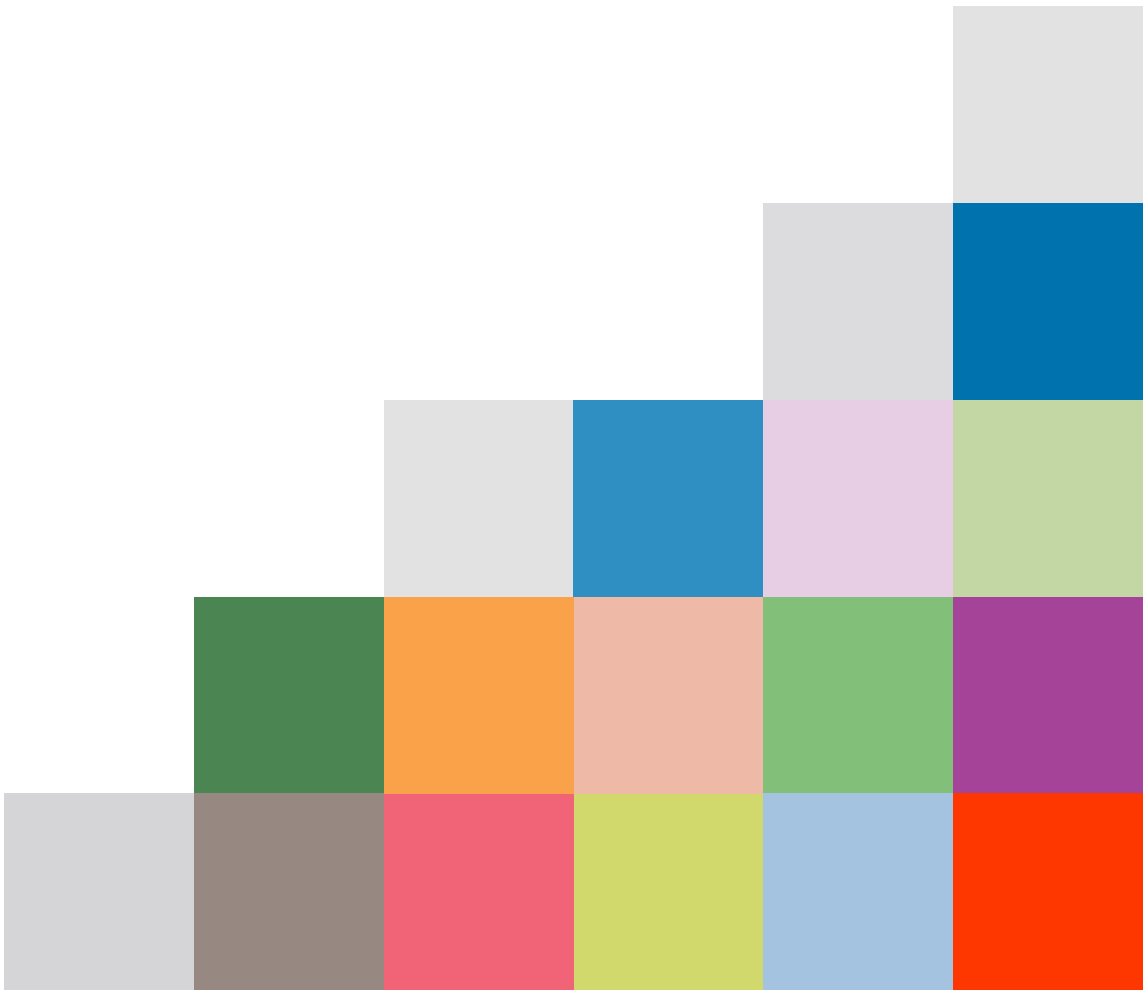




# Financial Strategy 2026



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## Governance and Version Control:

|                                     | Version | Approving Body | Approval Date |
|-------------------------------------|---------|----------------|---------------|
| Financial Strategy 2026 – main body | Adopted | Council        | 21/01/26      |
| Appendix 1 – Action Plan            | Adopted | Council        | 21/01/26      |
| Appendix 2 – MTFP 25/26 to 28/29    | Adopted | Council        | 21/01/26      |
| Appendix 3 – Capital Strategy 2026  | Adopted | Council        | 21/01/26      |

## 1. Executive Summary

- 1.1 Hertsmere Borough Council is situated to the north of London in southwest Hertfordshire with a population of 108,993 (2023). 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, 70 per cent of the Borough is Green Belt, much of which is in agricultural use.
- 1.2 We have rearticulated our Hertsmere Vision in 2026 to focus on key areas of 'Growing Opportunity', 'Secure Homes, Strong Futures', 'Community Equals Place' and 'Delivering Excellence', recognising our commitment to place shaping and ensuring a sustainable future for the borough. This strategy sets out our plans to support the delivery of this agenda.

### The Financial Strategy

- 1.3 This Financial Strategy (the Strategy) is an integral part of and critical to the Council's Corporate Governance and Performance Framework, delivery of the Community Strategy and Corporate Plan and the majority of the Council's policies and strategies.
- 1.4 The Strategy has been reviewed and updated to reflect the current economic and political landscape and other areas that may influence the Council's finances including inflation, interest rates and service demand. In particular this Strategy considers the impact of the fair funding review including the review of business rates and the Government's Devolution agenda including Local Government Reorganisation (LGR).
- 1.5 The Strategy will assist the Assistant Director - Finance in their capacity as the Council's Statutory Chief Finance Officer (or Section 151 Officer), in planning financial resources over this period with a view to delivering the Council's priorities. It also sets out the framework and principles on which the Council plans and manages its finances. As such it forms an integral part of the Council's Budget and Policy framework.
- 1.6 The Balances and Reserves Policy is set out in section 10 and shows the current and forecast level of revenue reserves and describes the purposes of those reserves.

### Funding and Budget Pressures

- 1.7 The Council must set a balanced budget meaning that the total funding or Core Spending Power (CSP) must fully offset the Council's Net Budget Requirement (NBR), which is calculated as total expenditure on service provision less income from rents, fees and charges and specific grants.
- 1.8 Through the annual budget process, consideration is given to current and future service pressures and potential efficiencies. Some of the key pressures that Hertsmere will face over the medium term include:

- External financial pressures arising from the impact of an unstable economic

climate (eg. adverse inflationary trends and interest rates)

- Demographic pressures including housing growth and growing population
- Increased demand on services such as homelessness, waste and recycling and planning
- Devolution and Local Government Reorganisation (LGR)
- Staff pay, recruitment and retention
- Cyber security

1.9 The 2025/26 Financial Settlement was the seventh single year settlement in a row which has, over this period, made budget setting extremely challenging with considerable uncertainty around future funding. However, in the latest Spending Review, announced in June 2025, the Chancellor committed to completing the long-awaited Fair Funding Review including a review and of the redistribution of business rates and a baseline reset ahead of the next financial settlement for 2026/27. The Chancellor also confirmed that this would also be a multi-year settlement for local government. This was very welcome news as it will provide funding certainty over the medium term.

1.10 The multi-year settlement has since been confirmed through the provisional finance settlement announced on 17 December 2025 and covers the period 2026/27 to 2028/29.

1.11 The Fair Funding Review has re-assessed local authority need and has considered factors such as deprivation in determining a local authority's core spending power requirements. This assessment of need has been compared against existing funding provision, inclusive of any retained business rates growth, which had previously been outside of core spending power, in determining the financial settlement.

1.12 It has been 12 years since the funding formula was last reviewed and the Fair Funding Review will have a fundamental impact on local authority funding. The provisional finance settlement is now out for consultation and as with any review there will be winners and losers, it is therefore likely that the funding position will be challenged through the consultation process.

1.13 Where existing funding levels are more than 115% of the fair funding assessment, which is the case for Hertsmere, one of just 68 local authorities in a similar position, a 95% funding protection has been put in place. This protection will be through the introduction of a negative -5% funding floor meaning that over the multi-year settlement period no authority would lose more than 5% of its existing funding. Any funding losses being phased over the three year period.

1.14 Whilst this does mean that Hertsmere will lose 5% of its overall funding compared to 2025/26 funding levels this is from an elevated Core Spending Power position than had been assumed due to the inclusion of retained business rates growth in core spending power. For many years, it has been Hertsmere's agreed policy to treat retained business rates growth as a one off source of funding due to its uncertain

future and the pending Business Rates reset. As such, the revenue budget in recent years has been balanced without utilising growth funding which has instead, been applied mainly as financing towards the capital programme.

- 1.15 The provisional settlement for 2026/27 to 2027/28 is set out below inclusive of a restated 2024/25 and 2025/26 funding position for comparison;

**Table 1 – Core Spending Power 2024/25 to 2028/29**

|   | 2024/25<br>Forecast<br>£'000 | 2025/26<br>Forecast<br>£'000 | 2026/27<br>Forecast<br>£'000 | 2027/28<br>Forecast<br>£'000 | 2028/29<br>Forecast<br>£'000 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Core Spending Power</b>                                      |                              |                              |                              |                              |                              |
| <b>Government Grant:</b>  |                              |                              |                              |                              |                              |
| Revenue Support Grant   | 130                          | 149                          | 5,979                        | 4,711                        | 3,398                        |
| Funding Guarantee / Funding Floor                               | 873                          | 952                          | 0                            | 0                            | 0                            |
| Services Grant  | 19                           | 0                            | 0                            | 0                            | 0                            |
| New Homes Bonus   | 468                          | 13                           | 0                            | 0                            | 0                            |
| Domestic Abuse Safe Accommodation Grant                         | 0                            | 38                           | 0                            | 0                            | 0                            |
| National Insurance  | 0                            | 134                          | 0                            | 0                            | 0                            |
| <b>Business Rates</b>   |                              |                              |                              |                              |                              |
| Business Rates Baseline Need                                    | 2,972                        | 3,011                        | 2,969                        | 3,038                        | 3,099                        |
| Business Rate Under-Indexation Grant (S31)                      | 545                          | 566                          | 0                            | 0                            | 0                            |
| Business Rates Growth   | 1,246                        | 4,579                        | 0                            | 0                            | 0                            |
| <b>Fair Funding Allocation</b>                                  | <b>6,253</b>                 | <b>9,442</b>                 | <b>8,948</b>                 | <b>7,749</b>                 | <b>6,497</b>                 |
| <b>95% Funding protection</b>                                   | <b>0</b>                     | <b>0</b>                     | <b>0</b>                     | <b>590</b>                   | <b>1,462</b>                 |
| <b>Other Grants and Funding (not previously CSP)</b>            |                              |                              |                              |                              |                              |
| Homelessness Prevention / Rough Sleeping / Domestic Abuse / BNG | 958                          | 1,430                        | 931                          | 973                          | 1,009                        |
| Other legacy grants ????  | 55                           | (38)                         | 0                            | 0                            | 0                            |
| <b>Council Tax</b>  | <b>8,807</b>                 | <b>9,102</b>                 | <b>9,455</b>                 | <b>9,821</b>                 | <b>10,202</b>                |
| <b>Core Spending Power</b>                                      | <b>16,073</b>                | <b>19,936</b>                | <b>19,334</b>                | <b>19,133</b>                | <b>19,170</b>                |
| <b>Actual Council Tax Figures</b>                               | 8,807                        | 9,102                        | 9,330                        | 9,563                        | 9,802                        |
| <b>Difference</b>   | 0                            | 0                            | (125)                        | (258)                        | (400)                        |

**N.B.** – The Council Tax figures included in CSP (highlighted) reflect MHCLG's growth assumptions. These figures are greater than Hertsmere's actual calculated tax base for 2026/27, which has actually shown a slight reduction year on year due to an uplift in claims for Council Tax Support. Hertsmere's actual Council Tax estimates are shown separately in the blue box along with the resulting difference against CSP.

- 1.16 It should be noted that the funding increase between 2024/25 and 2025/26 is due to the level of retained business rates growth, which fluctuates year on year, as a result of pooling as well as any increase or reduction in appeals and bad debt provisions. The higher 2025/26 growth position has therefore resulted in an ongoing benefit for Hertsmere with this growth now being included in its core spending power.
- 1.17 The Council should however be mindful that this previously considered one-off funding has contributed towards the Capital Programme and should continue to be a primary funding consideration going forward for one off spend and to reduce the financial impact of capital financing on the Revenue budget.

## Medium Term Forecast

- 1.18 As a result of the combined pressures on the Council's finances in recent years, the Council, in line with other local authorities has faced significant challenges to balance its budget over the medium term.
- 1.19 A balanced budget for 2025/26 was presented to and approved by the full Council on 26 February 2025. The net budget requirement of £14,559k is balanced by the equivalent level of funding by way of general Government grant, £4,863k, Council Tax levies, £9,102k and other funding namely the Extended Producer Responsibility (EPR) levy. The 2025/26 budget including the various grant funding streams are set out in Appendix 2, albeit now restated to provide a direct comparison to the 2026/27 provisional financial settlement which now reflects the outcome of the Fair Funding Review.
- 1.20 The Medium Term Financial Plan (MTFP) approved alongside the 2025/26 budget at that time showed a four year funding gap of £677k. This forecast has now been reviewed and adjusted to reflect subsequently approved pressures such as the Senior Leadership and HR restructures (£250k) and the new Programme Management Office. It also now includes pressures and efficiencies identified through the 2026/27 budget process, which are subject to approval by the full Council in February 2026.
- 1.21 The MTFP also now reflects the outcome of the Fair Funding Review and includes the provisional multi-year financial settlement announced on 17 December 2025.
- 1.22 As discussed above, Hertsmere were one of 68 Authorities that have had their existing funding level protected through the negative -5% funding floor meaning our Core Spending Power for 2026/27 through to 2028/29 will not fall below 95% of our existing funding level.
- 1.23 Whilst this does mean that Hertsmere will lose 5% of its overall funding over the course of the multi-year financial settlement this is from an elevated Core Spending Power position than had been assumed due to the inclusion of retained business rates growth in the fair funding assessment.
- 1.24 The MTFP, attached as appendix 2 and summarised below, sets out the net budget requirement and funding levels for 2025/26 through to 2028/29 which now shows a balance position over this period. The MTFP makes some key assumptions which currently include a proposed 3.0% pay award for 2026/27, subject to consultation, and a 2% pay award thereafter, any contractual increases in line with contract conditions or expected inflation and an annual Council Tax increase of 3% in line with the Government's Core Spending Power expectation that all local authorities will fully utilise Council Tax flexibilities. These assumptions will however need to be reviewed through the annual budget process in light of changing pay and inflation expectations and as such these assumptions may well need to be revised. Appendix 2 will therefore be updated annually through the budget process.

**Table 2 – Medium Term Financial Plan 2025/26 to 2028/29**

|                        | 2025/26<br>£000's | 2026/27<br>£000's | 2027/28<br>£000's | 2028/29<br>£000's |
|------------------------|-------------------|-------------------|-------------------|-------------------|
| Net Budget Requirement | 13,965            | 18,279            | 17,996            | 17,954            |
| Funding                | 13,965            | 18,279            | 17,996            | 17,954            |
| Funding Shortfall      | -                 | -                 | -                 | -                 |

## Commercialism, Innovation and Partnerships

- 1.25 Hertsmere prides itself on its commercial and innovative approach particularly in respect of income generation. The Council has established subsidiary companies including Elstree Film Studios Limited (EFS) who manage the Council owned Elstree Studios which has a proven track record of success. Hertsmere Developments Limited (HDL) was established to deliver new housing in the borough, whilst also delivering an income stream to the Council and has now delivered two affordable housing schemes, providing a total of 26 new 2-bed apartments which have now all been let to families through our joint venture stock holding company Hertsmere Living Limited (HLL). HLL has also acquired stock directly from the Council and on the open market and now holds a portfolio of 49 properties across a mix of tenures including social, affordable and market rents and shared ownership.
- 1.26 Unfortunately, in August 2022, during routine maintenance at Elstree Studios to replace the main stage doors in stages 7, 8 and 9 asbestos was discovered. These stages were closed immediately and extensive asbestos testing was carried out across the Elstree Studios estate and as a result of that testing the underground car park and the ancillary block were also closed and subsequently asbestos remediation works have been undertaken in all these areas. The asbestos remediation works have since been completed and a project to bring the stages back into use is well advanced.
- 1.27 Whilst the asbestos remediation resulted in considerable cost to the Council, due to its sound financial position, the Council's share of these costs have been fully funded from a combination of capital and revenue reserves. With stages 7, 8 and 9 being brought back into operational use from autumn 2025 the 2025/26 revenue budget included provision for rental income from EFS of £1.7million.
- 1.28 The new state of the art Platinum Stages, which were completed in July 2022 and named in honour of Her Majesty's Platinum Jubilee also generate a significant rental providing a net budgetary income of £1.6million in 2025/26. These stages have to date been managed under an informal agreement by Elstree Film Studios Limited (EFS) however in June 2025 the Cabinet agreed to formalise this arrangement and enter into a Management Agreement and Occupation Licence with EFS who will formally manage these studios going forward.
- 1.29 Hertsmere also works in partnership where possible to achieve value for money and



deliver services in the most efficient and effective way; the Council shares its Civic Offices with the Police and NHS and has shared service arrangements for Building Control, CCTV, Parking Services, Internal Audit, Anti-Fraud, Procurement, Health and Safety and Risk Management. In addition the Council provides parking scheme design, enforcement and administration for Three Rivers District Council (the existing agreement has been extended to March 2029).

## Budget Consultation

- 1.30 As part of the annual budget setting process the draft budget is recommended by the Cabinet for consultation with all members of the Council, key stakeholders including local businesses and local residents and all other stakeholders. This includes a detailed budget presentation to the Policy Review Committee, a direct mailing to local businesses and a resident consultation via the Council's online Zencity platform, which includes a budget summary providing the key budget messages.

## Looking Ahead

- 1.31 The Financial Strategy is an ever-evolving document, which will be implemented over the medium term and will be subject to ongoing review and update. This is especially relevant to issues such as the ever changing economic climate, legislation and Government policy.
- 1.32 Of particular pertinence to this iteration of the Strategy is the Government's Devolution agenda and the government led programme of Local Government Reorganisation (LGR) in place to support it. The English Devolution White Paper (December 2024) sets out powers to devolve greater power and funding to local areas and to deliver local government reorganisation in two-tier areas such as Hertfordshire, with the aim of ensuring local leadership and achieving efficiencies across local government.
- 1.33 Hertfordshire Authorities have worked together to develop a submission to Government setting out our proposals for LGR across the County. Consideration has been given to a number of options which will deliver either two, three or four Unitary Authorities, in place of the current 11 under the two-tier system. The final submission was made to Government in November 2025, a decision is expected in June/July 2026. The Government's timetable for LGR would see inception of the new unitary authorities from April 2028, when Hertsmere would cease to exist as an entity.
- 1.34 This strategy has therefore been developed to balance the continuing commitment to current service delivery with responsibility for future populations through delivery of the Council's priorities.
- 1.35 Appendices 2 and 3 show the most recent position in terms of the revenue budget and medium term forecast and the three year capital programme. These elements of the Strategy set out how the Council intends to manage the pressures it faces now and how it will balance the books over the medium term. These elements of the Strategy will be reviewed and updated through the annual budget process.
- 1.36 The Council's leadership has worked to rearticulate its ambitions and to identify a clear



set of key deliverables across updated priority areas of 'Growing Opportunities', 'Secure Homes, Strong Futures', 'Community Equals Place' and 'Delivering Excellence': including Borehamwood and Potters Bar town centre regeneration, new social housing, regeneration of Bushey Golf and Country Club, digital transformation and the Local Plan. This Strategy supports the delivery of these key projects, subject to appropriate governance, available resources and changing legislation.

## 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 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.
- 2.2 This Strategy also sets out and considers the financial challenges and opportunities facing the Council and its purpose also includes ensuring that policies and priorities are properly resourced to enable efficient and effective delivery.
- 2.3 The Strategy has been prepared following a prolonged period of economic turmoil and uncertainty. The UK and European economy have been impacted by the UK's exit from the European Union (Brexit) and the worldwide economy has been impacted by the worldwide Covid-19 pandemic. These events which were followed shortly after by our own local Council Elections have all contributed towards the delay in reviewing the Strategy.
- 2.4 For many years Government funding had been reducing through a prolonged period of austerity between 2010 and 2021. As a result, by 2021 core Government Grant funding for Hertsmere represented just 35% of the Council's Core Spending Power compared to 54% back in 2010, placing more burden on local tax payers. Funding did then stabilise and overall core spending power then started to rise again from 2022 however there remained significant funding uncertainty as the significant national and international events discussed in paragraph 2.3 have delayed funding reforms and led to seven consecutive years of single year financial settlements for local government making budgeting extremely challenging.
- 2.5 Government funding did however reduce again for Hertsmere in 2024/25 albeit the new Government also made a commitment to deliver the long-awaited Fair Funding Review and review of the redistribution of Business Rates and baseline reset ahead of the Financial Settlement for 2026/27. The Government also committed to a multi-year financial settlement, which will provide funding certainty over the medium term.
- 2.6 The Fair Funding Review has now concluded and the provisional multi-year financial settlement, covering the period 2026/27 to 2028/29, announced on 17 December 2025. Hertsmere will see an overall 5% funding reduction over the three-year settlement period albeit this is from an elevated funding position than had been anticipated due to retained business rates growth having been included in the fair funding assessment. For local authorities such as Hertsmere where existing 2025/26 funding, inclusive of business rates retained growth, was more than 115% of the fair funding assessment a 95% funding protection has been put in place through a negative -5% funding floor. The fair funding review and multi-year financial settlement are discussed later in section 4 of this Strategy.

## Aims and objectives of the Financial Strategy

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

- To set out how the Council wants to structure and manage its finances over the next four years (subject to LGR) and to ensure that this fits with and supports the Council's priorities. 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 including maintaining appropriate levels of reserves in order to face future challenges such as Government funding constraints and the national and global economy which remains uncertain.
- 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 and property to maximise returns from those assets that support the Council's overall financial and corporate objectives.
- 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 Council's financial resilience and value for money.
- To bring forward development and commercial opportunities that generate an ongoing income stream to allow the Council to be self-sufficient and avoid over reliance on Central Government funding.

2.8 The Strategic Financial Objectives are:

- To deliver the Council's priorities set out in the Corporate Plan including the core strategic priorities in relation to town centre regeneration, new social housing, regeneration of Bushey Golf and Country Club, digital transformation and the Local Plan
- 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 individual 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, supported by the Council's procurement strategy and Contract Procedure Rules.

- 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 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 utilise reserve balances and grant funding including capital receipts, earmarked reserves, S106 contributions and Community Infrastructure Levy (CIL) in the most efficient way to reduce the burden of capital investment on the revenue budget by reducing the Council's Capital Financing Requirement (CFR) and Minimum Revenue Provision due to borrowing (internal and external).
- To secure a reasonable rate of return on investments and projects which are considered as "invest to save". This has to ensure that the Council services are maintained and any revenue implications identified as part of business case.
- To support subsidiary companies to operate efficiently and effectively including provision of loan funding at competitive rates which will 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 the Prudential Code regime as well as complying with Subsidy Control legislation.
- To maintain adequate governance arrangements to ensure the legality of decisions and transactions that may have a financial consequence.

## Achievements

2.9 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) A robust annual budget process that reviews and challenges our service expenditure and income, whilst also considering budgetary pressures which has enabled the Council to deliver ongoing efficiencies and additional income, manage funding changes and uncertainty whilst also enabling delivery of new priorities.
- ii) Preparing and delivering a balanced budget annually with no significant variance at year end despite additional pressure in service delivery.
- iii) The 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.
- iv) The award of contract for its leisure facilities management to InspireAll (previously known as Hertsmere Leisure) who pay a management fee to the Council unlike some local authority leisure facilities that are subsidised.

- v) The establishment of Council subsidiaries (Elstree Film Studios Limited (EFS) and Hertsmere Developments Limited (HDL) and a joint venture stock holding company, Hertsmere Living Limited (HLL)), to realise commercial opportunities and to supplement the Council's general fund.
- vi) Investment in asset development in a revenue generating property portfolio such as the recent addition of the new Platinum Stages at the Council owned Elstree Studios, development of new social and affordable housing both by the Council and by HDL and the transfer of those new properties to HLL, who now hold a portfolio of 49 properties across a mix of tenures including social, affordable and market rents and shared ownership and maximising usage of the Civic Offices through letting space to the Police, NHS and HDL as well as letting Committee rooms and the Council Chamber to local organisations and hosting learning events.
- vii) Continued investment in IT infrastructure to ensure security, resilience and cost savings whilst also enabling transformation of services and flexible working.
- viii) Working in partnerships and shared service delivery in order to achieve continuous Value for Money gains and effective service delivery.
- ix) Partnership and consortium procurement wherever possible.
- x) Maintaining adequate reserves – Earmarked and General Fund.
- xi) Business rates maximisation through enforcement, challenge of exemptions, identifying new businesses and encouraging economic growth.
- xii) Introduction of a separate weekly food waste one year in advance of the Government's requirements under the "Simpler Recycling" legislation. Food waste recycling is expected to improve Hertsmere's overall level of recycling through the diversion of food waste to anaerobic digestion.
- xiii) Through these achievements Hertsmere has managed to keep the Council Tax relatively low compared to other Hertfordshire Districts whilst maintaining and improving service provision.

## **The Hertsmere Vision**

- 2.10 The Council's leadership has worked to rearticulate the Hertsmere Vision to better fit the ambitions of the administration and to reflect changing circumstances in local government landscape, most notably Local Government Reorganisation. This work reflects the outcomes of our whole council Corporate Peer Challenge which recognised the need to identify a clear narrative and vision for the area alongside a set of defined manageable priority areas for delivery.

## **Corporate Peer Challenge**

- 2.11 In autumn of 2024, the Council invited the Local Government Association (LGA) in to carry out a whole Council Corporate Peer Challenge to provide external feedback on how we operate and to highlight areas for improvement.

- 2.12 Over the course of 25 interviews and focus groups, the Peer Team, made up of Councillors and Officers from Local Authorities across the country, met with more than 130 partners, elected members and council staff before reporting on their findings.
- 2.13 The comprehensive feedback report includes 10 recommendations, reflecting areas for improvement and we have produced an action plan which sets out how we will respond to each of them.
- 2.14 The need to develop a clear and compelling narrative and vision for the borough alongside a set of defined manageable set of priorities for the council were key recommendations from the report. The development of an updated Financial Strategy to deliver these was also identified as a formal recommendation.
- 2.15 The Council Leadership, both Member and Officer, have worked closely together to deliver against these recommendations and have develop the following narrative, vision statements and priorities which will form the basis of a Corporate Plan for 2026/27 which will be presented alongside the budget papers for 2026/27. These reflect our organisational commitment to the future of the borough.

#### ***Narrative:***

- 2.16 **Hertsmere:** where vibrant towns, green spaces and close-knit communities come together. We are investing in homes, businesses and community life to build a greener, fairer and more prosperous future – all while staying connected to the energy of the city and the heart of our community spirit. Working hand in hand with our residents, we are shaping a future where every generation can call Hertsmere home.

#### ***Vision Statement:***

- 2.17 We are shaping Hertsmere into a borough of opportunity – where people can live securely, work successfully and enjoy green, sustainable and vibrant communities, close to the heart of the city.

#### ***Priorities:***

- 2.18 A revised set of priority areas have been identified focused around the key areas of 'Growing Opportunities', 'Strong Homes, Secure Futures', 'Community Equals Place' and 'Delivering Excellence', demonstrating our commitment to building a sustainable future for those living and working in the borough. Key deliverables have been identified under each of these areas and will form the Corporate Plan for 2026 to 2028.

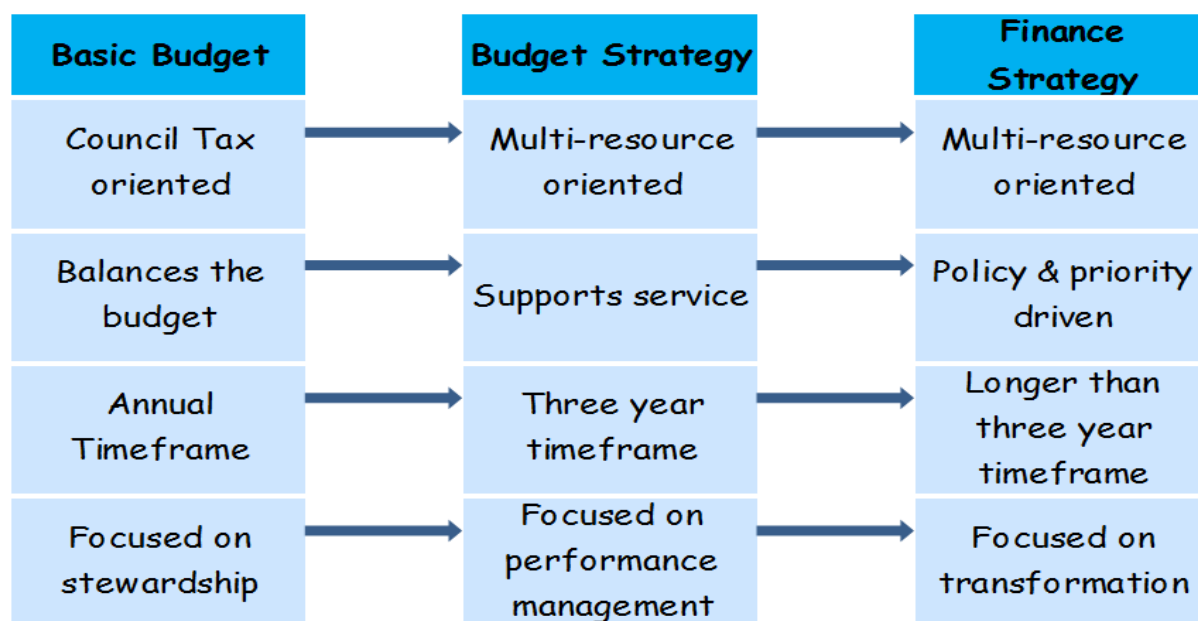
### **Performance Management Framework**

- 2.19 An updated Performance Management Framework will be presented alongside the updated Corporate Plan.

## The Financial Strategy and the Budget setting process

2.20 The relationship between the budget setting process and the Financial Strategy is shown in figure 1 below.

**Figure 1 – Relationship between the Finance Strategy and Budget Process**



2.21 This Strategy document takes account of the following:

- The Council's Community Strategy 2023-27
- The Community Survey – a six monthly snapshot of resident satisfaction and quality of life.
- The outcome of external audit and internal audit recommendations and feedback
- The Council's Corporate Plan
- 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 current economic climate
- The Council's Performance Management Strategy
- Spending Review 2025 including the Fair Funding Review and review of business rates
- The Devolution Agenda and Local Government Reorganisation (LGR)



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

- **Revenue:** income and expenditure that relates to items that is recurrent in nature and generally consumed within a year.
- **Capital:** income and expenditure relating to the purchase, upgrading, improving or disposal of land buildings and equipment and where we receive the benefit over a period greater than one year.

2.23 Annual revenue expenditure is financed by these main sources:

- General Government grant through the Finance Settlement including baseline funding, Revenue Support Grant (RSG) and the 95% income protection funding.
- Specific grant funding including the Homelessness, Rough Sleeping and Domestic Abuse Grant and the Extended Producer Responsibility Levy.
- Council tax
- Fees and charges
- Investment income
- Earmarked reserves
- General Revenue Reserve (but only in exceptional circumstances)

### 3. About Hertsmere

- 3.1 Hertsmere is a largely rural borough in Hertfordshire, situated approximately 12 miles to the north of central London. With 70% of our borough in Green Belt land, the majority of our 108,993 (mid 2023) residents live in our four main settlements - Bushey, Borehamwood, Radlett and Potters Bar - each with their own identity, along with a scattering of villages and hamlets: Elstree, Shenley, South Mimms, Ridge, Aldenham and Letchmore Heath.
- 3.2 Excellent north-south rail connections, with journey times to London of 20-26 minutes from all major towns and road connections (the A1M, M1 and M25 all run through the borough) mean that Hertsmere is very well connected to London and the rest of the country. However east-west travel remains more challenging.
- 3.3 It's this mix of green areas, distinct towns, and strong connections that means life in Hertsmere offers a great balance of city and countryside. It is also this location and strong connections which make Hertsmere a great place to establish a business, and the borough has attracted a number of major employers as a result. The professional, scientific or technical; construction, and ICT industries are particularly strong. An active film and television industry exists around Borehamwood, which has a heritage of film and television production dating back to the early 20th century. A budding avionics specialism is currently developing at London Elstree Aerodrome. Small businesses also make up an important part of the local economy.
- 3.4 However, proximity to the capital also brings challenges including, recruitment and retention of workers and talent as we are in direct competition with both public (London Boroughs) and private organisations paying higher London wages.
- 3.5 The proximity to London is also reflected in high house prices which particularly impact first time buyers, along with high and rising private rental costs. In 2022, Hertsmere was named the third least affordable location in the country in which to buy a house behind Westminster and Camden (Plumbnation 2022) and although average prices have fallen slightly, Hertsmere's housing market remains challenging with the fourth highest average house prices in the East of England. Hertsmere's population today is growing, aging and diversifying, with a notable Jewish population (at 17%, the largest proportion in any local authority (Census 2021)) and growing South Asian and wider European community.
- 3.6 Whilst relatively prosperous, pockets of real deprivation exist within the borough with part of Cowley Hill ward in Borehamwood being the most deprived in Hertfordshire and in the top 10% of deprived areas nationally (IMD 2019). Overall population health is good, although health inequalities do exist and provision of local health services remains below that required to meet upcoming challenges (SW Herts Healthcare Partnership 2024). With no Urgent Care or hospital provision within borough boundaries, residents must travel out of borough for access.

## Services provided by the Council

3.7 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 our web site.

### 3.8 Planning

- Planning strategy including development of the local plan and other planning policy.
- Development Management including processing and validation of applications and planning enforcement.
- Building Control including application and enforcement and dangerous structures.
- Economic Development – promoting economic prosperity and climate change initiatives.

### 3.9 Housing:

- Development and implementation of the council's Housing Strategy, Homelessness and Rough Sleeping Strategy, Housing Assistance Policy, Private Sector Offer Strategy and the Tenancy Strategy.
- Provision of the statutory homeless and housing advisory service, including homelessness prevention and temporary accommodation.

### 3.10 Community Safety:

- The Council leads the development and implementation of the Community Safety Partnership Plan and are members of the Hertfordshire CCTV Partnership, along with Stevenage, North Hertfordshire and East Hertfordshire. The partnership shares the CCTV management and monitoring services.

### 3.11 Culture & Youth:

- The Council has developed and is implementing a Creative Strategy for Hertsmere and supports voluntary run museums in Elstree and Borehamwood, Bushey, Radlett and Potters Bar.
- Management of the Councils Leisure Service Contract covering leisure provision across the borough.
- The 'We Move, She Moves' programme provides a range of opportunities for women and girls to engage in sport and physical activity.
- The Council provides over £450,000 in support to the Voluntary and Community Sector through a range of small grants and through 5 year partnership agreements with key local agencies.

- Through our Community Engagement Team we also provide support in the community, sharing information with residents on relevant council and partner services alongside a range of health and wellbeing initiatives.

### 3.12 **Environmental Health**

- Air quality, contaminated land, pollution control, private water supplies, stray dogs and animal welfare.
- Food safety and hygiene, infectious disease control, outbreak management and health and safety in commercial premises.
- Licensing regulated entertainment, alcohol sales, hackney carriages and private hire vehicles.
- Emergency planning and business continuity providing a corporate response in relation to natural disasters, emergencies and major incidents within the borough.
- Community Enforcement Team providing investigation and enforcement of fly-tipping and anti-social behaviour and engaging with public and businesses through routine patrols.

### 3.13 **Street Scene Services:**

- Household waste and recycling collection including a bulky waste and clinical waste service.
- Trade waste service.
- Street cleansing, fly tipping removal and weed removal.
- Management of parks and open spaces including parks and amenity areas, grounds maintenance and building cleaning, allotments, Allum Lane cemetery and Bushey Rose Garden.
- Parking services including implementation of the Council's parking policy, on-street and off-street parking provision, controlled parking zones and abandoned vehicles.

### 3.14 **Asset Management and Engineering Services:**

- Management of the Council's property portfolio including the Civic Offices, Depots, residual residential properties, commercial properties, garages, leisure and community buildings.
- Engineering and drainage services including strategic land drainage and emergency callout.
- Residual highways including bus shelters, street furniture, footway lighting, street nameplates.

### 3.15 **Revenues and Benefits:**

- The administration and collection of revenues - council tax and national non-domestic rates.
- The administration of the housing benefit and council tax support schemes as determined by current statutory requirements.

### 3.16 **Local Land Charges**

- Delivery of the statutory Land Charges Service

### 3.17 **Electoral Services:**

- Electoral registration and organisation and delivery of borough, county, parish, police and crime commissioner and general elections and referendums.

### 3.18 **Central and Support Services:**

- The above direct services are supported by a range of central and support services including Corporate Directors, Customer Services, Finance, Legal and Democratic Services, Human Resources, Information Digital Services, Design and Print, Procurement, Communications and Assurance Services including Risk Management, Internal Audit and Anti-Fraud.

## 4. Context – Future Challenges & Issues

- 4.1 This Strategy is presented at a time of great uncertainty for local government, the Government is pushing forward its Devolution Agenda and Local Government Reorganisation and the Economy is slowly recovering from a period of economic turmoil in the wake of Brexit and the Covid-19 pandemic. This, along with a number of other challenges are set out below:

### Devolution and Local Government Reorganisation

- 4.2 Following the publication of the Government's English Devolution White Paper at the end of 2024, Hertfordshire Authorities have been working in partnership to develop a response to proposals for the reorganisation of local government in two tier areas.
- 4.3 An initial outline proposal was submitted in March 2025 and initial feedback received. The final submission was subsequently made in November 2025. Whilst all Hertfordshire authorities had worked cohesively on the submission, no single proposal was agreed and the final submission included three options, one for each of 2, 3 and 4 unitary council's within Hertfordshire's current boundaries. The final submission set out which option individual authorities had supported, Hertsmere supported the four unitary model.
- 4.4 The process of LGR brings additional focus to the financial strategy and we will need to work closely with our successor authority as it develops to ensure that the interests of Hertsmere residents are protected.
- 4.5 The challenging Government timeline for LGR has set 1 April 2028 as the vesting date for the new unitary authorities when Hertsmere will cease to exist as an entity.

### Government Funding

- 4.6 Spending Review 2025 announced on 11 June 2025 covers the period 2026/27 to 2028/29, the key messages for local government were as follows:
- The long awaited Fair Funding Review and review of the current system of business rates retention and redistribution will be undertaken in advance of the 2026/27 Finance Settlement which is expected by late November, earlier than in recent years.
  - Local government Core Spending Power (CSP) will increase on average by 2.6% annually albeit CSP increases assume full increases in council tax with Band D thresholds to remain unchanged, 3% for lower tier authorities.
  - CSP projections imply some grant increases: £1.4bn in 2026-27, £0.4bn in 2027-28, and £0.5bn in 2028-29. It is not however clear whether this funding would be distributed via the Settlement Funding Assessment or through a specific grant.
  - Additional £4bn funding for adult social care and additional funding for Children's Social Care, £550m from the Transformation Fund, and £560m to

refurbish/transform children's homes and foster care placements.

- No announcement on funding for Special Education Needs and Disabilities (SEND). The Government's approach to reform will be set out in a schools consultation paper in the Autumn.
- There will be further details for funding for local authorities "as part of the upcoming local government funding reform consultation".

## **Fair Funding and Business Rates**

- 4.7 The purpose of the Fair Funding Review is to refresh the methodology for distributing a fixed pot of funding between local authorities covered by the local government finance settlement including London boroughs, English unitaries, metropolitan districts, shire counties, shire districts, fire authorities, the Greater London Authority and certain Combined Authorities which receive settlement funding for their fire functions.
- 4.8 The last time the underlying distribution methodology was refreshed through changes to formulae and data was in 2013, at the time of the setting up of the business rates retention system. Then the settlement funding assessment was largely distributed on the basis of a needs assessment, resource adjustment, a central allocation and caps on year-on-year change or 'damping'.
- 4.9 The major share of the settlement funding assessment was split 60/40 between Revenue Support Grant (RSG) and the 50% value of locally raised business rates (Baseline Funding Level).
- 4.10 Subsequently, the RSG was reduced to deliver reductions to council funding through the austerity years while baseline funding grew in line with the change in the business rates multiplier and local retained growth.
- 4.11 The Fair Funding Review has now re-assessed local authority need taking into consideration factors such as deprivation in determining a local authority's core spending power requirements. The outcome of this re-assessment has been delivered through the provisional finance settlement, announced on 17 December 2025, which also confirmed the promised multi-year settlement covering the spending review period 2026/27 to 2028/29.
- 4.12 It has been 12 years since the funding formula was last reviewed and as such it will likely have a fundamental impact on local authority funding. As with any such review there will be winners and losers and the provisional finance settlement does build in some protections to ensure that no authority loses more than 5% of its current funding over the spending review period.
- 4.13 The protections relate to how the Fair Funding Review needs assessment compares to an authority's existing funding provision, which is its current Core Spending Power inclusive of any retained business rates growth. Retained growth had previously been outside of core spending power so for authorities such as Hertsmere with high retained growth this is very welcome.



- 4.14 Where existing funding levels were more than 115% of the fair funding assessment, which is the case for Hertsmere, one of just 68 local authorities in a similar position, a 95% funding protection has been put in place. This protection will be through the introduction of a negative -5% funding floor meaning that over the multi-year settlement period no authority will lose more than 5% of its existing funding. Any funding losses been phased over the three year period. The provisional finance settlement is now out for consultation and it is likely that the funding position will be challenged through the consultation process.
- 4.15 Whilst Hertsmere will lose 5% of its overall funding compared to 2025/26 funding levels, this is from an elevated Core Spending Power position than had been assumed, due to the inclusion of retained business rates growth in core spending power. For many years, it has been Hertsmere's agreed policy to treat retained business rates growth as a one off source of funding due to its uncertain future and the pending Business Rates reset. As such, the revenue budget in recent years has been balanced without utilising growth funding which has instead, been applied mainly as financing towards the capital programme. The provisional settlement for 2026/27 to 2027/28 is set out below inclusive of a restated 2025/26 funding position for comparison;

**Table 3 – Core Spending Power 2024/25 to 2028/29**

|   | 2024/25<br>Forecast<br>£'000 | 2025/26<br>Forecast<br>£'000 | 2026/27<br>Forecast<br>£'000 | 2027/28<br>Forecast<br>£'000 | 2028/29<br>Forecast<br>£'000 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Core Spending Power</b>                                      |                              |                              |                              |                              |                              |
| <b>Government Grant:</b>  |                              |                              |                              |                              |                              |
| Revenue Support Grant   | 130                          | 149                          | 5,979                        | 4,711                        | 3,398                        |
| Funding Guarantee / Funding Floor                               | 873                          | 952                          | 0                            | 0                            | 0                            |
| Services Grant  | 19                           | 0                            | 0                            | 0                            | 0                            |
| New Homes Bonus   | 468                          | 13                           | 0                            | 0                            | 0                            |
| Domestic Abuse Safe Accommodation Grant                         | 0                            | 38                           | 0                            | 0                            | 0                            |
| National Insurance  | 0                            | 134                          | 0                            | 0                            | 0                            |
| <b>Business Rates</b>   |                              |                              |                              |                              |                              |
| Business Rates Baseline Need                                    | 2,972                        | 3,011                        | 2,969                        | 3,038                        | 3,099                        |
| Business Rate Under-Indexation Grant (S31)                      | 545                          | 566                          | 0                            | 0                            | 0                            |
| Business Rates Growth   | 1,246                        | 4,579                        | 0                            | 0                            | 0                            |
| <b>Fair Funding Allocation</b>                                  | <b>6,253</b>                 | <b>9,442</b>                 | <b>8,948</b>                 | <b>7,749</b>                 | <b>6,497</b>                 |
| <b>95% Funding protection</b>                                   | <b>0</b>                     | <b>0</b>                     | <b>0</b>                     | <b>590</b>                   | <b>1,462</b>                 |
| <b>Other Grants and Funding (not previously CSP)</b>            |                              |                              |                              |                              |                              |
| Homelessness Prevention / Rough Sleeping / Domestic Abuse / BNG | 958                          | 1,430                        | 931                          | 973                          | 1,009                        |
| Other legacy grants ????  | 55                           | (38)                         | 0                            | 0                            | 0                            |
| <b>Council Tax</b>  | <b>8,807</b>                 | <b>9,102</b>                 | <b>9,455</b>                 | <b>9,821</b>                 | <b>10,202</b>                |
| <b>Core Spending Power</b>                                      | <b>16,073</b>                | <b>19,936</b>                | <b>19,334</b>                | <b>19,133</b>                | <b>19,170</b>                |
| <b>Actual Council Tax Figures</b>                               | 8,807                        | 9,102                        | 9,330                        | 9,563                        | 9,802                        |
| <b>Difference</b>   | 0                            | 0                            | (125)                        | (258)                        | (400)                        |

- 4.16 It should be noted that the funding increase between 2024/25 and 2025/26 is due to the level of retained business rates growth, which fluctuates year on year, as a result of pooling as well as any increase or reduction in appeals and bad debt provisions.

The higher 2025/26 growth position has therefore resulted in an ongoing benefit for Hertsmere with this growth now being included in its core spending power.

- 4.17 The Council should however be mindful that this previously considered one-off funding has contributed towards the Capital Programme and should continue to be a primary funding consideration going forward for one off spend and to reduce the financial impact of capital financing on the Revenue budget.

## Homelessness

- 4.18 The council has statutory duties to take action to prevent homelessness, offer temporary accommodation for eligible households and help eligible households secure longer-term accommodation.
- 4.19 Homelessness pressures continue to rise with homelessness approaches to the Council doubling since 2019/20, when the Council had 822 homelessness approaches compared to 1,652 approaches in 24/25.
- 4.20 Due to an investment in prevention work, the Council has not seen this increase reflected in the number of households in temporary accommodation however the cost of placements are expensive and well in excess of the level of Housing Benefit residents can claim therefore the Council is responsible for subsidising the remaining accommodation costs.
- 4.21 The Council provides a range of initiatives to try to prevent homelessness where possible and/or secure alternative accommodation.
- 4.22 The Council delivers its homelessness services via funding from Central Government in the form of its Homelessness Prevention Grant (HPG) and Rough Sleeping Prevention and Recovery Grant (RSPARG). In 25/26 the HPG was uplifted to £1,136,896 however the overall core funding received by Central Government was reduced. The HPG for 25/26 is therefore predominantly funding staffing costs, housing initiatives and temporary accommodation. The RSPARG for 25/26 was £224,934 which is funding two officer roles to support single homelessness and allowing the Council to receive full nomination rights into a local supported housing scheme run by local charity, One YMCA.
- 4.23 Through the Fair Funding Review the part of the HPG that related to Temporary Accommodation (c.£470k) has now been rolled into the Revenue Support Grant and is now included as part of Hertsmere's Core Spending Power. The remaining HPG has now been combined with the RSPARG and the Domestic Abuse funding (£38k) to form a new single grant now known as the Homelessness, Rough Sleeping and Domestic Abuse Grant which for 2026/27 amounts to £931k.

## Local Plan

- 4.24 The Council is required to have an up-to-date Local Plan in place to deliver growth, both economic and housing, and also provide a suite of Development Management policies in which planning applications and appeals will be considered against.

- 4.25 The Council does not currently have an up-to-date Local Plan and a low level of housing supply, and therefore is at risk of speculative applications for development, which are more difficult to resist. With around 70% of the borough having previously been designated as Green belt, the recent changes to the National Planning Policy Framework (NPPF) in relation to the designation of Grey belt will likely bring further pressures in this respect.
- 4.26 The adoption of a Local Plan will assist the Council in directing growth to the appropriate locations with the input from statutory partners and the local communities.
- 4.27 Work on a new Local Plan is well underway and in March 2025 the Council approved funding of c.£2m for the estimated resourcing and general expenditure required to procure and deliver a master planning exercise, as well as other appropriate evidence base work to support delivery of the Local Plan. Further funding will be required to take the plan through to examination and the 2026/27 budget therefore proposes that further funding of £1million per annum for 2026/27 and 2027/28 be set aside for this purpose.

## Waste and recycling

- 4.28 Under the Environment Act 2012, Government announced three significant policy streams for waste collection: Simpler Recycling, Extended Producer Responsibility and Deposit Return Schemes.
- **Simpler Recycling:** The Governments requirements for Simpler Recycling require local authorities to provide separate weekly food collection by April 2026. Hertsmere has already implemented this for the majority of kerbside properties and will implement for all properties in advance of the deadline. Although the Government has indicated new burdens funding will be made available, to date the sums received have not covered the costs of transition and implementation. The Simpler Recycling requirements further clarified arrangements for garden waste collection, which Hertsmere has also implemented. The Simpler Recycling requirements also specified that a separate paper and card collection should be made, unless it was not technically, environmentally, efficient and effective or practical to do so. Hertsmere, like many authorities will continue to collect paper and card as part of a dry mixed recycling collection. This co-collection is supported by a statement setting out the technical, economic, environmental and practical barriers to separate collection, which could be challenged. DEFRA will determine whether local authorities' collections are efficient and effective but has yet to confirm the full guidance as to how this will be measured.
  - **Extended Producer Responsibility** imposes a levy on manufacturers for the packaging they produce and the extent to which it is recyclable. Income from the levy will be distributed to a given formula to waste collection and disposal authorities. A levy figure for 2025/26 was confirmed as £1,096k this is a fixed amount underwritten by MHCLG. For 2026/27 the indicative figure is £1,054k however this will be subject to the amount of levy actually collected. This levy is still in its infancy and the amounts it will deliver remain uncertain. Any sums

delivered may be netted off against future funding settlements and/or new burdens. If an authority is not deemed efficient and effective sums may be withheld. The levy is ring-fenced for funding towards the costs of recycling packaging and as such is shown as a funding stream within the Waste Services budget.

- **Deposit Return Schemes** for “on the go” drinks and similar containers have been trailed for some time but as yet not introduced. They have the potential to remove significant volume of recyclable items of the household collection system. This would likely reduce the volume of waste collected but not the frequency. In that respect it is cost neutral. However, it would likely reduce the value of the recyclable items we collect (e.g. less aluminium) and so could make mixed recycling disposal contracts more expensive.

4.29 The Emissions Trading Scheme will apply from 2028 imposing an escalating tax, similar to landfill tax, on industries with CO2 emissions. This will impact waste incineration/energy recovery facilities. As these are often not local authority controlled this is likely to be a burden passed on to the local waste disposal authority. Currently this responsibility sits with the County Council but will in future be shared with new Unitary Authorities post local government reorganisation.

### **Staff Pay, Recruitment and Retention:**

4.30 With the increased cost of living, staff expectations for a significant pay increase remain high. A 3.0% pay award was agreed for 2025/26 the Council does however need to be mindful of other public sector pay whilst also delivering a pay award that is affordable. Subsequent to Hertsmere agreeing its pay award the National Joint Committee (NJC) agreed a higher national pay award of 3.2%.

4.31 Recruitment and retention continues to impact on some services and in the wake of LGR could become more challenging.

4.32 The draft 2026/27 budget includes provision for a 3.0% pay award.

## 5. The Revenue Budget: Budget Setting Process

- 5.1 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 does the Council consider 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 partnership working 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.

### Key Principles

- 5.2 The budget strategy and budget setting process continue to follow a similar process as adopted in prior years. This includes engaging stakeholders and an extensive process of budget challenge and consultation.
- 5.3 The Council adopts the following key principles in its budget setting and financial forecasting:
- To further explore alternative service delivery models 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.
  - To ensure the appropriate management and investment of cash balances on the basis of security, liquidity and yield.
  - To maximise returns from the Council's portfolio of assets through commercial rents, land development or where appropriate sale of assets.
  - To further explore "invest to save" and "spend to save" schemes such as the use of office space at the Civic Offices to deliver ongoing income streams.
  - To properly manage contracts and fully utilise the procurement process to secure quality and value for money contracts.
  - To ensure all projects are appropriately managed to ensure delivery within budget and expected timescales.
  - That VfM continues to be a key driving force in evaluating current and future service delivery.

- Project proposals are fully supported by a full business case including options and investment appraisals to be based on whole life costing.
- To embrace electronic service delivery and the e-government and transformational government agenda.
- To explore commercial opportunities including through our subsidiary companies to generate additional revenue income.
- To set aside, as far as possible, sufficient funds in order to provide for the replacement of major assets such as equipment, vehicles etc.
- To set contingencies at an adequate and prudent level.

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

- Chief Officers and Service Managers
- The Finance and Budget Portfolio Holder and Leader of the Council
- The Budget Panel
- The Cabinet as a whole
- The Policy Committee and all Elected Members
- Residents online survey via the Council's website and social media and;
- Business Ratepayers, through a direct mailing

## 6. The Revenue Budget: Net Budget Requirement (NBR)

- 6.1 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.
- 6.2 The Net Budget Requirement (NBR) is the Council's gross expenditure less income from fees and charges and other grants and contributions. To set a balanced budget the NBR must be matched by an equivalent level of funding from Government grants and Council Tax. However pressures on services such as inflation, increasing demand as well as pressures on funding such as reducing government grant creates a funding gap which then needs to be met in order to realign the NBR with the available funding.
- 6.3 Where the NBR exceeds the available funding 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.
  - 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, albeit the ability to do so is limited by legislation.
  - Alternate ways of service delivery to achieve Value for Money gains.
- 6.4 Table 4 below summarises the forecast NBR to 2028/29 and the forecast funding over this period. Following the Fair Funding Review and resulting multi-year settlement this now shows a balanced position over the spending review period:

**Table 4 – Net Budget Requirement 2025/26 to 2028/29**

| <b>Table 4:<br/>Net Budget Requirement</b> | <b>2025/26<br/>Budget<br/>£'000</b> | <b>2026/27<br/>Forecast<br/>£'000</b> | <b>2027/28<br/>Forecast<br/>£'000</b> | <b>2028/29<br/>Forecast<br/>£'000</b> |
|--|-------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Gross Expenditure*                         | 44,507                              | 42,687                                | 42,461                                | 42,479                                |
| Gross Income*                              | (30,542)                            | (24,408)                              | (24,465)                              | 24,525                                |
| <b>Net Budget Requirement</b>              | <b>13,965</b>                       | <b>18,279</b>                         | <b>17,996</b>                         | <b>17,954</b>                         |

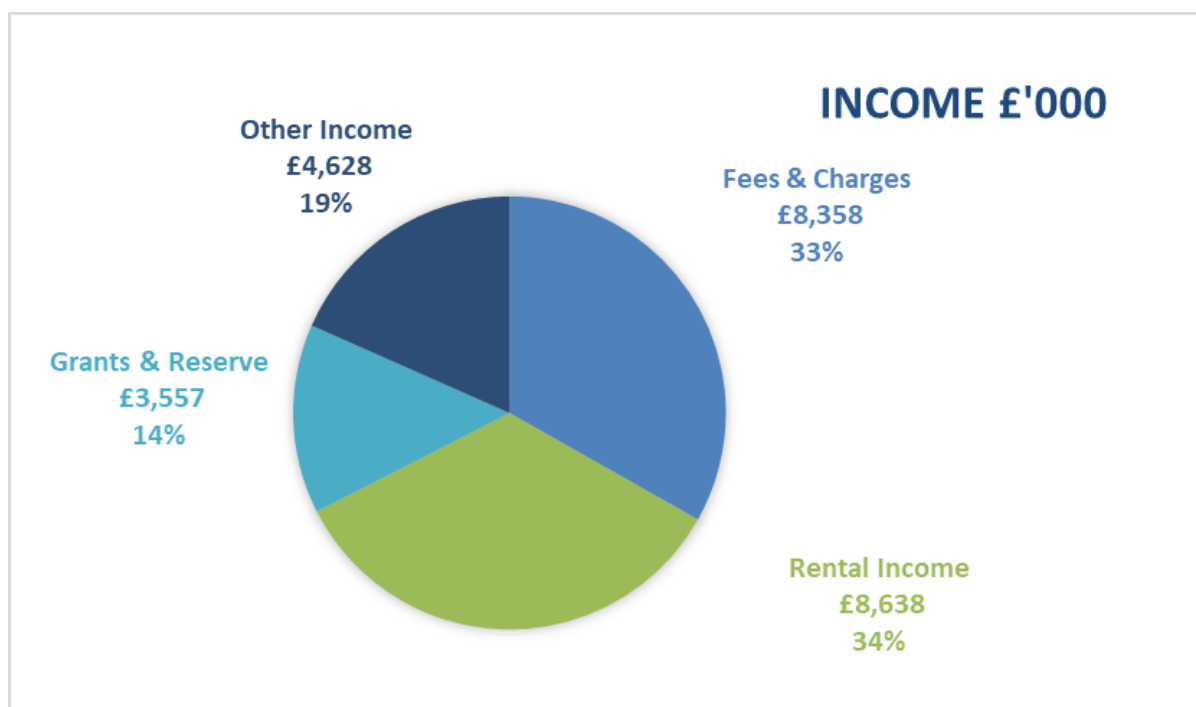
\*figures exclude Housing Benefit from both expenditure and income, currently £18,718k



## 7. The Revenue Budget: Income Generation

- 7.1 As discussed in section 6, 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 (NBR) is funded from Central Government grants and local taxation, this is discussed later in section 8.
- 7.2 Other income streams included within the NBR, which in part offset some of the gross expenditure, are fees and charges, rental income and specific funding from grants, contributions and reserves. These various income sources are set out in figure 7 below, alongside the core funding elements:

**Figure 2 – Budgeted Income 2026/27**



- 7.3 As depicted above the main sources of income generation are rental income and fees and charges. Rental income is earned from Council owned property including the Civic Offices, Elstree Studios, Garages other commercial properties, such as shops and industrial units, the Council also has a number of residential properties that it uses for Temporary Accommodation. Fees and charges are made for the provision of some council services. Some of these fees are statutory and the level of fee is set out in relevant legislation, for example Planning fees, other fees are set locally for example parking.
- 7.4 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.
- 7.5 The Council reviews its fees and charges annually in order to ensure that they remain competitive and effective. Also where services provided for the benefit of the community the Council aims to make the service accessible by making it available at a reasonable cost.
- 7.6 A full schedule of fees and charges including the Council's charging policy can be found on the Council's website. The schedule of fees and charges is reviewed, updated and approved annually by the full Council as part of the budget process.

## 8. The Revenue Budget: Core Funding

- 8.1 The overall Council's net expenditure or Net Budget Requirement (NBR) is financed from core government grants and local taxation.
- 8.2 Following the Fair Funding Review discussed in paragraph 4.4 above, Core Government grants now only include the Revenue Support Grant, Business Rates (NNDR) Baseline Grant and the 95% Protection Grant.
- 8.3 These core government grants along with levies raised through the local Council Tax form the Council's Core Spending Power (CSP). The Council's CSP for the current and previous years back to 2024/25 is set out below:

**Table 5 – Core Spending Power 2024/25 to 2028/29**

|   | 2024/25<br>Forecast<br>£'000 | 2025/26<br>Forecast<br>£'000 | 2026/27<br>Forecast<br>£'000 | 2027/28<br>Forecast<br>£'000 | 2028/29<br>Forecast<br>£'000 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Core Spending Power</b>                                      |                              |                              |                              |                              |                              |
| <b>Government Grant:</b>  |                              |                              |                              |                              |                              |
| Revenue Support Grant   | 130                          | 149                          | 5,979                        | 4,711                        | 3,398                        |
| Funding Guarantee / Funding Floor                               | 873                          | 952                          | 0                            | 0                            | 0                            |
| Services Grant  | 19                           | 0                            | 0                            | 0                            | 0                            |
| New Homes Bonus   | 468                          | 13                           | 0                            | 0                            | 0                            |
| Domestic Abuse Safe Accommodation Grant                         | 0                            | 38                           | 0                            | 0                            | 0                            |
| National Insurance  | 0                            | 134                          | 0                            | 0                            | 0                            |
| <b>Business Rates</b>   |                              |                              |                              |                              |                              |
| Business Rates Baseline Need                                    | 2,972                        | 3,011                        | 2,969                        | 3,038                        | 3,099                        |
| Business Rate Under-Indexation Grant (S31)                      | 545                          | 566                          | 0                            | 0                            | 0                            |
| Business Rates Growth   | 1,246                        | 4,579                        | 0                            | 0                            | 0                            |
| <b>Fair Funding Allocation</b>                                  | <b>6,253</b>                 | <b>9,442</b>                 | <b>8,948</b>                 | <b>7,749</b>                 | <b>6,497</b>                 |
| <b>95% Funding protection</b>                                   | <b>0</b>                     | <b>0</b>                     | <b>0</b>                     | <b>590</b>                   | <b>1,462</b>                 |
| <b>Other Grants and Funding (not previously CSP)</b>            |                              |                              |                              |                              |                              |
| Homelessness Prevention / Rough Sleeping / Domestic Abuse / BNG | 958                          | 1,430                        | 931                          | 973                          | 1,009                        |
| Other legacy grants ????  | 55                           | (38)                         | 0                            | 0                            | 0                            |
| <b>Council Tax</b>  | <b>8,807</b>                 | <b>9,102</b>                 | <b>9,455</b>                 | <b>9,821</b>                 | <b>10,202</b>                |
| <b>Core Spending Power</b>                                      | <b>16,073</b>                | <b>19,936</b>                | <b>19,334</b>                | <b>19,133</b>                | <b>19,170</b>                |
| <b>Actual Council Tax Figures</b>                               | 8,807                        | 9,102                        | 9,330                        | 9,563                        | 9,802                        |
| <b>Difference</b>   | 0                            | 0                            | (125)                        | (258)                        | (400)                        |

**N.B.** – whilst the CSP shows a Council Tax Requirement of £9,455k for 2026/27, the actual requirement set out in the 2026/27 revenue budget is £9,330k due to a difference in the Government growth projections and actual growth. Also note a similar position for 2027/28 and 2028/29.

- 8.4 Other specific government grants can also be received and where appropriate are included within the relevant service budget for example the Homeless, Rough Sleeping and Domestic Abuse Grant is included in the Housing services budget and the Extended Producer Responsibility Levy is included in the Waste Services budget.

## 9. Medium Term Financial Forecast

- 9.1 As part of the annual budget setting the Council reviews its financial position over the medium term 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 be met through efficiencies, new ways of delivering services and additional income generation. Bridging the funding gap remains a familiar theme as it was in the Strategy's previous iteration due to the funding uncertainty and economic turmoil discussed earlier.
- 9.2 The medium term financial plan has been derived from known pressures, statutory requirements and assumptions in relation to economic factors such as pay and contractual inflation and future funding streams.
- 9.3 The medium term financial plan is set out in Appendix 2 and shows an anticipated budget gap over the medium term to 2027/28 of £804k, which can be summarised as follows:

**Table 6 – Medium Term Financial Plan (MTFP) 2025/26 to 2028/29**

|                        | 2025/26<br>£000's | 2026/27<br>£000's | 2027/28<br>£000's | 2028/29<br>£000's |
|------------------------|-------------------|-------------------|-------------------|-------------------|
| Net Budget Requirement | 13,965            | 18,279            | 17,996            | 17,954            |
| Funding                | 13,965            | 18,279            | 17,996            | 17,954            |
| Funding Shortfall      | -                 | -                 | -                 | -                 |

- 9.4 The following key assumptions have been used for the purpose of this financial forecast:
- Any funding shortfall each year will be met by ongoing and sustainable efficiency savings and additional income.
  - Council Tax increases of 3% per annum in line with spending review 2025 assumptions.
  - Employee & Member pay inflation of 3% for 2026/27 and 2% per annum thereafter (in line with the Government's target for inflation).
  - Contract inflation in line with contractual obligations.
  - Growth in existing fees and charges of 2% (in line with the Government's target for inflation).
  - Other costs such as utilities and fuel costs of 2% (in line with the Government's target for inflation).
  - 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 Strategy and underlying Contract Procedure

Rules.

- 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 for existing commitments or in the case of sinking funds to maintain or replace assets. In exceptional or unforeseen circumstances reserves may be used 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.
- Investment Income is in line with the assumptions set out in the Treasury Management Strategy taking account of capital investment and reserve utilisation.

9.5 These assumptions will be reviewed annually through the budget process and may be revised to reflect changing economic conditions such as pay and other inflation and changing Government policy and funding.

## 10. Balances and Reserves Policy

- 10.1 Sections 32 and 43 of Local Government Finance Act 2012 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.
- 10.2 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.
- 10.3 Within the existing statutory and regulatory framework, it is the responsibility of the Council's Statutory Chief Financial Officer (S151 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.
- 10.4 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 (equalise) the impact of uneven cash flows.
- 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.

- 10.5 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."*

- 10.6 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."*

- 10.7 Revenue reserves are defined as follows:

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

- 10.8 This Balances and Reserves Policy does not include "Unusable Reserves" such as the Pension Reserve or the Capital Adjustment Account which exist for accounting

purposes only and cannot be used for funding of any sort.

## **Principles to Assess the Adequacy of Reserves**

- 10.9 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 Cabinet, 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.

## **Revenue Reserves**

### ***General Fund Reserve***

- 10.10 In order to maintain financial flexibility and good financial standing, in 1999 the Council adopted a policy to maintain the General Fund Reserve at a level of at least £5 million. 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.
- 10.11 The then Chief Finance Officer in consultation with Chief Officers, the Finance and Property Portfolio Holder and the Leader of the Council subsequently implemented a policy to increase this amount in line with inflation in order to maintain its real value, which was commended by the Council's External Auditors. The General Fund Reserve is therefore increased annually by applying the inflation rate as at 31 March to the brought forward reserve balance with the uplift being funded from any in-year revenue surplus. Where the revenue surplus falls below the level of inflation then the uplift will be limited to the available in-year surplus.
- 10.12 Whilst 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 inflation. During the prolonged period of austerity the Council did experience some abnormal gains including refunds of over-declared VAT and a refund of business rates resulting from revaluation of Council properties. As these were one off gains, it was agreed it was prudent to also set these sums aside as part of the Council's General Fund Reserve especially in times of significant funding cuts from central government and the uncertainties surrounding the economy.



### ***Earmarked Reserves***

10.13 Earmarked reserves are set aside for specific purposes and can generally be classified as follows:

- Equalisation
- Sinking funds
- Service related
- Grants

### ***Equalisation Reserves***

10.14 The Council holds equalisation reserves for Council Tax & Business Rates and for Housing Benefit. These were established to equalise the impact of these funding sources on the revenue budget, setting aside surpluses when they arise and drawing down when deficits need to be funded. The reserves have also served as a funding source for debt management initiatives.

10.15 Business rates growth and pooling gains have also been set aside in the Council Tax & Business Rates equalisation reserve for future investment in Capital projects.

10.16 There is also a Local Elections reserve whereby funds are set aside over four years to fund the four-yearly local election cycle thereby equalising the Elections revenue budget. This reserve is also intended to fund by-elections as and when they may arise.

### ***Sinking Funds***

10.17 A number of sinking funds have been established, setting aside revenue funds for future investment in capital assets, thereby saving potential borrowing costs. These sinking funds include Waste and other fleet vehicles, IT infrastructure, Elstree Studios and the Civic Centre.

### ***Service and Grant Fund Reserves***

10.18 These reserves exist where there is a specific service purpose and it has been agreed to set funds aside to deliver that purpose which may occur over a number of years. This can include grant funding that is received and has to be spent in accordance with the grant terms. Examples of such funds include the Strategic Asset Investment Catalyst Reserve, the Local Plan Reserve and the Recycling Initiatives Reserve.

### ***New Homes Bonus Reserve***

10.19 In addition to the above classification there is also a New Homes Bonus (NHB) reserve.

10.20 The NHB was introduced from 2011/12 with the aim of encouraging the building of new houses by rewarding local authorities for new housing growth with additional revenue. Under the scheme, the Government initially matched the Council Tax raised

on each new home built for a period of six years. This was subsequently reduced to four years from 2017/18 and then to a single year from 2020/21 when the future of the NHB became uncertain.

10.21 The NHB was not ring-fenced so could be used as revenue funding or for one off initiatives. Initially Hertsmere set the NHB aside in a reserve for investment in Planning Initiatives but subsequently did use some NHB to balance the revenue budget due to declining Government Grants. Hertsmere however made a policy decision to reduce reliance on the NHB for revenue purposes over a phased period with any surplus NHB being set aside in an earmarked reserve to be reinvested in one-off projects. However funding changes and the introduction of a funding floor from 2023/24 meant that the NHB became part of the Council's Core Spending Power and the Council therefore had no choice but to apply all of the NHB as revenue funding again from 2023/24.

10.22 Under the Spending Review 2025 the NHB was not expected to continue beyond 2025/26 and was likely to be rolled in with other funding streams. This was subsequently confirmed in the provisional finance settlement for 2026/27.

10.23 Over the period of the NHB regime Hertsmere received a total of £15.8million of which £10.3million was utilised for revenue purposes and £4.2million has been applied for planning initiatives including the Local Development Framework which includes £2.1million recently set aside for delivery of the Local Plan. The remaining balance currently stands at £1.3million.

10.24 The table below shows the revenue reserve balances as at 31 March 2025 and anticipated balances to 2027/28 based on existing decisions and assumptions:

**Table 7 – Revenue Reserve Forecast**

| Revenue Reserve Forecast        |   | 2024/25               |                               |                        | 2025/26               |                        | 2026/27               |                        | 2027/28               |                        |
|---------------------------------|---|-----------------------|-------------------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                                 |   | Balance B/F<br>£000's | Reserve Realignment<br>£000's | Net Movement<br>£000's | Balance C/F<br>£000's | Net Movement<br>£000's | Balance C/F<br>£000's | Net Movement<br>£000's | Balance C/F<br>£000's | Net Movement<br>£000's |
| <b>General Fund Reserve</b>     |   | (8,750)               | 0                             | (228)                  | (8,978)               | 0                      | (8,978)               | 0                      | (8,978)               | 0                      |
| <b>Earmarked Reserves</b>       |   |                       |                               |                        |                       |                        |                       |                        |                       |                        |
| <b>Equalisation</b>             | Housing Benefit                                   | (1,489)               | 1,000                         | 315                    | (173)                 | 29                     | (144)                 | 7                      | (137)                 | 66                     |
|                                 | Council Tax & Business Rates                      | (1,155)               | 5,641                         | (4,487)                | 0                     | 0                      | (3,005)               | (3,005)                | 93                    | (2,912)                |
|                                 | Other   | 0                     | 0                             | (24)                   | (24)                  | (77)                   | (100)                 | (77)                   | (77)                  | (253)                  |
| <b>Sinking Funds</b>            | Asset Management                                  | (713)                 | 160                           | 185                    | (369)                 | 42                     | (326)                 | (340)                  | (666)                 | (340)                  |
|                                 | IT Equipment                                      | (189)                 | (31)                          | 66                     | (155)                 | (35)                   | (190)                 | (108)                  | (298)                 | (108)                  |
|                                 | Vehicles  | (347)                 | (273)                         | 353                    | (267)                 | 48                     | (219)                 | 37                     | (182)                 | (3)                    |
|                                 | S106 Commuted Sums                                | (656)                 | 0                             | (102)                  | (758)                 | 239                    | (519)                 | (14)                   | (533)                 | (14)                   |
|                                 | Car Parks and CPZ                                 | (1,168)               | 500                           | (18)                   | (686)                 | 500                    | (187)                 | (100)                  | (287)                 | (100)                  |
| <b>Grants</b>                   | Housing and Homelessness                          | (1,159)               | 380                           | (390)                  | (1,170)               | 56                     | (1,114)               | 5                      | (1,109)               | 5                      |
|                                 | Other Grants                                      | (347)                 | 172                           | 49                     | (126)                 | 34                     | (92)                  | 10                     | (82)                  | 10                     |
|                                 | Strategic Asset Investment Catalyst - Allocated   | 0                     | (2,032)                       | 602                    | (1,430)               | 1,430                  | 0                     | 0                      | 0                     | 0                      |
| <b>Service Specific</b>         | Strategic Asset Investment Catalyst - Unallocated | 0                     | (203)                         | 0                      | (203)                 | 0                      | (203)                 | 0                      | (203)                 | 0                      |
|                                 | Disabled Facilities Grant                         | (1,023)               | 600                           | 227                    | (196)                 | 196                    | 0                     | 0                      | 0                     | 0                      |
|                                 | Uninsured Losses                                  | (1,483)               | (6,788)                       | 8,270                  | 0                     | 0                      | 0                     | 0                      | 0                     | 0                      |
|                                 | Local Plan  | (341)                 | (2,062)                       | (234)                  | (2,637)               | 1,531                  | (1,106)               | 1,106                  | 0                     | 0                      |
|                                 | Recycling Initiatives                             | (494)                 | 250                           | 125                    | (118)                 | 0                      | (118)                 | 0                      | (118)                 | 0                      |
|                                 | Cemetery Expansion                                | (325)                 | 0                             | 0                      | (325)                 | 225                    | (100)                 | 0                      | (100)                 | 50                     |
|                                 | Other Service Related                             | (2,351)               | 351                           | 929                    | (1,072)               | 563                    | (508)                 | (14)                   | (523)                 | (25)                   |
|                                 | New Homes Bonus                                   | (3,834)               | 2,335                         | 194                    | (1,304)               | 0                      | (1,304)               | 0                      | (1,304)               | 0                      |
| <b>Total Earmarked Reserves</b> |   | (17,074)              | 0                             | 6,060                  | (11,014)              | 4,782                  | (6,231)               | (2,493)                | (8,725)               | (443)                  |
| <b>Total Revenue Reserves</b>   |   | (25,824)              | 0                             | 5,832                  | (19,992)              | 4,782                  | (15,209)              | (2,493)                | (17,703)              | (443)                  |

**N.B.** reserve balances for 2024/25 may be subject to change following audit of the draft 2024/25 Statement of Accounts

## Capital Reserves

### Capital Receipts

- 10.25 Capital Receipts arise from the sale of assets and can only be used for a capital funding purpose.
- 10.26 Capital receipts were previously one of the main sources of funding for the Council's capital programme following the Large Scale Voluntary Transfer of housing stock back in 1994. Those receipts have however since been reinvested in various capital projects including investing in our three leisure centres among others and it is anticipated that by the end of 2026/27 capital receipts will be all but depleted, save for any new receipts that may arise from any asset sales.

### S106 Receipts

- 10.27 S106 receipts arise due to a planning obligation and are for the purpose of funding the infrastructure demands of new development for example schools, highways, green space, play areas etc. S106 receipts can be used for either capital or revenue purposes depending on the terms of the S106 agreement. For example S106 monies may be utilised to fund a capital project such as a new play area (capital) or may be set aside and commuted over a specified period for the ongoing maintenance of a play area (revenue).
- 10.28 S106 receipts also arise as a condition to provide social affordable housing where this may not be viable to deliver as part of a development and the Council will instead receive a capital amount to deliver that housing need itself.
- 10.29 S106 funds are for a specific purpose and can be area specific and must be applied in accordance with the agreement or otherwise repaid to the developer.
- 10.30 As at 31 March 2025 the S106 balance was £7.2million of which £4.1million has been committed to approved capital projects.

### Community Infrastructure Levy (CIL)

- 10.31 Hertsmere formally adopted the Community Infrastructure Levy (CIL) in September 2014, implementing CIL charges from 1st December 2014.
- 10.32 CIL is set and 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 discussed above will reduce and CIL will become the primary mechanism for infrastructure funding for Hertsmere.
- 10.33 Save for a 5% administration charge that can be used to offset the cost of CIL administration, CIL can only be used for funding new infrastructure requirements as a result of development.
- 10.34 Since its inception Hertsmere have collected a total of £28.5million in CIL of which £1.4million has been utilised for administration purposes (5% of the amount collected),

£2.4million has been passported to Parish and Town Councils (local share) and £5.3million has been applied or committed to schemes recommended by the CIL Investment Panel (CILIP) and approved by Cabinet/Council. The current uncommitted balance as at 31 March 2025 stands at £19.4million.

10.35 The table below shows the capital reserve balances as at 31 March 2025 and anticipated balances to 2027/28 based on existing decisions and assumptions:

**Table 8 – Capital Reserves Forecast**

| Capital Reserve Forecast            | 2024/25               |                        | 2025/26               |                        | 2026/27               |                        | 2027/28               |                        |
|-------------------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                                     | Balance B/F<br>£000's | Net Movement<br>£000's | Balance C/F<br>£000's | Net Movement<br>£000's | Balance C/F<br>£000's | Net Movement<br>£000's | Balance C/F<br>£000's | Net Movement<br>£000's |
| Capital Receipts                    | (5,756)               | 4,044                  | (1,712)               | 1,449                  | (263)                 | 0                      | (263)                 | 0                      |
| Community Infrastructure Levy (CIL) | (20,569)              | (907)                  | (21,476)              | 2,209                  | (19,267)              | 0                      | (19,267)              | 0                      |
| Disabled Facilities Grant           | (138)                 | 138                    | 0                     | 0                      | 0                     | 0                      | 0                     | 0                      |
| Local Authority Housing Fund (LAHF) | (1,255)               | 147                    | (1,108)               | 1,108                  | 0                     | 0                      | 0                     | 0                      |
| Other Grants                        | (307)                 | 130                    | (177)                 | 0                      | (177)                 | 0                      | (177)                 | 0                      |
| Section 106                         | (7,724)               | 563                    | (7,161)               | 4,101                  | (3,060)               | 0                      | (3,060)               | 0                      |
| <b>Total Earmarked Reserves</b>     | <b>(35,749)</b>       | <b>4,115</b>           | <b>(31,634)</b>       | <b>8,867</b>           | <b>(22,767)</b>       | <b>0</b>               | <b>(22,767)</b>       | <b>0</b>               |

**N.B.** reserve balances for 2024/25 may be subject to change following audit of the draft 2024/25 Statement of Accounts

## 11. Capital Expenditure & Resourcing

11.1 Under CIPFA guidance capital expenditure is defined as follows:

*“The expenditure results in the acquisition of, or the construction of, or the addition of subsequent costs to non-current assets (tangible and intangible) in accordance with ‘proper practices’”*

11.2 In addition expenditure can also qualify as capital if:

*“The expenditure meets one of the definitions specified in the regulations made under the 2003 Act”* i.e. Disabled Facilities Grants (DFG’s).

*“The Secretary of State makes a direction that the expenditure can be treated as capital expenditure”* i.e. cost of a major restructure

11.3 For Hertsmere the purpose of Capital Investment is:

- to drive and support growth throughout the borough
- to enhance existing operational infrastructure
- to generate additional/new revenue income
- to create additional value from existing assets and reduce the burden on revenue

### Strategic Objectives

11.4 The Strategic objectives for capital expenditure are:

- 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.
- 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.
- 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.
- To apply the most efficient form of funding for capital investment, usually grant funding and S106 contributions followed by Capital Receipts and CIL in order to minimise the Council’s borrowing requirement and to reduce the financial burden of borrowing on the revenue budget.

## ***Funding the Capital Programme***

- 11.5 The capital programme is approved annually by the full Council but is also revised regularly throughout the year to include new projects that may have been approved by the Cabinet or the full Council.
- 11.6 Capital projects must be affordable as prescribed in the Prudential Code, new capital bids are therefore required to be supported by a full business case setting out the whole lifetime costs of the project and the full impact on the revenue budget including potential costs of borrowing, opportunity costs of investing reserves, any ongoing revenue implications such as maintenance.
- 11.7 Capital projects can be funded through various capital and revenue sources, these include:
- Capital Receipts (capital resource)
  - S106 (capital or revenue resource)
  - Community Infrastructure Levy (CIL) (capital resource)
  - Grants (capital or revenue resource)
  - Earmarked Reserves (revenue resource)
  - Revenue Contribution to Capital Outlay (revenue resource)
  - Borrowing (capital resource)
- 11.8 With the exception of borrowing these funding sources are discussed in the Reserves and Balances section 10 above.

## ***Borrowing***

- 11.9 The Council is able to borrow from the Public Works Loan Board (PWLB) which is essentially direct borrowing from the Treasury. PWLB borrowing rates are generally favourable compared to other lenders.
- 11.10 The Council is able to borrow for capital investment but cannot borrow for revenue purposes and when borrowing the Council must consider affordability as prescribed by the prudential code, taking into account the full impact of borrowing on the revenue budget.
- 11.11 Borrowing is usually the last resort for capital funding as it is generally the most expensive funding source having the greatest impact on the revenue budget through capital financing costs, essentially interest and principal repayments (minimum revenue provision). The other funding sources should always be considered ahead of borrowing, in particular S106 and Grant funding which have little if any impact on the revenue budget.

### ***Capital budget: Management and Monitoring Process***

- 11.12 The capital programme is approved annually by the full Council as part of the annual budget process but is also revised regularly throughout the year to include new projects that may have been approved by the Cabinet or the full Council.
- 11.13 The Council has established an Asset Management Panel (AMP) whose role is to ensure the efficient, effective and sustainable use of land and property in its ownership for operational uses and also maximises the financial return from properties held for non-operational uses. The panel, which is chaired by the Asset Management Portfolio Holder is a cross party panel which meets in private session. The panel's recommendations form an integral part of the capital budget setting process where decisions to invest in capital bids or asset sales are generally considered by the panel.
- 11.14 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.
- 11.15 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.
- 11.16 Service Heads are required to 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.
- 11.17 To further imbed the capital planning framework, in May 2017 officers formed a Capital Strategy Group (CSG) with the aim of guiding the strategic direction for the capital programme by ensuring that the programme and all new bids align with the councils key strategic objectives. Further details are provided in the Capital Strategy.
- 11.18 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. The Capital Strategy will be reviewed and updated annually as part of the annual Budget Process and appendix 3 will be updated accordingly.



## 12. Influences, Pressures and Assumptions

### *Government Funding:*

- 12.1 The provisional finance settlement was announced on 17 December 2025 and includes a multi-year settlement for the spending review period 2026/27 to 2028/29 providing funding certainty over this period.

### *Homelessness Prevention Grant:*

- 12.2 Hertsmere's allocation for the Homelessness Prevention Grant increased for 2025/26 to £1,137k (2024/25 £668k). The 2025/26 approved budget fully utilised this grant to deliver Homelessness Prevention staffing, initiatives and temporary accommodation with a budgeted spend of £1,193k.
- 12.3 Through the Fair Funding Review the part of the HPG that related to Temporary Accommodation (c.£470k) has now been rolled into the Revenue Support Grant and is now included as part of Hertsmere's Core Spending Power. The remaining HPG has now been combined with the Rough Sleeping Initiative and Domestic Abuse Grants to form a new single grant now known as the Homelessness, Rough Sleeping and Domestic Abuse Grant which for 2026/27 amounts to £931k.

### *Extended Producer Responsibility (EPR):*

- 12.4 Whilst Hertsmere's allocation for 2025/26 was guaranteed at £1,096k indications are now that the levy will fall short of this by £60k. For 2026/27 Hertsmere has been advised of an indicative figure is £1,054k however this will be subject to the amount of levy actually collected. It is not yet clear how this levy will perform in future years but it is expected that the levy will reduce as producers take action to reduce packaging and hence reduce their levy. In theory this will lead to lower waste collection and recycling costs but this poses a risk to the budget going forward. The levy is ring-fenced for funding towards the costs of recycling packaging and as such is shown as a funding stream within the Waste Services budget.

### *Employer's National Insurance:*

- 12.5 The changes to employer's national insurance announce in the 2024 Autumn Budget came into effect from April 2025.
- 12.6 Whilst there was a commitment that the Government would fully fund these increases for public bodies, the reality was that the funding fell a long way short with Hertsmere receiving National Insurance Grant of £134k but facing increased costs of £396k. Under the Fair Funding Review this specific grant was rolled into the Revenue Support Grant and as such this underfunding is now built into Hertsmere's overall funding envelop.

### *Economy:*

- 12.7 The economy is slowly recovering however the increased cost of living continues to have a significant impact on household budgets affecting our residents and staff.

These conditions could continue to have a detrimental impact on the cost of providing services and on Hertsmere's revenue streams for example through fees and charges and on collection of local taxation.

#### ***Staff Pay, Recruitment and Retention:***

- 12.8 With the increased cost of living, staff expectations for a significant pay increase remain high. A 3.0% pay award was agreed for 2025/26 the Council does however need to be mindful of other public sector pay whilst also delivering a pay award that is affordable. Subsequently the National Joint Committee (NJC) agreed a national pay award of 3.2%.
- 12.9 Recruitment and retention continues to impact on some services including professional services such as planning and blue collar workers such as waste crews.
- 12.10 The 2026/27 draft budget includes provision for a 3.0% pay award.
- 12.11 Every 1% increase in staff pay has a cost of c.£180k.

#### ***Council Tax:***

- 12.12 The Strategy includes provision for an annual 2.99% increase being the maximum annual increase allowed without a referendum. Spending Review 2025 assumes that local authorities will make full use of the Council Tax flexibilities allowed.

#### ***Fees and Charges:***

- 12.13 Whilst inflationary increases for fees and charges are built into this Strategy, some statutory fees and charges are set by Central Government and may not be uplifted by inflation. All discretionary fees are however reviewed annually taking into account cost recovery including the effect of inflation and, where available, benchmarking against other nearby authorities. The full schedule of fees and charges can be found on the Council's website.

#### ***Rental Income:***

- 12.14 Rental income from commercial properties is significant generating around £8million per annum and there is an ongoing process for rent reviews and lease renewals, which are regularly reported to members via the Asset Management Panel. There is a risk that the high cost of living will impact the ability to pay resulting in bad debts.

#### ***Elstree Film Studios:***

- 12.15 Rental income from the current 30 year lease with Elstree Film Studios Ltd was reduced to the minimum provision of £1.2m during 2023/24, due to the closure of stages 7, 8 and 9 and subsequent loss of income to EFS. In December 2024 the Cabinet agreed works to bring these stages back into use and subsequently also agreed that the rental income budget be reinstated to £1.7m. The rent is however directly linked to the company's turnover and was subsequently reviewed in accordance with the lease terms in October 2025. The 2025/26 rent was subsequently agreed at £1.4m due to some improvement in forecast turnover for the year as a result

of the works. It was also agreed that the rent will return to £1.7m for 2026/27 subject to review in October 2026.

### ***Platinum Stages:***

- 12.16 The Platinum Stages are currently managed under an informal agreement by Elstree Film Studios Limited (EFS) however in June 2025 the Cabinet agreed to formalise this arrangement and enter into a Management Agreement and Occupation Licence with EFS who will formally manage these studios going forward from 2026/27. The current budget provision for the Platinum Stages is for a net income (net of business rates and management fee) of c.£1.5million, however EFS have advised that this level of income is not achievable going forward. This is following the previous tenant terminating their tenancy. EFS have proposed a rental figure for 2026/27 of £1.05million which has been reflected in the draft budget. The Platinum stages will be incorporated into the main lease and will be subject to the same annual rent reviews directly correlated to turnover.

### ***Cyber Attacks:***

- 12.17 Cyber security remains a significant risk and continues to be an extremely high priority for Hertsmere. The Council's IT security is reviewed regularly through internal audits as well as through the Public Sector Network review by Government and continues to meet the required Government standards. Since 2021 Hertsmere has taken out cyber insurance cover which includes an expert advice and support service providing a further audit of IT security and a full support service in the event of a successful attack. Regular fraud alerts are also received via the partnership arrangement with the Shared Anti-Fraud Service.

### ***Contingency:***

- 12.18 The uncertainties listed above have been partially mitigated by the inclusion of a £500k central contingency budget (increased from £300k in 2025/26), which equates to around 2.7% of the net budget requirement.

## 13. Risk Management

- 13.1 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*

- 13.2 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.”*

- 13.3 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.

- 13.4 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”*

- 13.5 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*

- 13.6 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 Risk Management Strategy was formally approved by the full Council on 24 April 2013. This Strategy is reviewed and revised annually and is reported to the Audit Committee. The Audit Committee also receive quarterly Strategic Risk reports and more recently have been receiving deep dive reports into individual strategic risks.
- 13.7 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”.
- 13.8 The Chief Finance Officer identified risks inherent in the budget setting process as representing the greatest threats to the budget and in their judgement the budget,

whilst challenging, is realistic and the reserves are adequate.

13.9 The bullet points below illustrate the impact of Risks on the Financial Strategy:

- Not 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 Service Plans 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.

## 14. Consultation Process

14.1 The timetable for consultation through to adoption of the Financial Strategy is as follows:

**Table 9 – Financial Strategy Adoption Timetable**

| Meeting   | Purpose   | Date              |
|---|---|-------------------|
| Cabinet   | To receive the draft Financial Strategy for consideration and recommendation to Policy Review Committee for consultation                                    | 10 September 2025 |
| Policy Review Committee   | To receive the draft Financial Strategy for consideration and comment back to Cabinet   | 4 November 2025   |
| Cabinet   | To receive the revised draft Financial Strategy for consideration and to consider comments from the Policy Committee for recommendation to the full Council | 14 January 2026   |
| Full Council  | To consider and adopt the Financial Strategy  | 21 January 2026   |
| <b>Note:</b> The reports and Appendices have also been discussed with the Portfolio Holder for Finance and Budget, Chief Officers, Assistant Directors and Service Heads and their comments have been included and contribution much appreciated. |   |                   |

## 15. Appendices

1. Financial Strategy Action Plan
2. Medium Term Financial Plan 2025/26 to 2028/29
3. Capital Strategy 2025/26 (as approved by full Council February 2025 C/25/08)



**APPENDIX 1**

**FINANCIAL STRATEGY ACTION PLAN**

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 ensure efficient service delivery and deliver the level of efficiencies required to allow the Council to prepare a balanced, affordable and sustainable budget. | Senior Leadership team   | Ongoing<br><br>To be reviewed annually |
| To achieve economies of scale through Partnership arrangements.  | Senior Leadership team   | Ongoing                                |
| To achieve efficiency savings by improving service efficiency through new technology and new ways of working.  | Head of Customer Experience and Digital Transformation<br><br>Senior Leadership team | Ongoing                                |
| Monitor and maintain cost efficient and effective staffing structures.   | Head of Human Resources & Customer Services<br><br>Senior Leadership team            | Ongoing                                |
| Secure reduction in expenditure through competitive tendering, smart procurement and compliance with the Procurement Strategy and Contract Procedure Rules.        | Senior Leadership Team   | Ongoing                                |

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| Action  | By Whom  | By When   |
|---|--|---|
| Wherever permissible income from all sources to increase as a minimum in line with inflation.   | Senior Leadership team   | Ongoing<br><br>To be reviewed as part of budget setting process |
| Maximisation of return from the Council's Asset Portfolio including asset sharing, commercial rents, up to date rent reviews and lease renewals   | Chief officers,<br><br>Head of Asset Management,<br><br>Senior leadership team                       | Ongoing   |
| The long-term financial implications including whole life costing of any new initiatives should be considered prior to submission to Cabinet and/or Council for approval.                               | Chief officers,<br><br>Assistant Directors and<br><br>Service Heads                                  | Ongoing   |
| Utilise the most efficient funding sources for new capital investment, usually grant funding or S106 followed by Capital Receipts and CIL to avoid the impact of borrowing costs on the revenue budget. | Chief Finance Officer  | Ongoing   |
| To support the priority to deliver social houses by making use of S106 and the Housing Enabling Fund and recycling capital receipts from Housing.   | Chief officers,<br><br>Head of Asset Management,<br><br>Head of Housing<br><br>Chief Finance Officer | Ongoing<br><br>To be reviewed annually                          |
| 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.                                      | Chief Finance Officer  | Ongoing<br><br>To be reviewed annually and                      |

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| Action  | By Whom   | By When                                |
|---|---|--|
|   |   | part of budget setting process.        |
| To assess and manage the risk associated with the Council's investments and emerging from the financial strategy. | Chief Finance Officer<br><br>Senior Leadership Team | Ongoing<br><br>To be reviewed annually |

**APPENDIX 2**

**MEDIUM TERM FINANCIAL PLAN 2025/26 TO 2028/29**

|   | 2025/26<br>Forecast<br>£'000 | 2026/27<br>Forecast<br>£'000 | 2027/28<br>Forecast<br>£'000 | 2028/29<br>Forecast<br>£'000 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| <b>Net Budget Brought Forward</b>                           | 13,965                       | 13,965                       | 18,279                       | 17,996                       |
| <b><u>Budgetary Increases / Savings:</u></b>                |                              |                              |                              |                              |
| Employee related expenditure Including pension              | -                            | 1,244                        | 442                          | 450                          |
| Net inflationary impact, growth and contractual obligations | -                            | 4,176                        | (567)                        | (332)                        |
| Net (increase)/reduction in income                          | -                            | (1,106)                      | (157)                        | (160)                        |
| <b>Required budget savings and efficiency gains</b>         | <b>0</b>                     | <b>0</b>                     | <b>0</b>                     | <b>0</b>                     |
| <b>Net Budget Requirement</b>                               | <b>13,965</b>                | <b>18,279</b>                | <b>17,996</b>                | <b>17,954</b>                |
| <b>Funding:</b>   |                              |                              |                              |                              |
| <b>Government Grant:</b>                                    |                              |                              |                              |                              |
| Revenue Support Grant                                       | 149                          | 5,979                        | 4,711                        | 3,398                        |
| Funding Floor   | 952                          | 0                            | 0                            | 0                            |
| 95% Funding Protection                                      | 0                            | 0                            | 590                          | 1,462                        |
| National Insurance Grant                                    | 134                          | 0                            | 0                            | 0                            |
| New Homes Bonus   | 13                           | 0                            | 0                            | 0                            |
| Domestic Abuse Safe Accommodation Grant                     | 39                           | 0                            | 0                            | 0                            |
| <b>Local Taxation:</b>                                      |                              |                              |                              |                              |
| Business Rates Baseline Need                                | 3,011                        | 2,969                        | 3,038                        | 3,099                        |
| Business Rate Under-Indexation Grant (S31)                  | 566                          | 0                            | 0                            | 0                            |
| Council Tax   | 9,102                        | 9,330                        | 9,657                        | 9,996                        |
| <b>Total Funding</b>  | <b>13,965</b>                | <b>18,279</b>                | <b>17,996</b>                | <b>17,954</b>                |
| <b>Year on Year Increase/(Decrease) in Funding</b>          |                              | 4,313                        | (282)                        | (42)                         |

**APPENDIX 2**

**ASSUMPTIONS**

- 1) Pressures and efficiencies already agreed have been factored into the budget from 2026/27 onwards.
- 2) A staff and member pay award of 3% for 2026/27 and an annual pay award of 2% per annum thereafter (in line with the Government's target for inflation).
- 3) Inflation has been included in 2026/27 budgets where appropriate based on current prices (i.e. for utilities and fuel) and/or contractual obligations (i.e. grounds maintenance).
- 4) Budgets have been adjusted where appropriate to reflect current and anticipated demand.
- 5) Council Tax increases of 2.99% per annum, which is in line with current referendum limits and the Government's expectations for core spending power.
- 6) Council Tax base of 43,121.1 for 2026/27 based on actual band D equivalent properties adjusted for current levels of Council Tax Support, Discounts and Exemptions as at October 2025 with assumed property growth of 0.5% per annum thereafter.
- 7) Annual inflationary increases are based on the Government's target for CPI inflation of 2% and have been applied to the following:
  - Pay award
  - Contracts, Utilities and Fees & Charges
- 8) Government funding is including as set out in the provisional financial settlement for 2026/27 and the multi-year settlement figures for 2027/28 and 2028/29.

APPENDIX 3

## CAPITAL STRATEGY 2026

### 1. Overview

- 1.1 This Capital Strategy document sets out the strategic direction for the Council's capital programme and provides a background against which the Council will pursue 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.
- 1.2 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.
- 1.3 This strategy outlines any recent developments, the capital investment background, the capital programme, capital strategy framework, key priorities and targets, the management and monitoring framework and our investment priorities.
- 1.4 The key areas of governance impacting capital decision making are summarised below:
  - CIPFA issued its revised "*Prudential Code for Capital Finance*" in December 2021. Key developments included in this version include strengthened and clear provisions within the code for prudent investing, definitions and disclosures for service, treasury and commercial investments. This new Prudential Code contains a new objective for proportionate service and commercial investments. Further developments for capital strategies have been made following their introduction in 2017, such as setting the strategy in the context of the organisation's corporate objectives.
  - DCLG (now MHCLG) introduced capital receipts flexibility to enable councils to use up funds from asset sales for transformation projects.
  - In 2012 DCLG issued updated guidance on the Minimum Revenue Provision (MRP) setting out the government's recommendations for the arrangements that authorities should make in establishing an MRP policy (i.e. approval by full council) and how a prudent provision should be calculated.
  - From 1 April 2010 Local Authorities, in line with Central Government Bodies and the National Health Service were required to adopt the IFRS based Code of Practice moving away from the previous UK GAAP (Generally Accepted Practice) reporting standards.

**APPENDIX 3****2. Capital Investment Background**

2.1 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 £50 million of capital receipts which helped the Council to invest in Leisure facilities amounting to £28 million, Community Assets £11 million and other land and buildings including Elstree Film Studios.
- Redemption of outstanding debt – The Council is currently a debt free (External debt) authority. However due to ongoing investment in existing and new assets the Council is in an under borrowed position, utilising internal borrowing to fund its Capital Financing Requirement (CFR).
- In 2003 the Council established a 100% subsidiary company, Elstree Film Studios Limited (EFS) as a general company limited by shares to manage the Elstree Studios site that the Council had acquired as an operational heritage asset in 1995. EFS initially managed the Studios site under licence however, since 2018 EFS have taken on a 30 year lease for the management of the Studios site for which the Council receives an annual rental.
- In 2016 the Council established another 100% subsidiary, Hertsmere Developments Limited (HDL) as a general company limited by shares to take forward the development of land within the borough with a view to deliver much needed new housing within the borough whilst also generating future income streams to support the Council's revenue general fund. The company has developed two sites at Clarendon Road and Eldon Avenue which were formerly owned by the Council and have since been transferred to Hertsmere Living Limited (HLL). These sites have delivered 26 2-bed properties for affordable rent. HDL are also looking at further development opportunities but will require the Council's support to undertake any further development. The Council currently provide a flexible working capital loan facility of up to £1.2million and have provided development loan funding for each of the first two schemes which have since not been repaid in full. This loan funding has generated an income stream to the Council via the interest payments on those loans.
- In 2021 the Council invested further in Elstree Studios building two new state of the art Stages and ancillary space. The stages were part funded from the Government's “Get Building Fund” via the Hertfordshire Local Enterprise Partnership. The stages, which opened in 2022, were named as, the Platinum Stages in honour of Her Majesty the Queen's platinum jubilee year. The



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Platinum stages have been managed by Elstree Film Studios Ltd under an informal agreement and from 2026/27 will be incorporated into the EFS lease.

- The Council is no longer a Housing Authority and is unable to hold housing stock having closed its Housing Revenue Account (HRA) in 1994. In 2022 the Council established a joint venture housing stock holding company, Hertsmere Living Limited (HLL) for the purpose of providing a mix of rental and shared ownership properties across all tenures. HLL became operational during 2023/24 and now holds a mixed portfolio of 49 properties including market rent, affordable rent and social rent purchased from the Council, from HDL and on the open market.

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**3. The Capital Programme**

3.1 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.

3.2 Significant recent completions include:

- Refurbishment of Civic Offices
- Modernisation and Refurbishment of Elstree Studios
- Purchase of key regeneration sites
- Development of sites for affordable Housing
- Disability access works
- Replacement of street scene vehicles

**APPENDIX 3****4. The Capital Strategy Framework**

4.1 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 ("The Hertsmere Vision 2022-27") provide the basis for the formal framework for the Capital Strategy and the prioritisation of capital resources. The Asset Management Plan and Service Plans along with support from the Capital Strategy Group further underpin the corporate strategies and provide the operational approach to implementing the corporate strategies and aims. The Capital Budget Programme estimates for the period 2025/26 to 2028/29 are shown below in section 7.

4.2 Objectives:

- To assist in the corporate aim of optimising the use of land, property, staff and finances.
- 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 contribution to capital)
  - ❑ Revenue implications of capital spend (In Prudential Code)

4.3 The key components of the framework are outlined below:

- **Debt Structure:** Whilst the Council does have a capital financing requirement or borrowing need, in the short term it will continue to utilise internal borrowing, whilst this remains an option, in order to minimise capital financing costs and maintain an external debt free status. However, the Council will continue to monitor external borrowing costs and take expert advice in relation to the most opportune time to take on external borrowing.
- **Major Repairs and Renewals:** The renewal and structural repairs of assets will, where possible, be funded from a provision in the revenue budget.
- **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

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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, options appraisal, have an appropriate business case and are prioritised in accordance with the Council's corporate priorities.
- **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.
- **Management and Monitoring:** All projects will be managed and monitored on an ongoing basis and reported to the Financial Monitoring Panel and the Capital Strategy Group 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.
- **Options for Partnering and Funding:** A key requirement of the capital investment appraisal is to explore options for partnering and funding, such as grant funding opportunities, S106 funding and CIL as means of alternate capital funding.
- **Procurement Strategy:** The Corporate Procurement Strategy sets a clear framework for purchases throughout the Authority, which reflects the Council's Corporate Plan and stands alongside the Council's 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.
- **Consultation:** The Council has engaged in two-way consultation and

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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 Corporate Action Plan. The Capital Strategy has grouped the key priorities and targets of the capital investment programme under the three key goals outlined in the Corporate Plan and as explained below.

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**5. Aims, Key Priorities & Targets of the Capital Programme**

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

| <b><u>Theme</u></b>    | <b><u>Priorities:</u></b>   |
|------------------------|---|
| <b>Our Communities</b> | <ul style="list-style-type: none"> <li>▪ <u>Keep our communities safe</u></li> <li>▪ <u>Build a resilient community</u></li> <li>▪ <u>Celebrate our heritage and identities</u></li> <li>▪ <u>Promote creativity and the arts</u></li> <li>▪ <u>Keep our communities healthy and well</u></li> <li>▪ <u>Support a well-educated and skilled population</u></li> </ul>             |
| <b>Our Places</b>      | <ul style="list-style-type: none"> <li>▪ <u>Protect the environment</u></li> <li>▪ <u>Accelerate towards net zero</u></li> <li>▪ <u>Secure the right growth in the right places</u></li> <li>▪ <u>Prioritise infrastructure to support development</u></li> <li>▪ <u>Grow an innovative and resilient local economy</u></li> <li>▪ <u>Support vibrant town centres</u></li> </ul> |
| <b>Our Services</b>    | <ul style="list-style-type: none"> <li>▪ <u>Deliver efficient and effective services</u></li> <li>▪ <u>Ensure value for money</u></li> <li>▪ <u>Embrace new ways of working</u></li> </ul>  |

**APPENDIX 3****6. Governance Framework**

- 6.1 In May 2017 the Council formed the Capital Strategy Group with the aim of;
- Setting the strategic direction for the Council's capital programme.
  - Ensuring that the capital programme aligns with the Council's key priorities and objectives,
  - Promoting the most efficient use of the Council's capital resources
  - Managing the effective delivery of the approved capital programme.
- 6.2 The Capital Strategy Group will support the delivery of the Capital Strategy by:
- Ensuring the most efficient and effective use of Hertsmere's capital resources and assets;
  - Strategically planning for capital investment in existing and new assets;
  - Identifying forward infrastructure needs and linking the Capital Strategy with the Local Development Plan; and
  - Innovation in investment opportunities and the use of capital resources.

**Terms of Reference**

1. The group will be an officer group.
2. The group will advise on and make recommendations to members in respect of capital proposals and capital funding via the Asset Management Panel and Community Infrastructure Levy Investment Panel (CILIP) and in respect of the Budget Process via the Budget Panel, the Cabinet and full Council.
3. It will maintain an integrated overview of all capital investment across the council and of all capital funding resources and sources.
4. It will review, monitor and challenge performance and delivery of the Capital Programme.
5. It will check and challenge new capital investment proposals to ensure that they align with Hertsmere's priorities, that they are affordable and that there is an appropriate business case.
6. It will ensure that capital investment decisions are not taken in isolation from consideration of any on-going revenue consequence.
7. The group will play a key role in the annual budget process, challenging the existing capital programme and presenting new proposals for inclusion in the capital programme for Council approval.

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**Membership**

- 6.3 The group will consist of senior managers with the majority of services being represented on the group. Where members of the group are unable to attend specific meetings then they should send a substitute.

| Service                         | Membership  |
|---------------------------------|---|
| Chief Officers                  | Assistant Director – Finance (Chief Finance Officer – S151 Officer) |
| Finance & Business Services     | Chief Accountant (Chair)<br>Senior Financial Accountant             |
| Asset Management                | Head of Asset Management and Engineering Services                   |
| Environmental Health            | Head of Environmental Health, Licensing and Resilience              |
| Policy & Partnerships           | Assistant Director Policy & Partnerships                            |
| Planning & Economic Development | Head of Planning, Economic Development & Climate Change             |
| Street Scene                    | Assistant Director Street Scene                                     |



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### 7. Capital Programme 2025/26 – 2028/29

- 7.1 The Council also considers the overall priorities for the current financial year and 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.
- 7.2 The Council's Capital Programme is set in the context of the wider Capital Strategy, Treasury Management Strategy and overarching Financial Strategy, also presented for Council approval. It considers the availability of capital resources, the affordability of any capital investment, in terms of the revenue implications of borrowing i.e. interest and MRP. It also considers that the items for approval, and reflecting the needs and priorities of the Council.

| Draft Capital Programme 2025/26 to 2026/27 | Revised Budget 2025/26* £000's | Draft Budget 2026/27 £000's | Draft Budget 2027/28 £000's | Draft Budget 2028/29 £000's | Total Draft Capital Programme £000's |
|--|--------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------------|
| Asset Management                           | 11,063                         | 5,048                       | 8,700                       | 1,200                       | 26,011                               |
| Planning, Econ Dev & Climate Change        | 4,190                          | -                           | -                           | -                           | 4,190                                |
| Environmental Health & Licensing           | 974                            | 973                         | 973                         | -                           | 2,920                                |
| Housing & Partnerships                     | -                              | -                           | -                           | -                           | -                                    |
| Finance & Business Services                | 38                             | -                           | -                           | -                           | 38                                   |
| Customer Experience & IDS                  | 598                            | -                           | -                           | -                           | 598                                  |
| Street Scene Services                      | 3,496                          | 2,230                       | 0                           | -                           | 5,726                                |
| <b>Total Draft Capital Programme</b>       | <b>20,359</b>                  | <b>8,251</b>                | <b>9,673</b>                | <b>1,200</b>                | <b>39,483</b>                        |

| Funding Source:                 | Revised Budget 2025/26* £000's | Draft Budget 2026/27 £000's | Draft Budget 2027/28 £000's | Draft Budget 2028/29 £000's | Total Draft Capital Programme £000's |
|---------------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------------|
| Capital Receipts (CRR/HEF)      | 4,079                          | -                           | -                           | -                           | 4,079                                |
| Disabled Facilities Grant (DFG) | 974                            | 973                         | 973                         | -                           | 2,920                                |
| Earmarked Reserves (EMR)        | 2,653                          | 250                         | -                           | -                           | 2,903                                |
| Revenue Contribution (REV)      | 1,550                          | 800                         | 100                         | -                           | 2,450                                |
| Borrowing - Internal (BRW)      | 2,402                          | -                           | -                           | -                           | 2,402                                |
| Grants (GRANT)                  | 511                            | 148                         | 2,242                       | -                           | 2,901                                |
| CIL                             | 5,332                          | 6,080                       | 3,800                       | 1,100                       | 16,312                               |
| S106                            | 2,858                          | -                           | 2,558                       | 100                         | 5,516                                |
| <b>Total Draft Funding</b>      | <b>20,359</b>                  | <b>8,251</b>                | <b>9,673</b>                | <b>1,200</b>                | <b>39,483</b>                        |

| Revenue Impact of Capital Investment:   | Cost to Revenue 2025/26* £000's | Cost to Revenue 2026/27 £000's | Cost to Revenue 2027/28 £000's | Cost to Revenue 2028/29 £000's | Cummulative Cost Impact on Revenue £000's |
|---|---------------------------------|--------------------------------|--------------------------------|--------------------------------|---|
| Cost of borrowing @ 5.91% (PWL B 40year rate as at 02/02/2026)  | 142                             | 142                            | 142                            | 142                            | 142                                       |
| Opportunity cost of lost investment income @ 3.5% (Use of Capital Receipts, EMR, CIL, S106) (UK Base Rate forecast for 2026/27) | 522                             | 744                            | 966                            | 1,008                          | 1,008                                     |
| <b>Total Revenue Impact of Capital Investment</b>   | <b>664</b>                      | <b>886</b>                     | <b>1,108</b>                   | <b>1,150</b>                   | <b>1,150</b>                              |

\* 2025/26 includes slippage to future years which is yet to be re-profiled

**APPENDIX 3****8. Capital Strategy – the long term view**

- 8.1 The programme as set out above, excludes the £50m that the Council has approved in principle to advance to **Hertsmere Development Limited**. This does not represent a commitment to lend the full amount. Each request for funding will be considered separately on its own merits and the total amount advanced in any single financial year will not exceed £10m unless additional approval is sought from the full Council.
- 8.2 Any loan advanced (which constitutes capital expenditure in accordance with the capital financing regulations) would provide funding to the Company to support the delivery of the first ten years of its Business Plan.
- 8.3 Loan advances when made are expected to be financed from borrowing. In the first instance this is likely be from internal borrowing (see paragraph 9.2 below) subject to the Council's cash balances, in order to minimise financing costs. The Council is able to borrow through the Public Works Loan Board at lower rates than the Company could borrow on the open market. However, in accordance with Subsidy Control requirements, to the Council must charge the Company a 'market rate' of interest, reflecting the rate that would be available to the Company from commercial lenders.
- 8.4 The Treasury Management Strategy has been updated to reflect the potential future borrowing requirement identified for Hertsmere Developments Limited.
- 8.5 Loan advances for development purposes are classified as capital expenditure under the capital financing regulations, with repayments as capital receipts. Any such loans will therefore need to be reflected in the Council's Capital programme.
- 8.6 The Council undertakes condition surveys to identify potential future capital investment across its asset portfolio over a 30 year life cycle. The last completed survey identified a potential £1.8m of investment needed over ten years, with a further £1.1m required between years 11 and 30. However, due to resource constraints, a full portfolio-wide condition survey was not undertaken in 2025..
- 8.7 In place of this, a targeted assessment of the roofs to the seven retail parades was completed, and an initial provision of £0.9m has been included within the Capital Programme to address the highest priority works. This allocation is not expected to be sufficient to fund all works identified. Where applicable, the Asset Management Team is progressing the Section 20 consultation process to ensure long leaseholders contribute their appropriate share of costs.
- 8.8 The recent appointment of a part-time Building Surveyor is expected, subject to no unforeseen issues arising, to release capacity to complete a wider condition survey of the portfolio. This will support the development of a revised capital budget and a planned maintenance programme over time. In addition, suitability assessments of the

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operational estate will be undertaken to ensure that limited resources are directed towards priority needs, in line with the emerging Asset Management Strategy.

|   | <b>Years 1-10</b> | <b>Years 11-20</b> | <b>Years 21-30</b> |
|---|-------------------|--------------------|--------------------|
|   | <b>£000</b>       | <b>£000</b>        | <b>£000</b>        |
| Capital Programme                                 | 39,483            | -                  | -                  |
| Hertsmere Developments                            | 50,000            | -                  | -                  |
| Asset Management – Building Maintenance Programme | 4,500             | 4,500              | 4,500              |
| Asset Management – Further Investment             | 1,800             | 800                | 300                |
| <b>Strategic Capital Requirement</b>              | <b>95,783</b>     | <b>5,300</b>       | <b>4,800</b>       |

**APPENDIX 3****9. Links with the Treasury Strategy**

- 9.1 The actual borrowing undertaken by the Council will not necessarily reflect the Council's underlying need to borrow.
- 9.2 This is because Treasury Management decisions are made independently of the capital financing decision. Treasury Management decisions are based on the availability of cash to the Council; where the Council retains significant balances in reserves, unallocated contributions, capital receipts and grants the expenditure can be managed without incurring external interest costs. This is effectively 'internal borrowing'.
- 9.3 The Councils underlying need to borrow is defined by its Capital Financing Requirement. This includes all capital expenditure that does not have any identified resource, such as revenue, grants or community infrastructure levy to finance it.
- 9.4 The Council investment portfolio extends beyond the more traditional treasury investments.
- 9.5 The Council owned Elstree Studios is managed by Elstree Film Studios Limited a 100% owned subsidiary of the Council. During 2025/26 the Council has invested further in the studios to reinstate stages 7, 8 and 9 and the underground car park following the asbestos remediation works completed the previous year, bringing these facilities back into full use. The reinstated stages are already occupied which has already resulted in an uplift in the rent paid by EFS to the Council from £1.2million in 2023/24 to £1.4million in 2025/26. The agreed rent for 2026/27 has been reinstated back to £1.7million.
- 9.6 The Council has also established Hertsmere Developments Limited, another 100% owned subsidiary for the purposes of developing much needed housing as well as delivering a longer term income stream for the Council. HDL have successfully developed two sites delivering 26 new housing units for affordable rent. Other sites will be reviewed for future development opportunities. The Council has received revenue returns through interest on a working capital loan facility and from development loans it provided to HDL.
- 9.7 The Council has also invested equity, by way of a transfer of six market rent properties into a 50:50 joint venture housing stock holding company, Hertsmere Living Limited (HLL), with Clarendon Living Limited who invested the equivalent value in cash equity. The Council have also provided loan funding to HLL for property purchases from which the Council receives an income stream through interest payments. These purchases include purchases directly from the Council for which it received a capital receipt, from HDL and on the open market. The Council has also pass-ported Local Authority Housing Fund grant to HLL to support compliant property purchases. HLL now have a mixed tenure property portfolio of 49 properties with further properties due to be purchase from the Council for which the Council will receive further capital receipts. The Council will also receive 50% of any potential future dividends.

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- 9.8 The Council also holds an investment property portfolio, valued at £8.9m on 31st March 2025.