/16 (A)	438	5,739
2016/17 (A)	358	6,097

The Council embraced the agenda of delivering identifiable Value for Money gains and this provided the Council with a more structured and formal approach that will ensure that focus remains on how best to get the most from taxpayers' money. This continues to be 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.

Approach to Delivering Value for Money and Efficiencies

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).

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

- 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:

- 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.

As the Council becomes more and more efficient, the challenge of achieving further efficiency savings

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

will become more difficult to realise.

Government Funding

The finance settlement 2016 to 2017 included provisional figures for the four year period 2016/17 to 2019/20. This was welcomed by Local Government who for some time had been asking for more certainty around Government funding.

Whilst the figures for 2016/17 were confirmed in the final settlement on 8 February 2016, the provisional figures for the remainder of the four year settlement are subject to Local Authorities accepting the four year settlement. It was indicated that if accepted this will be the minimum level of grant.

Local Authorities have until 14 October 2016 to accept the four year settlement, however one condition of accepting the four year settlement is the requirement for Local Authorities to produce an Efficiency Plan setting out how they intend to achieve a balanced budget over the period of the settlement.

There is no specific guidance on how the plan should be presented, this is to each Local Authority's discretion. The Efficiency Plan will however be subject to review by external audit.

This financial strategy sets out throughout the pressures that Hertsmere are facing over the medium term and how it intends to mitigate these through more efficient ways of working and additional income generation. The efficiency plan below summarises a plan of action Hertsmere intends to adopt over the term of this financial strategy to meet the funding challenge that lies ahead.

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

EFFICIENCY PLAN

On 24 February 2016 Hertsmere's full Council meeting approved the Council Tax and set a balanced budget for 2016/17, it also approved the Capital programme and Treasury Strategy to 2018/19.

This Financial Strategy looks forward beyond 2016/17 over the medium term to 2019/20. The strategy sets out the pressures the Council face over this period and how it intends to tackle them. Appendix 2 sets out the Revenue Financial Plan for the period to 2019/20 which shows a current budget gap of just below £1 million.

Hertsmere went through a major restructure in 2011 which achieved significant savings through staff reductions, amounting to £1.3m per annum. There is no intention to repeat such an exercise in the medium term as it is recognised by senior management and members that a small authority such as Hertsmere, whilst it needs to be efficient, it also needs to retain resilience in its workforce.

A recent review by members, "Resilience and Income Generation Opportunities" (RIGO) also endorsed this approach and in fact recommended investment in additional staff resource where this will generate income earning opportunities.

Hertsmere prides itself on its commercial and innovative approach to service delivery and income generation and recognises that it needs to continue on this path to bridge its budgetary gap over the medium term. Senior management and members are already working together on commercial initiatives including investment in Elstree Film Studios, Newberries Car Park development and the setting up of a Development Company to generate an ongoing commercial income stream and senior managers have held brainstorming sessions to generate further ideas for efficiencies and income generation.

The programme below sets out the actions Hertsmere are taking to balance its budget over the medium term:

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

Efficiency Plan Programme

Description	Responsible Body	Action	Date
Revenue Budget 2016/17	Executive	Recommend for Consultation	January 2016
	Policy Committee	Consultation	January 2016
	Executive	Recommend for Approval	February 2016
	Full Council	Approval	February 2016
Budget and funding 2016/17 to 2019/20 Presentation and Brainstorming	Management Team	Identify efficiency proposals	March 2016
Financial Strategy 2016/17 to 2019/20 (incl. Efficiency Plan)	Policy Committee	Consultation	March 2016
	Executive	Recommend for Approval	April 2016 June 2016
	Full Council	Approval	July 2016
2016/17 budget monitoring and savings tracker	Management Team/ Budget Monitors/ Operations Cttee	Performance monitoring	Monthly 2016/17
Develop efficiency proposals	Management Team in consultation with Portfolio Holders	Work up efficiency proposals into realistic options	April / June 2016
First review efficiency proposals	Management Team	Consultation	June / July 2016
	Budget Panel	Consultation	
	Management Board	Agree efficiency proposals to be fully developed	
Fully develop efficiency proposals – business case and implementation timetable	Management Team		June to September 2016
Budget Strategy Report	Executive	Approved budget strategy and timetable	September 2016
Review fully developed efficiency proposals	Budget Panel	Consultation	October 2016
	Management Board	Consultation	

Appendix 5 – Value for Money and Efficiency Strategy incl. Efficiency Plan

Description	Responsible Body	Action	Date
Accept Four Year Finance Settlement	Director of Resources in consultation with Portfolio Holder for Finance, Performance and Economic Development	Accept Four Year Finance Settlement	by 14 October 2016
Budget Strategy update report	Executive	Approve strategy and efficiency proposals to date	November 2016
Revenue Budget 2017/18	Executive	Recommend for Consultation	January 2017
	Policy Committee	Consultation	January 2017
	Executive	Recommend for Approval	February 2017
	Full Council	Approval	February 2017
Financial Strategy 2017/18 to 2020/21 (incl. Efficiency Plan)	Management Team / Chief Officers / Portfolio Holder	Review and update	January / February 2017
	Policy Committee	Consultation	March 2017
	Executive	Recommend for Approval	April 2017
	Full Council	Approval	April 2017
2017/18 budget monitoring and savings tracker	Management Team/ Budget Monitors/ Operations Cttee	Performance monitoring	Monthly 2017/18

N.B. – The efficiency plan and timetable will be reviewed and updated annually in line with the Financial Strategy