APPENDIX A

Hertsmere Borough Council

HERTSMERE

Medium Term Financial Strategy

2018/19 to 2021/22

Contents

1. Executive Summary

1.1 Hertsmere Borough Council is situated to the north of London in southwest Hertfordshire and has a population for 2016 of 103,500. The Borough covers an area of 39 square miles and includes the communities of Aldenham, Bushey, Potters Bar, Radlett, Elstree and Borehamwood and is bordered by three London Boroughs. Despite its proximity to London, 80 per cent of the Borough is Green Belt, much of which is in agricultural use.

1.2 Hertsmere's Corporate Plan, revised in 2017, sets out the Council's vision for the next three years ("2020 Vision"). This vision identifies three Corporate Themes each of which has a number of outcome-based objectives that support the development of priorities for action which are outlined in the Corporate Action Plan. The three corporate themes are:

- Being an enterprising council
- Planning for the future
- Supporting our communities

The Financial Strategy

1.3 This Financial Strategy (the Strategy) covers a four year period, 2018/19 to 2021/22, and is an integral part of and critical to the Council's Corporate Governance and Performance Framework, delivery of the Community Strategy and Corporate Plan and the majority of the Council's policies and strategies.

1.4 The Strategy is reviewed and updated as required to assist the Corporate Director, in her capacity as the Chief Finance Officer, in planning the Council's financial resources in the short to medium term (3 to 5 years) with a view to deliver the Council's service priorities. It also sets out the framework and 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.

1.5 The strategy takes into account the national and regional context and links those with the Council's corporate goals and priorities. The Balances and Reserves Policy (section 11) highlights the possibility that the Council may have to utilise some of its General Fund reserves as a last resort given the reduced government funding and current economic conditions. However it does still underpin the key principle that use of reserves in the long term is unsustainable. The Strategy also includes a section on influences, pressures and assumptions (section 13) covering in the main, the economic climate and growth prospects over the medium term, inflation, austerity and legislation.

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

Funding and Budget Pressures

1.7 The final 2016/17 Finance Settlement, announced on 8 February 2016 included provisional SFA figures for a four year period to 2019/20 which, whilst this showed a continued reduction in Government grant funding, was welcomed as it provided a degree of certainty for Local Authorities over the medium term. In accepting this four year settlement, which was indicated would be the minimum level of funding over the four year period, local authorities were required to produce an Efficiency Plan setting out the actions they intended to take over the medium term to manage their finances and deliver a balanced budget. Hertsmere's Efficiency Plan is set out in Appendix 5 of this Strategy.

1.8 In addition to the funding pressures that Hertsmere will face over the medium term there are also many spending pressures including:

- increased demand on services such as homelessness, benefits and waste collection due to changes in welfare support as well as an increasing population
- legislative changes such as the Homelessness Prevention Act, the Living Wage and the Minimum Wage
- regulatory changes such as Planning and Licensing
- environmental and other external influences, for example the impact on recycling costs as a result of decisions overseas
- contractual obligations
- and general inflation

Medium Term Forecast

1.9 As a result of these combined pressures the Council, in line with other local authorities, is facing a significant challenge over the medium term and beyond. Overall this strategy sets out a funding gap of £1,606k over the next four years, this position is summarised as follows:

Table 1: Medium Term Financial Forecast	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's
Net Budget Requirement	11,860	12,307	11,467	11,685
Funding	11,860	11,137	11,215	11,501
Funding Shortfall	-	1,170	252	184
Cumulative Funding Shortfall	**-**	**1,170**	**1,422**	**1,606**

1.10 The medium term financial forecast estimates the additional budget requirements or funding gap to be funded through ongoing efficiency savings and additional income generation and this is detailed later in this Strategy at section 6 and summarised in Appendix 2. This forecast makes some key assumptions including a 2% pay award each year, contractual increases in line with inflation and annual council tax increases of £5 each year to 2019/20 and 2% thereafter.

1.11 A balanced budget for 2018/19 was presented to and approved by the full Council on 28 February 2018. The net budget requirement of £11,860k is balanced by the equivalent level of funding by way of general Government grant, retained business rates growth, a one-off distribution from the Collection fund surplus (prior years over collection of Council Tax and Business Rates) and the New Homes Bonus. These funding streams are set out in Appendix 2.

1.12 The level of NHB funding for 2018/19 amounts to £1,200k which is similar to the level applied to the revenue budget over the last few years. However, as a result of changes to the scheme, the NHB grant has unfortunately seen a significant reduction since 2016/17. This utilisation therefore represents a much higher proportion of the total NHB grant allocation than has been the case in recent years as shown below:

Table 2: **New Homes Bonus funding of the Revenue Budget**	**2015/16** **£000's**	**2016/17** **£000's**	**2017/18** **£000's**	**2018/19** **£000's**
Total NHB Grant Allocation	1,927	2,355	2,017	1,359
Used for Revenue Budget funding	1,148	1,173	1,200	1,200
Percentage utilised	**60%**	**50%**	**59%**	**88%**

1.13 Hertsmere have in the past taken a prudent approach on the use of the NHB, limiting and in fact reducing reliance on this grant up until 2016/17 with the unallocated element of this non ring-fenced grant being transferred to and held in a reserve for future one off investment such as invest to save projects that will generate additional income streams or drive efficiencies. Given the significant reduction in the NHB coupled with the ongoing uncertainty on Government funding, Hertsmere now needs to revise its position in respect of the NHB and reduce its reliance on this grant as a funding source for the revenue budget going forward. A reduction in the use of the NHB for this purpose has therefore been reflected over the medium term financial forecast (section 5 and Appendix 2).

Commercialism, Innovation and Partnerships

1.14 Hertsmere prides itself on its commercial and innovative approach particularly in respect of income generation and is looking to expand on this to support its financial ambitions. The Council owned Elstree Studios has a proven track record of success and now contributes £1.4 million per annum in rent. The Council is looking to make further commercial investment and is in the process of taking forward a number of development opportunities in-house and has also set up a property development company, Hertsmere Developments Limited (HDL), to further enhance its commercial approach. HDL's business case is due to be presented to the full Council in July 2018 and includes a mix of development proposals including residential property for market sale, market rent and affordable as well as some commercial development. The overall investment being proposed is in the region of £50m and will deliver a substantial future ongoing income stream for the Council.

1.15 Whilst these opportunities are still in development they are not yet recognised in the medium term financial forecast however the Financial Strategy is an ever-evolving document and as these projects are taken forward they will be factored into the forecast and will go some way to meeting the £1.6m funding gap currently identified.

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

Budget Consultation

1.17 As part of the annual budget setting process the draft budget is recommended by the Executive for consultation with all members of the Council, key stakeholders including local businesses and local residents. This includes a detailed budget presentation to the Policy Review Committee, a direct mailing to local businesses and resident consultation, including a summarised budget, via the Council's website and social media.

1.18 Hertsmere also actively involves its residents in setting priorities for spending by carrying out 'participatory budgeting' exercises. These exercises have contributed to ongoing annual savings of £1.4 million since 2011

Looking Ahead

1.19 The Financial Strategy is an ever-evolving document, which will be implemented over a considerable period and will be subject to ongoing review and update. This is especially relevant to issues such as the ever changing economic climate, legislation and Government policy such as the ongoing roll out of Universal Credit, further potential changes to government funding through the Fair Funding Review and 100% Business Rates Retention, the increasing demand on services such as homelessness and waste collection and the potential to achieve efficiencies and future revenue income generating opportunities through the Council's commercial approach.

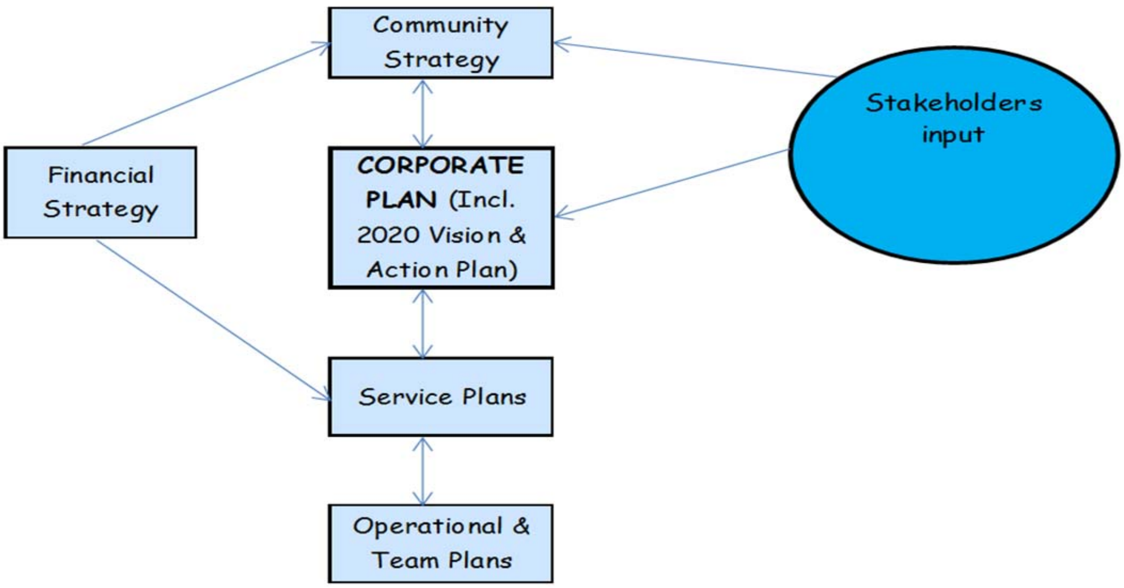
1.20 The appendices to this Strategy show the most recent position in terms of the revenue budget and medium term forecast, the three year capital programme and the Efficiency Plan. These elements of the Strategy set out how the Council intends to manage the pressures it faces now and how it will balance the books in the short to medium term. These elements of the Strategy will be reviewed and updated annually through the annual budget process.

1.21 This Financial Strategy document will be kept up to date as required and will be fully updated every 3 years.

2. Introduction

2.1 The Financial Strategy is the Council's key financial planning document and is an integral part of Hertsmere Borough Council's (the Council) Corporate Plan. It is essential in applying a structured approach to the Council's service delivery and to ensure that resources are allocated to meet identified needs and priorities as shown in figure 1, below. The strategy also sets out and considers the financial challenges and opportunities facing the Council and also ensures that policies are properly resourced and effectively delivered. This strategy has been prepared following a period of recession but where there are signs of an economic recovery and growth in the UK, but with continued austerity measures whereby the Council's grants are being reduced significantly.

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



Aims and objectives of the Financial Strategy

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

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

- To ensure that the Council's finances are resilient in order to face future challenges such as ongoing austerity measures and the global economic impact.
- To assist in the realisation of the core values of the Council, and in particular, to ensure resources are allocated in line with corporate and service priorities, after taking full account of the financial implications of all policies, statutory duties and any long term issues and implications.
- To optimise use of the Council's assets in land, property and liquid resources so that appropriate reserves can be maintained in order to achieve the Council's overall financial and corporate objectives and to achieve the efficiency gains required to deliver a balanced and sustainable budget. This will be reviewed by the Council's external auditors as part of the annual audit which includes forming an opinion on the Councils financial resilience and value for money
- To bring forward development and commercial opportunities that generates an ongoing income stream to allow the Council to be self-sufficient and avoid over reliance on Central Government funding.

2.3 The Strategic Financial Objectives are:

- 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, driven by the Council's procurement strategy and the Councils VfM Strategy.
- The Council has a duty to deliver services that provide best value to its residents, within the resources available to it. To deliver best value within a balanced budget the Council continuously reviews and challenges its services and the way they are provided.
- To invest net capital receipts set aside for revenue generating projects into revenue generating asset portfolio and/or cost savings initiatives and future opportunities, such as projects where the Council is developing its surplus land with a view to sell or to keep for additional rental income. Examples include the planned investment in the Civic Centre Hub and the setting up of a Development Company (Hertsmere Developments Limited) that will look for further opportunities for development to generate much needed additional housing whilst also maximising income generation making the best use of the Council's assets and a return on investment that will support the general fund towards long term self-sufficiency. In cases where there is a time lag in securing investment opportunities, interest earned will be utilised for Revenue Budget purposes.
- 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 provide loans to subsidiary companies at reasonable rates with a view to generate additional returns from cash balances which are surplus to the Council’s immediate spending requirements. This has to take into account the capital financing requirement of the Council and Prudential Code regime.
- To maintain the level of capital, revenue and earmarked reserves and balances at an appropriate level, after taking into account external, financial and economic pressures.
- To maintain adequate governance arrangements to ensure the legality of transactions that may have a financial consequence.

Achievements

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

i) 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.

ii) The award of contract for its leisure facilities management to Hertsmere Leisure Trust to provide the leisure services for an initial 10 years, starting January 2012 (now extended for a further five years) resulted in additional income to the Council of c.£280k per year.

iii) A review of the Council’s management structure in 2011 and 2017 which resulted in ongoing efficiencies of £1,500k per annum.

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

v) Partnership and consortium procurement wherever possible.

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

vii) Continued investment in IT infrastructure to ensure security, resilience and cost savings and enabling transformation of services.

viii) Working in partnerships and shared service delivery in order to achieve continuous Value for Money gains and effective service delivery. To date this has amounted to an ongoing reduction in costs of around £500k per annum.

ix) Maintaining adequate reserves – Earmarked and General Fund.

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

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

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

xiii) The establishment of Council subsidiaries (Elstree Studios, Hertsmere Developments Ltd) to realise commercial opportunities to supplement the Council's general fund.

2020 Vision – A corporate plan for Hertsmere

2.5 2020 Vision is the collective name for the suite of documents that make up Hertsmere's new Corporate Plan 2017-2020, which will guide the work of the council for the next three to four years. The Plan reflects the decision of the council to focus on key actions which will have the biggest impact on our work whilst also reflecting our desire to continue to deliver high quality services to our residents.

2.6 Hertsmere's 2020 Vision articulates the council's high level vision, values and priorities in a simple one page document which represents the key challenges we face over the next period and how we intend to respond to them whilst also maintaining focus on key service delivery.

Figure 2 – Hertsmere's 2020 Vision

2.7 The council's corporate action plan 2017-18 sets out the key high level actions the council will be undertaking over the next year. It highlights those projects which are over and above our day to day service delivery and will have an impact on our residents in either how services are delivered or how we generate income.

2.8 In addition to internal monitoring, progress against the action plan will be reported quarterly to the Executive.

2.9 **Annual report** - this retrospective document will detail work done by the council over the previous year and report back on progress against the Corporate Action Plan. It will be produced alongside the Corporate Action Plan for the forthcoming year. The first Annual Report will be published in April 2018

2.10 **Performance Management Framework** - The updated Performance Management Framework sets out how we will monitor progress against the Corporate Action Plan and also our key services. It aims to reduce the burden on Officers of collecting performance statistics whilst also recognising the need to understand how well we are performing both against our priorities but also in our aim to deliver high quality services to Hertsmere residents.

2.11 The Operations Review Committee receives quarterly performance reports to monitor the delivery of the corporate priorities.

2.12 The Corporate Plan 2017-2020 was updated in September 2017.

The Financial Strategy and the Budget setting process

2.13 The Council starts its detailed budget plan as part of the service plan, which is reflected in the budget strategy and culminates in the Financial Strategy. The relationship between the budget setting process and the Financial Strategy is shown in figure 3 below.

Figure 3 – Relationship between the Finance Strategy and Budget Process

Basic Budget	Budget Strategy	Finance Strategy
Council Tax oriented	Multi-resource oriented	Multi-resource oriented
Balances the budget	Supports service	Policy & priority driven
Annual Timeframe	Three year timeframe	Longer than three year timeframe
Focused on stewardship	Focused on performance management	Focused on transformation

2.14 This Strategy document takes account of the following:

- The Council's Community Strategy
- The resident survey carried out in 2015
- The outcome of external audit and internal audit recommendations and feedback
- The Council's Corporate Plan
- Service plans
- The Prudential regime for Capital Finance in Local Government
- The Council's Housing Strategy and other key documents
- Transformational Government and Information Services Strategy
- The Value for Money service delivery culture
- The Localism Act and Welfare Reform including roll out of Universal Credit
- The current economic climate
- The Council's Performance Management Strategy
- The Finance Act and related consultation including the Fair Funding Review
- The Austerity Measures and the Chancellor's Autumn Statement and Budget Speech 2015
- The four-year financial settlement 2016/17
- The provisional local government finance settlement 2018/19

2.15 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.

2.16 Annual revenue expenditure is financed by these main sources:

- General Government grant through the Settlement Funding Assessment (SFA or Finance Settlement), including:
  - the Revenue Support Grant (RSG), however this will be phased out by 2019/20; and
  - the Business Rates (NNDR) baseline grant
- New Homes Bonus
- Retention of business rates growth

- Council tax
- Fees and charges
- Investment income
- Revenue reserves (but only in exceptional circumstances)

3. About Hertsmere

3.1 Hertsmere Borough Council is situated to the north of London in southwest Hertfordshire and has a population for 2016 of 106,500. The Borough covers an area of 39 square miles and includes the communities of Aldenham, Bushey, Potters Bar, Radlett, Elstree and Borehamwood and is bordered by three London Boroughs. Despite its proximity to London, 80 per cent of the Borough is Green Belt, much of which is in agricultural use.

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

3.3 Unemployment is around 1.1% compared to a national average of 1.6%. Historically many residents have commuted to work in London and a high proportion of them are in professional or managerial roles. There are a number of service sector employers in the area and Elstree/Borehamwood has been part of the British film industry for many years, hence one of the reasons the Council owns Elstree Film Studios.

3.4 The majority of the housing in the Borough is owner-occupied with 17.4% in social and local authority rented housing and 13.8% private sector rented or rent-free. The average price of a three bedroom semi-detached property is around £513k which is above the Hertfordshire County, regional and national averages. The only higher average is Greater London.

Services provided by the Council

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

3.6 Waste & Street Cleansing:

- The household recycling service has continued to perform effectively and efficiently with an anticipated recycling rate of 45% in 2017/18. However uncertainties in the recycling market and the fluctuating prices for recyclables have meant that the cost of recycling collections is increasing.

3.7 Community Safety:

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

Hertfordshire. The partnership shares the CCTV management and monitoring services.

3.8 Cultural & Youth:

- The Council supports museums in Elstree and Borehamwood, Bushey and Potters Bar.
- The Council, in partnership with Arsenal Football Club, provides diversionary activities and curriculum coaching to schools in Hertsmere as well as running soccer schools for 4 weeks of the school holidays.
- The Council is also in receipt of a grant from Sport England to increase the levels of women and girls participation in support and physical activity.
- Students from every secondary school in Hertsmere are invited to attend an annual Youth Conference where they learn about how democracy works and have the opportunity to quiz local councillors in a political speed meeting.
- The Council also supports and works with partners to provide a wide range of youth and sporting activities across the borough.

3.9 Housing:

- A number of initiatives have been implemented which have helped provide more temporary accommodation and reduce the cost. These include: the Private Leasing Agreements Converting Empties Scheme; bringing flats over shops back in house to home local families; and block booking through existing providers.
- Future demand is hard to predict with on-going changes to the benefits system including the implementation of the Homelessness Reduction Act from April 2018, the benefits cap and the rolling out of Universal Credit over the next few years.

Residents Survey

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

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

3.11 The latest survey is (at the time of writing) currently in progress, with results expected to be available in summer 2018. The results of the 2015 survey showed that 91% of people surveyed were satisfied with their area as a place to live, and 60% of respondents felt that the Council provided good value for money, a rise on 52% in 2008.

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

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

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

Future challenges & issues

3.15 As already indicated the Council is facing unprecedented challenges. Some of the key ones are summarised below:

3.16 Housing:

- Expenditure on temporary accommodation continues to place increasing demands on the Council's general fund position. Housing demand and homelessness is on a rising trend putting pressure on the Temporary Accommodation budget; there is also outward pressure on Hertsmere's housing from neighbouring London Borough's placing tenants within the borough.
- The Homelessness Reduction Act, due to be implemented from April 2018 will require the Council to intervene earlier to attempt to prevent homelessness for all households at risk of homelessness within 56 days regardless of their priority need status. This is likely to place significant extra pressures on the Council's already stretched budgets.

3.17 Planning

- Potential changes to the Planning system that may enable developers to seek private planning advice and approval will not only impact on or be contrary to Hertsmere's planning policies it would also impact on Hertsmere's income stream disproportionately to its costs as there will still be a legislative requirement to provide the planning service. Other changes to planning include regional strategic planning that will require Hertsmere to work cohesively with other authorities locally. There will be some grant funding for this but there will also be increased costs.

3.18 Recruitment & Retention:

- Over the past few years it has become increasingly difficult to recruit and retain certain staff, for example in professional and specialist roles such as Finance, Planning, Environmental Health and Benefits. This is in part due to Hertsmere's proximity to London and the higher levels of pay available in neighbouring London boroughs but also due to some specialist roles being less attractive due to private competition and uncertainty caused by changes in legislation for example universal credit.

3.19 Business Rates:

- The introduction of business rates retention has resulted in an element of risk transferring from central government to local authorities, especially during times of economic downturn. The move to 75% retention (currently 50%) of business rates from 2019/20 will come with additional responsibilities as existing grants including the Revenue Support grant and Public Health grant will be rolled into business rates funding.
- The new appeals process was implemented from April 2017, the aim of the new three-stage process, 'Check, Challenge, Appeal', being to provide a system that is easier to navigate with the emphasis on early engagement by the parties to reach a swift resolution of cases. Whilst this new process came in from April 2017 there are still a significant number of outstanding appeals dating back to 2010 that the VOA are prioritising first. This is causing significant uncertainty in forecasting Rateable Value and in calculating the appeals provision against both the 2010 list and 2017 list and two separate appeals processes.
- From 2018 CPI rather than RPI will be used to uprate the multiplier for business rates. Whilst the Government have stated that local authorities will be compensated for any resulting loss the impact on rateable value could affect any future baseline reset which could reduce future resources.
- The next rating revaluation will happen as planned in 2022, thereafter revaluation will be every three years which will add administrative pressures.

3.20 Universal Credit:

- Universal Credit continues to be rolled out across the country, albeit at a slower rate than originally anticipated. The rollout began in Hertsmere back in December 2015 with what is known as the Live Service which was only available for new single claimants.

- The scheduled go live date for the roll out of the Universal Credit Full Service for most of Hertsmere (Borehamwood Job Centre catchment area) is December 2018, however the Full Service has already gone live in our neighbouring boroughs of St Albans, Watford and Welwyn & Hatfield where Universal Credit is now available to all working age claimants, with some exceptions. Where Hertsmere shares postcodes with these Full Service areas, claimants living in those postcodes will now need to claim Universal Credit rather than Housing Benefit.
- The Full Service will be rolled out over several years for new claimants, with existing customers will remaining on Housing Benefit, unless their circumstances change. This will be the case until 2020 when all working age claimants will then be moved over to Universal Credit.
- There are concerns about the design and implementation of the scheme as feedback shows that the initial payment waiting period for claimants is resulting in a marked increase in debt and rent arears. This has implications for the Council’s general fund and ability to invest in affordable housing.
- Hertsmere continue to work with and provide funding to Citizen's Advice who offer Personal Budgeting Support and Advice.

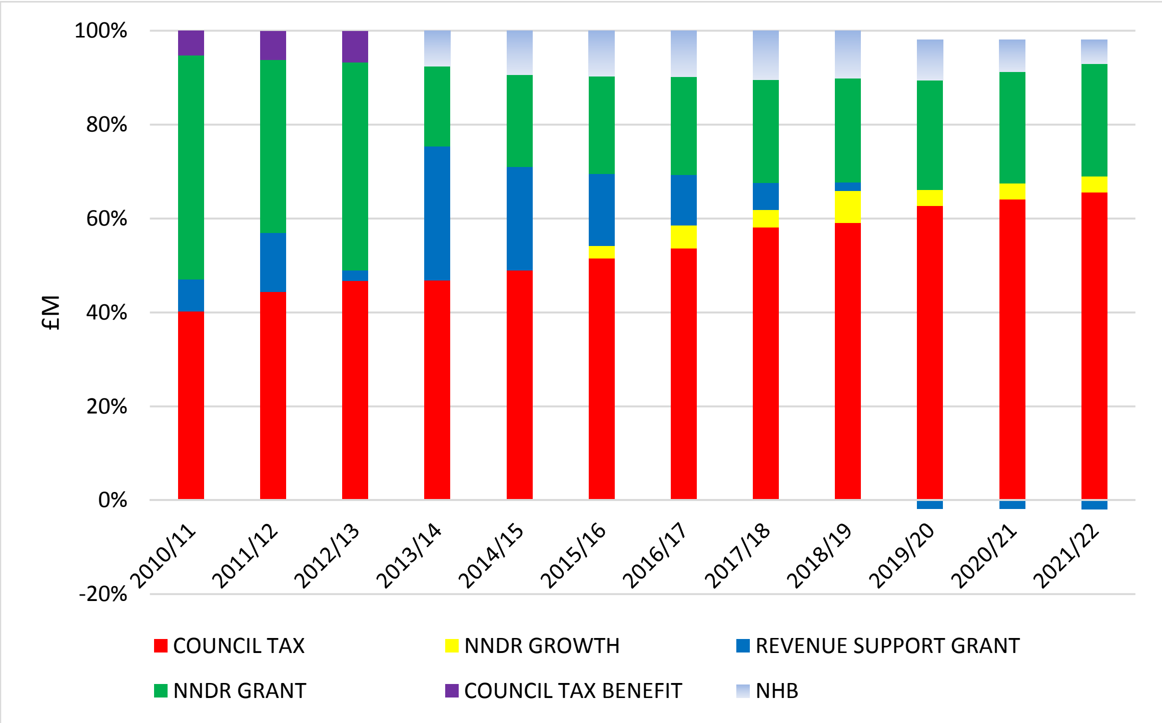
3.21 Ageing Population:

- The pension-age population is forecast to rise by close to a third (34%) and the number of over-75s in the population is set to grow by 89% by 2040. This points towards a surge in demand for health and social care services unless health in old age improves dramatically.

3.22 Government Funding:

- The council’s services are in part funded by income generated through fees and charges in respect of some of those services and from rental income from the Council assets. The remaining net budget requirement is funded from general government grant, the New Homes Bonus and retained business rates growth with the balance falling to Council Tax levies.
- Due to the continued decline in general government funding the cost of providing council services is falling increasingly on council taxpayers. For 2018/19 59% of Hertsmere’s budget requirement will be funded from Council Tax compared to just 45% in 2010/11 as depicted in the following graph:

Figure 4 – Hertsmere's Funding and Gearing since 2010/11

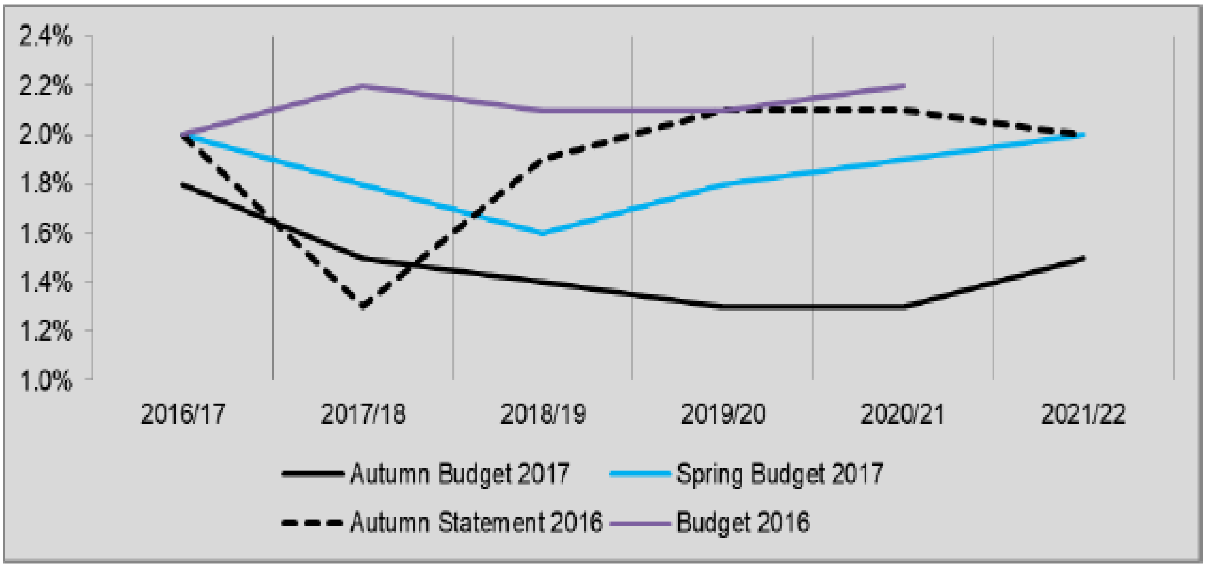


4. Context

Economic Update

4.1 After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak. The UK GDP growth announced in the Autumn Statement now shows a significantly lower level for growth in 2017/18 of just 1.5% compared to previous years forecast of 2.0%. Forecasts for growth over the next three years are now also slightly lower than had been the case a year ago. Figure 5 below depicts the latest Government's growth forecasts for the next four years, directly compared against previous forecasts.

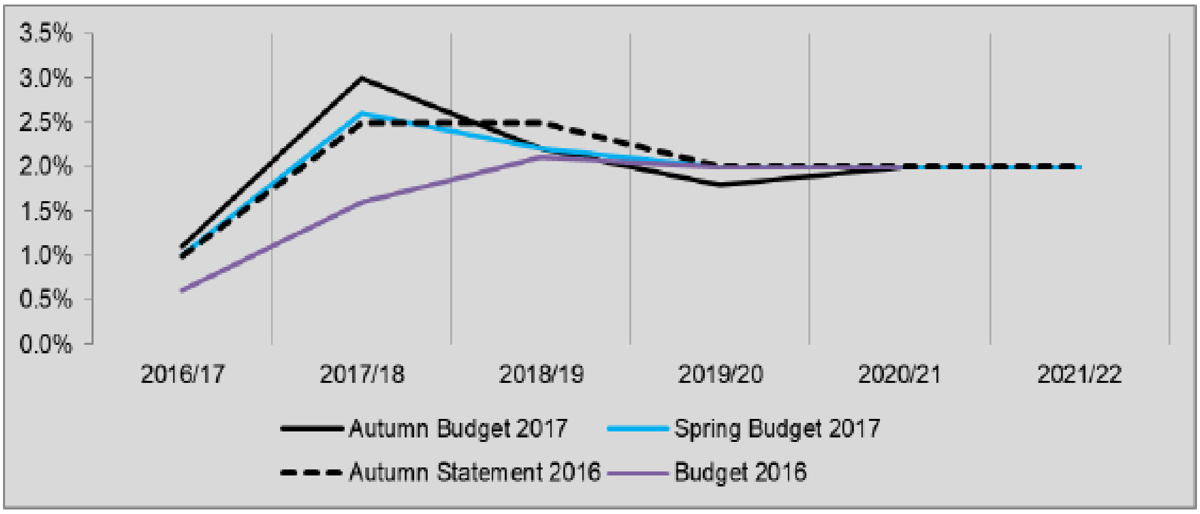
Figure 5 – GDP Growth Forecasts



Source: LG Futures – Autumn Budget Briefing

4.2 CPI inflation has been above the Government's target rate of 2% for some time rising to 3.0% in September and with forecasts expecting this to rise to 3.8% during 2018 before falling back towards 2.8% in 2019 where it is expected to remain around this level. The current CPI inflation forecast is depicted in figure 6 against previous forecasts:

Figure 6 – CPI Inflation Forecasts



Source: LG Futures – Autumn Budget Briefing

4.3 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%.

4.4 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact.

4.5 Bank Rate is currently forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- Q3 2017 0.50%
- Q4 2018 0.75%
- Q4 2019 1.00%
- Q4 2020 1.25%

Source: Link Asset Services Interest Rate Update November 2017

4.6 The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

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

Autumn Budget 2017

4.8 The Chancellor presented his Autumn Budget to the House of Commons on 22 November 2017. There were significant changes to economic forecasts (productivity and GDP), fundamental changes to the business rates system (multiplier, revaluations), and many high-profile funding announcements including for the NHS and housing.

4.9 The Chancellor announced that the government is producing this Budget against the background of preparing for exiting the EU, and, to help ensure a smooth transition, they are setting aside an additional £3bn.

4.10 The level of public sector net borrowing is now forecast to be £49.9bn in 2017/18, reduced from £58.3bn in the March Budget. However, the forecast for the last year of the current Spending Round is for borrowing of £34.7bn, compared to £21.4bn in the March Budget, and, by 2021/22, for £30.1bn, compared to £16.8bn.

4.11 The Autumn Budget sets out a number of measures with a direct impact on local government. Those of significance to Hertsmere are outlined below:

Business Rates

- From April 2018, CPI will be used to uprate the multiplier for business rates, rather than RPI, bringing forward the change already announced from April 2020. This will mean a lower increase in rates, however the Government have stated that local government will be compensated for the loss in revenues. However, it is likely that it will result in a lower Business Rates (NNDR) Baseline amount in 2020/21, which, if not compensated for, would reduce local authority resources;
- The business rates revaluation cycle will switch from five years to three years following the next revaluation planned for 2022;
- There will be an extension of one-year to the £1k discount to business rates bills for pubs with a ratable value of less than £100k to 2018/19. This will be funded by way of a section 31 grant.

Council tax

- From April 2019, local authorities will be given the power to increase the council tax empty homes premium from 50% to 100%.

Housing

- The government announced that it wishes to increase the numbers of new homes being built to 300,000 per annum by the middle of the 2020s. A wide breadth of measures were announced to support this objective including:

- **Housing Investment:** the government will provide £1.1bn for a new Land Assembly Fund; a further £2.7bn to the competitively allocated Housing Infrastructure Fund (HIF) in England and a further £630m through the NPIF to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation.
- **Intervention:** the government confirmed it has begun the formal process of considering intervention in 15 areas where the local authority has failed to put an up-to-date plan in place and that it will shortly activate powers that will enable it to direct local planning authorities to produce joint statutory plans and undertake an assessment of where they should be used.
- **Community Infrastructure Levy:** DCLG will launch a consultation with detailed proposals on reforms to the CIL.
- **Housing First pilots:** the government will invest £28m in three Housing First pilots in Manchester, Liverpool and the West Midlands, to support rough sleepers with the most complex needs to turn their lives around.

The government has also announced:

- A national living wage of £7.83 from April 2018

Universal Credit (UC)

4.12 Universal Credit continues to be rolled out across the country, albeit at a slower rate than originally anticipated. The rollout began in Hertsmere back in December 2015 with what is known as the Live Service which was only available for new single claimants.

4.13 The scheduled go live date for the roll out of the Universal Credit Full Service for most of Hertsmere (Borehamwood Job Centre catchment area) is December 2018, however the Full Service has already gone live in our neighbouring boroughs of St Albans, Watford and Welwyn & Hatfield where Universal Credit is now available to all working age claimants, with some exceptions. Where Hertsmere shares postcodes with these Full Service areas, claimants living in those postcodes will now need to claim Universal Credit rather than Housing Benefit.

4.14 The Full Service will be rolled out over several years for new claimants, with existing customers will remaining on Housing Benefit, unless their circumstances change. This will be the case until 2020 when all working age claimants will then be moved over to Universal Credit.

4.15 There are concerns about the design and implementation of the scheme as feedback shows that the initial payment waiting period for claimants is resulting in a marked increase in debt and rent arears. This has implications for the Council's general fund and ability to invest in affordable housing.

4.16 The Council have entered into an agreement with the Department for Work and Pensions (DWP) to provide support for those applying for Universal Credit by providing access to the online application process and support with personal budgeting advice. Hertsmere also continue to work with and provide funding to Citizen's Advice who offer Personal Budgeting Support and Advice.

4.17 To date there has been no real impact on Hertsmere's benefit caseload. As UC continues to be rolled out over the next 4 years and the caseload is migrated to the DWP there will be both financial and staffing implications for Hertsmere, which will be reported on as more detail is available.

Bridging the budgetary shortfall – ways to face the challenge

Participatory Budgeting

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

4.19 Findings from these exercises show that:

- There are high levels of satisfaction with the current level of most of the service delivery provided in Hertsmere (92%) which is better than the vast majority of the other local authorities which have undertaken this process.
- There was a general understanding of, and willingness from, residents to accept the austerity measures.

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

Partnership Working / Shared Services

4.21 The Council is committed to seeking out innovative partnerships and funding opportunities. The Council works in partnership with local community groups and other service providers (such as County Council, Clinical Commissioning Groups and the Police) to co-ordinate their services in accordance with community needs. The Council is also the lead member of the Local Strategic Partnership, which is made up of representatives from other major agencies. The authority seeks opportunities for sharing the use of land and buildings with other agencies. Its Civic

Offices, leisure centres as well as community centres and the community shop are prime examples of shared facilities.

4.22 The Council shares resources with other neighbouring authorities across a number of services, including Finance, HR, Partnership & Community, Planning and Building Control, such as shared internal audit services, shared anti-fraud service, IDS support, payroll services, disaster recovery, Local Land and Property Gazetteer (LLPG) and shared posts: including procurement and risk management. The current initiatives amount to annual ongoing savings of close to £500k. New initiatives continue to be explored and the Council is currently in the process of setting up a Parking Shared service that will improve resilience and generate efficiencies through economies of scale.

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

Invest to save programmes

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

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

4.26 There are a number of capital projects currently in the programme that could lead to new income streams and/or revenue savings:

- Refurbishment of a number of council owned shops and garage sites around the borough that will ensure that the Council as a minimum maintains current occupancy levels whilst attracting new business thus safeguarding long term commercial property income levels.
- Planned investment in our leisure centres will improve health outcomes for our residents whilst generating additional income through a profit share arrangement with Hertsmere Leisure Trust.

- Potential development of a number of Council owned sites either in-house or through the Council's development company, Hertsmere Developments Limited.

Workforce Plan

4.27 The significant reduction in government grant has led to a reduction in the Council's workforce. The organisational review carried out by the Council in 2011 and 2017 has resulted in ongoing efficiencies of £1,500k per annum.

Value for Money (VfM)

4.28 With ongoing reductions in funding as well as spending pressures such as increased demand for services i.e. Homelessness and inflation i.e. contracts, there is an even greater need for the Council to explore initiatives which will help to improve the efficiency and effectiveness of service delivery and maintain front line services. For further detailed information on the council's Value for Money Strategy and Efficiency Plan refer to Appendix 5.

4.29 The Council is required to deliver a balanced budget and has managed to continue to achieve this through ongoing efficiencies, whilst accommodating budget pressures. A balanced budget for 2018/19 was presented to and approved by Council on 28 February 2018. Further savings amounting to £1,208k will need to be achieved over the medium term.

4.30 Under the previous Value for Money regime a cash releasing efficiency gain is achieved when, for a given area of activity, an organisation is able to:

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

4.31 Whilst requirements for reporting efficiency gains have since changed the Council, as good practice, have continued to identify savings based on robust processes and monitor the implementation of those savings. The four year finance settlement 2016/17 required Local Authorities to set an Efficiency Plan that informs the Authority's approach towards delivery of a balanced budget. The Efficiency Plan is set out in Appendix 5. Table 3 below shows efficiency gains achieved since 2005.

Table 3: **Efficiency gains 2005/06 to 2017/18** **(A: Actual) (E: Estimate)**	**Year on Year Efficiency Gains** **£'000**	**Cumulative Efficiency Gains Relative to 2004/05** **£'000**
Value For Money (VFM) gains		
2005/06 (A)	366	366
2006/07 (A)	312	678
2007/08 (A)	466	1144
2008/09 (A)	640	1784
2009/10 (A)	539	2323
Comprehensive Spending Review (CSR) gains		
2010/11 (A)	124	2,447
2011/12 (A)	1,802	4,249
2012/13 (A)	376	4,625
2013/14 (A)	187	4,812
2014/15 (A)	489	5,301
2015/16 (A)	438	5,739
2016/17 (A)	358	6,097
2017/18 (A)	362	6,459
2018/19 (E)	234	6,693

Future transparency and inspection regime

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

4.33 Their review looks at the key indicators of financial performance including the Council's approach to strategic financial planning, financial governance and financial control. The conclusion of their last review in 2017 was that the Council continues to have effective arrangements for financial management and budgetary control.

Investors in People (IIP)

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

4.35 In working with the Investors in People Standard, the Council has to show that it meets all ten indicators of the Standard, which includes demonstrating that managers are effective in leading, managing and developing people and showing that people's contribution to the organisation is recognised and valued. The Council achieved bronze accreditation in Investors in People in April 2011 and was awarded the higher silver accreditation in 2014 which was to last for a further three years. In April 2017 IIP conducted an assessment and concluded that the Council met the requirements of the IIP standard and would retain the silver accreditation.

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.

5.2 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, Property and Economic Development Portfolio Holder and The Leader of the Council
- The Budget Panel
- The Executive as a whole
- The Policy Committee and all Elected Members
- Residents:
  - annually (summary budget) via the Council's website and social media and;
  - three yearly through a Participatory Budgeting process (paragraph 4.18)
- 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 then be match by an equivalent level of funding from Government grant, Business Rates growth and Council Tax. However pressures on these funding streams 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 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
- Alternate ways of service delivery to achieve Value for Money gains.

6.4 Table 4 below summarises the forecast NBR to 2021/22 and the forecast funding over this period (funding is discussed in detail in section 9). It also shows the funding gap or level of projected efficiency savings required over the period in order to balance the budget while at the same time maintaining service delivery. This model assumes that the funding gap is met annually:

Table 4: Net Budget Requirement	**2018/19 Budget £'000**	**2019/20 Forecast £'000**	**2020/21 Forecast £'000**	**2021/22 Forecast £'000**
Gross Expenditure*	25,440	26,312	26,165	26,619
Gross Income*	(13,580)	(14,005)	(14,698)	(14,934)
Net Budget Requirement	**11,860**	**12,307**	**11,467**	**11,685**
Funding	11,860	11,137	11,215	11,501
Cumulative Funding Gap	**-**	**1,170**	**252**	**184**

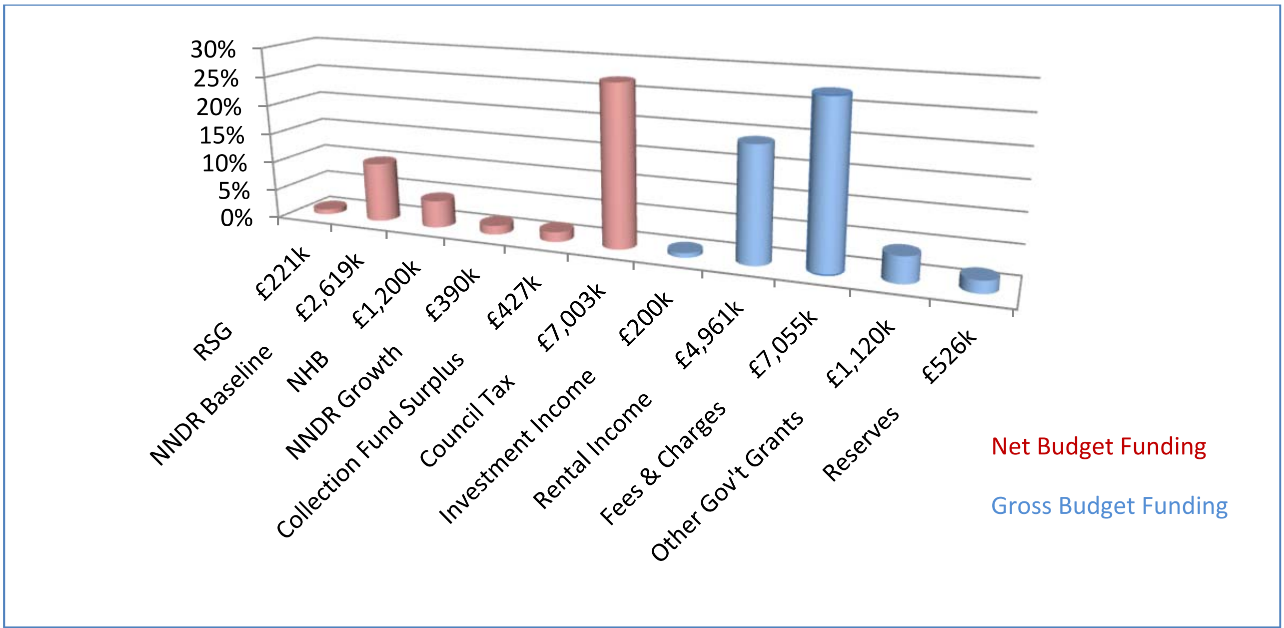
*figures exclude Housing Benefit

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 7 – Budgeted Income 2018/19



7.3 As depicted above the main sources of income generation are rent and fees and charges. Rental income is earned from Council owned commercial properties, such as shops, 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 car 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 One of the immediate priorities set within the Corporate Plan is to review the Council's fees and charges in order to ensure that they remain competitive and effective. 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.

7.7 Table 5 below shows the budgeted income for 2018/19 and the forecast for income to 2021/22:

Table 5: Fees and charges forecast	**Budgeted & Forecast Income £'000**	**Additional Income £000**
Planning & Economic Development	858	
Housing Services	1,155	
Environmental Health	282	
Street Scene Services	3,777	
Engineering Services	66	
Asset Management	4,971	
Finance & Business Services	292	
Legal & Democratic Services	201	
Human Resources & Customer Services	233	
Fees & Charges Income for 2018/19	**11,834**	
Forecast Income Budget for 2019/20	**11,939**	**105**
Forecast Income Budget for 2020/21	**12,047**	**108**
Forecast Income Budget for 2021/22	**12,157**	**110**

8. The Revenue Budget: Core Funding

8.1 The overall Council's net expenditure or Net Budget Requirement (NBR) is financed from government grants and local taxation. Government grants include general grant funding in the form of the Settlement Funding Assessment (SFA or Finance Settlement) and the New Homes Bonus. Other specific government grants can also be received and where appropriate are included within the relevant service's net budget. Local taxation includes Council Tax levies and retained business rates growth (over and above the baseline).

Government Funding

Settlement Funding Assessment (SFA or Finance Settlement)

8.2 The SFA is the general grant funding awarded to Local Authorities each year and is made up of two main elements: the Revenue Support Grant (RSG) and Business Rates (NNDR) baseline funding.

8.3 On 19 December 2017, the Secretary of State for the Department for Communities and Local Government, Rt. Hon. Sajid Javid MP, made a statement to Parliament on the provisional local government finance settlement 2018/19 and reconfirmed the funding previously announced as part of the four year settlement back in 2016/17 The provisional settlement also included a number of other announcements the main points being as follows:

- Local Government Funding Reform - The government has published the consultation paper "Fair funding review: a review of relative needs and resources", a technical consultation on relative need.
- The Secretary of State stated that the result of the review will be introduced in 2020/21.
- The Secretary of State also confirmed that there will be a business rates baseline reset in 2020/21 and, from 2020/21, business rates retention will be at 75% (with existing grants, including RSG and Public Health Grant incorporated into business rates retention).
- Council Tax – There has been an increase to the referendum limit for Council Tax from 2% to 3%. The £5 limit for District Councils still applies or 3% whichever is greater.
- Business Rates 100% Pilots - in September 2017, the government invited authorities to bid for pilot status in 2018/19. Following a competitive process, 10 areas were successful with their applications (alongside the expanded London Pilot), unfortunately Hertfordshire was not one on the 10, refer to paragraphs 5.20 to 5.22 below.
- New Homes Bonus - the 2018/19 allocations have been announced. The reduction from six years of NHB that reduced to five years in 2017/18 and four years from 2018/19 has been implemented. The deadweight threshold of 0.4% below which NHB is no longer payable has remained at the same level. This means that Hertsmere will not receive any NHB in respect of the

first 198 new properties.

- Rural Services Delivery Grant – The 2018/19 funding has been increased from £50m to £65m. This does not impact Hertsmere.
- Top Up/Tariff Adjustments – A consultation will take place in spring 2018 regarding the current £153m in negative RSG that remains in the 2019/20 funding allocations, for Hertsmere there is a negative impact of £217k from 2018/19, refer to table 1 paragraph 2.4.
- Revaluation 2017 - Within the business rates retention system, the NNDR baseline and top up/tariff amounts have been amended to reflect Revaluation 2017. The adjusted amounts are intended to make changes in Rateable Value revenue neutral for individual authorities; with changes to authorities' NNDR Baseline (and therefore tariff/top up) being equal and opposite to the forecast change in the ability to raise business rates locally.

8.4 Table 6 below shows the four year settlement and confirms the complete phasing out of RSG by 2019/20, in fact it actually shows **a negative RSG** in that year as a result of a tariff/top up adjustment which has been brought into the Governments calculations for Local Authority Core Spending Power.

Table 6: Four-Year SFA 2016/17 to 2019/20	Actual SFA 2016/17 £'000	Actual SFA 2017/18 £'000	Actual SFA 2018/19 £'000	Provisional SFA 2019/20 £'000
RSG	1,253	613	221	0
NNDR Baseline	2,492	2,541	2,619	2,677
Top-up/Tariff Adjustment	-	-	-	(217)
Total	**3,745**	**3,154**	**2,840**	**2,460**

8.5 Since the Comprehensive Spending Review 2010 (CSR10), Hertsmere have seen a total reduction in general government grant of £4.6m or 62% and general Government funding now represents just 24% of Hertsmere's overall funding compared to 54% in 2010/11. This means that the cost of providing the Council's services is falling increasingly on council taxpayers. This is evident with 59% of the Net Budget Requirement in 2018/19 to be funded from Council Tax compared to just 45% in 2010/11.

Revenue Support Grant – Rolled in funding

8.6 Over a number of years other specific funding streams that had previously been paid separately have been included within or rolled into the SFA, either as part of the RSG element or the business rates baseline funding. These include:

8.7 Local Council Tax Support (LCTS) Funding

- The Government abolished the national council tax benefits subsidy (CTBS) in March 2013 and it was replaced by a localised Council Tax Support (LCTS) scheme. Funding for the local scheme was cash limited and represented a 10% reduction in the funding previously received through CTBS, from 2013/14. It also meant that the risk of increased claims passed to the Council. In recognition of this, funding of £769k was identified within Hertsmere's finance settlement from 2013/14 as part of the overall SFA.

8.8 Homelessness Prevention Funding

- The Homelessness Prevention funding used to be a specific grant which funded a homelessness officer, since this grant has been rolled into the overall SFA, the funding for this post had to be built into the revenue budget.

8.9 Council Tax Freeze Grant

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

8.10 With the RSG set to be phased out by 2019/20, the elements of these funding streams that were rolled into RSG will essentially also be phased out meaning an additional burden to local taxpayers. As at 2015/16 when these funding streams were still identifiable in the SFA, the element rolled into the base RSG funding amounted to around £797k as set out in table 7 below. The remaining element of these funding streams that form part of the NNDR baseline funding are also set out below for information:

Table 7: Funding streams rolled into base RSG as at 2015/16	**RSG Element £'000**	**NNDR Baseline Element £'000**	**Total £,000**
Council Tax Support	462	307	769
Council Tax Freeze Grant	295	68	363
Homelessness funding	40	30	70
Total Rolled-In Funding	**797**	**405**	**1,202**

Business Rates Baseline Funding

8.11 From 2013/14 the Government changed the business rates element of the settlement moving from a redistribution of business rates (NNDR) from a central pool to a system that enabled Local Authorities to retain a proportion of the rates that they raise, thereby providing an incentive to authorities to promote business growth in their areas. Government set an initial "baseline" so that all councils initially received funding broadly equivalent to their 2012/13 Formula Grant, whilst ensuring the overall level of Government funding for local government in England does not exceed the estimate set out in the 2010 Spending Review. A system of tariffs and top-ups was built into the system to protect authorities from these changes. At the time the Chancellor indicated that there would be an extensive review of the business rates system.

8.12 As shown in table 4 above the 2018/19 SFA includes the Revenue Support Grant (RSG) element of £221k, which is a guaranteed fixed sum, and the Business Rates Retention element (or Baseline Need) of £2,616k. The baseline has initially been set at a sum determined by expected levels of collection of business rates but will ultimately be determined by the actual collection levels for the year. These will be increased by growth in business activity in the borough but decreased by contractions in activity for example through successful appeals to reduce rateable values or failing businesses leaving vacant premises.

8.13 The Council benefit by the retention of an element of any excess receipts over the baseline need caused by growth but will suffer loss through successful appeals or failed businesses. However, there is protection built into the system known as the "Safety Net" so should the rateable value fall substantially there is a minimum level of grant that will be received, for 2018/19 the "safety net" is £2,423k. To mitigate any potential loss and to strategically utilise any retained growth an earmarked reserve was established in 2013/14 into which any initial surpluses are paid, in order to equalise the effects of uncertainty and losses in future years for example due to successful appeals and lower collection rates.

New Homes Bonus (NHB)

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

8.15 The NHB is not ring-fenced and can therefore be used to fund the revenue budget however recent changes to the NHB that will, from April 2017, reduce the level of funding mean it would not be prudent to continue to place reliance on this grant to balance the revenue budget in the medium to long term.

8.16 Due to the uncertainty of this funding, this strategy reduces reliance on NHB over the medium term with the remainder held in an equalisation reserve. Table 8 below shows the New Homes Bonus funding received since 2011/12 and how it has been used to fund the revenue budget:

<table>
<tr><th colspan="10">Table 8: New Homes Bonus 2011/12 to 2018/19</th></tr>
<tr><th></th><th>Allocation £'000</th><th>2011/12 £'000</th><th>2012/13 £'000</th><th>2013/14 £'000</th><th>2014/15 £'000</th><th>2015/16 £'000</th><th>2016/17 £'000</th><th>2017/18 £'000</th><th>2018/19 £'000</th></tr>
<tr><td>Year 1</td><td>305</td><td>305</td><td rowspan="2">572</td><td rowspan="3">940</td><td rowspan="4">1,321</td><td rowspan="5">1,927</td><td rowspan="6">2,355</td><td></td><td></td></tr>
<tr><td>Year 2</td><td>267</td><td></td><td></td><td></td></tr>
<tr><td>Year 3</td><td>368</td><td></td><td></td><td rowspan="5">2,017</td><td></td></tr>
<tr><td>Year 4</td><td>381</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Year 5</td><td>606</td><td></td><td></td><td></td><td></td><td rowspan="4">1,361</td></tr>
<tr><td>Year 6</td><td>428</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Year 7</td><td>234</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Year 8</td><td>93</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="3">New Homes Bonus utilisation</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Homelessness</td><td>100</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Planning System</td><td>200</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Budget Funding</td><td>0</td><td>0</td><td>940</td><td>1,148</td><td>1,148</td><td>1,173</td><td>1,200</td><td>1,200</td></tr>
<tr><td colspan="2">Trf to NHB Reserve</td><td>5</td><td>572</td><td>0</td><td>173</td><td>779</td><td>1,182</td><td>820</td><td>161</td></tr>
</table>

Specific Grants – Disabled Facilities Grant (DFG)

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

8.18 The sums in table 9 below exclude the annual contribution of £100k which forms part of the council's revenue budget. The Council expect a similar amount for the years 2018/19 to 2021/22.

Table 9: Disabled Facilities Grant	2017/18 £'000 Actual	2018/19 £'000 Actual	2019/20 £'000 Forecast	2020/21 £'000 Forecast	2021/22 £'000 Forecast
Grant Receivable	589	589	589	600	600

Local Taxation

Business Rates Retention

8.19 As described in paragraph 6.11 above, local authorities are able to retain an element, currently 50%, of Business Rates collected over and above their baseline need. This means that Hertsmere can benefit from business growth in its local area. To exploit the retention of business rates growth, in November 2014 the Executive agreed to the appointment of four temporary staff to specifically identify growth by challenging existing exemptions and identifying new rateable value. To date they have been successful in adding around £350k annually to the element of business rates retained by Hertsmere.

8.20 As has been anticipated the Secretary of State recently confirmed that there will be a business rates baseline reset in 2020/21 and, from 2020/21, business rates retention will be at 75% although this will come with additional responsibilities with existing grants, including RSG and Public Health Grant being incorporated into business rates retention.

8.21 Other recent changes to Business Rates including those announced in the Autumn Statement and the provisional finance settlement will likely have an impact on Business Rates growth and could therefore have a financial impact for Hertsmere.

8.22 The Business Rates Multiplier:

- From April 2018 the Business Rates Multiplier will be uplifted based on CPI rather than RPI. Whilst local authorities will be compensated for any immediate loss this could affect the planned baseline reset and could therefore affect future revenues and therefore retained growth.

8.23 Rates Revaluation

- The new 2017 Rating List came into effect from April 2017, which for Hertsmere showed an overall increase in Rateable Value (RV) of 6%. However, the impact to NNDR yields of a new Revaluation are intended to be cost neutral, so the 2017/18 multiplier was reduced accordingly and a Transitional Relief scheme tapered large increases and decreases to ratepayer bills.
- Whilst the Rates Revaluation was intended to be cost neutral there were inevitably winners and losers so in anticipation of appeals against new valuations a buffer of approximately 4.7% was built into the multiplier by DCLG which was intended to provide for potential appeal losses by local authorities against the 2017 Rating List.
- In addition to the impact on the overall rates that Hertsmere collects the Council are liable for the Business Rates on its own properties, most significantly the Civic Offices and Car Parks. The rateable value for Hertsmere properties as a whole rose by 27%, the largest increase being in respect of the Civic Offices which after transitional relief resulted in an additional cost to Hertsmere of £79k in 2017/18 rising to £115k by 2019/20. However the budget has not been adjusted to reflect the new charge as the Council is in the process of appealing against the new rateable value. Pending that appeal the additional cost will be funded from the Business Rates equalisation reserve. Any subsequent refunds will be paid back to this reserve.
- Whilst the 2017 Revaluation is intended to be revenue neutral the new Rateable Value could have a detrimental impact on the baseline reset expected in 2020/21 and could therefore affect future revenues.

Business Rates – New Appeals Process

8.24 The new appeals process was implemented from April 2017, the aim of the new three-stage process, ‘Check, Challenge, Appeal’, being to provide a system that is easier to navigate with the emphasis on early engagement by the parties to reach a swift resolution of cases. The new system is given practical effect firstly by means of a ‘check’ stage, in which facts concerning the property are agreed between the Valuation Office Agency (VOA) and the ratepayer. This, according to the VOA, is intended to be both swift and to lead to an agreed position for the great majority of cases. On successful completion of a check, the next step is the ‘challenge’ stage, where additional information has to be submitted, including a valuation, evidence to support the proposed reduction and other relevant information to support the challenge. Thirdly, and finally, an ‘appeal’ stage provides for when agreement cannot be reached. Fees charged for making an appeal is a new feature of the reformed system.

8.25 Whilst this new process came in from April 2017 there are still a significant number of current appeals, dating back to 2010, that are outstanding, which the VOA are prioritising. This is causing significant uncertainty in forecasting Rateable Value and calculation of the appeals provision against both the 2010 list and 2017 list and two separate appeals processes.

Business Rates 100% Pilot

8.26 In 2016 the Chancellor announced further changes to Business Rates retention, which, at the time, meant that by 2020 Local Government would retain 100% of Business Rates. This would however come with additional responsibilities for Local Government to be met within the funding envelope of Business Rates. However, as a result of the Referendum, the subsequent General Election and the Government’s focus now being on Brexit, the Finance Bill was not taken through Parliament and is currently on hold.

8.27 The Government are however, keen to pursue these changes and in September 2017 invited local authority areas to submit applications to be “Pilots”.

8.28 After detailed analysis and review, Hertfordshire County Council along with the 10 District Councils submitted an application for Hertfordshire to be a pilot area (EX/17/76), however the application was unsuccessful and Hertfordshire was not selected as one of the 10 pilot areas named in the provisional finance settlement for 2018/19. There may be a further opportunity to apply for 2019/20. Feedback has been requested from DCLG.

Business Rates Pooling

8.29 In November 2015 the Executive approved that Hertsmere join a Business Rates Pool in 2016/17 with Hertfordshire County Council and other Hertfordshire Districts. Such pooling arrangements can yield benefits over and above the entitlement of an individual authority to retain an element of growth in rates. The Pool proved to be successful generating a one-off gain of £2,400k of which Hertsmere’s share was £780k exceeding the £413k that had been anticipated.

8.30 In October 2016, based on the then forecast success of the 2016/17 Pool, the Executive (EX/16/69) were again asked to approve that Hertsmere join a pool for 2017/18. However in light of uncertainties around a significant appeal in another district the 2017/18 pool was subsequently disbanded by mutual consent of all the pool authorities due to the risk these appeals posed to all authorities in the pool.

8.31 That appeal has since been settled and the risk mitigated, therefore in October 2017 the Executive were again requested to approve (EX/17/76) that Hertsmere join a pool in 2018/19.

8.32 The pooling bid was submitted to the DCLG alongside the “Pilot” application, with the 100% Pilot taking preference if successful. As the Pilot was not successful, the Pool will now proceed in 2018/19 subject to a final review of the financial forecasts and final approval by all Chief Finance Officers.

Council Tax

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

8.34 Council Tax remained the same between 2009/10 to 2015/16, the Council choosing to freeze the level of Council Tax during this period to support local residents during difficult economic times. As such from 2011/12 Hertsmere took advantage of the Council Tax Freeze grant, which with the exception of the grant paid in 2012/13, which was one-off, was rolled into baseline funding, the SFA. Since 2011/12 Council Tax Freeze Grant amounting to £363k was included within the Council’s SFA, however as explained earlier in paragraph 6.6 with the ending of the RSG funding this element of the freeze grant will also be phased out.

8.35 Following many years of the Government compensating Council’s for not increasing Council Tax, their latest spending power projections for 2016/17 to 2019/20 now assume that all Councils will take up the option to increase Council Tax and for District Council’s such as Hertsmere by the higher of the £5 or 3%. The Council approved a £5 increase in Hertsmere’s Council Tax for 2018/19 and an annual £5 Council Tax increase has been factored into this Financial Strategy thereafter.

8.36 Table 10 below reflects the council tax position until 2021/22 based on an annual council tax increase of £5 until 2019/20 and 2% thereafter and an annual increase in the tax base (housing growth band D equivalent) of 1%.

Table 10: Council Tax Forecast	**2017/18 Actual**	**2018/19 Budget**	**2019/20 Forecast**	**2020/21 Forecast**	**2021/22 Forecast**
Band D Levy	£152.70	£157.70	£162.70	£165.95	£169.27
Council Tax Requirement £k	**£6,709k**	**£7,013k**	**£7,289k**	**£7,509k**	**£7,736k**

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

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

Table 11: Council Tax Distribution	**%**	**2018/19 Band D***
Hertfordshire County Council	78	1,320.46
Hertsmere Borough Council	10	172.32*
Police and Crime Commissioner for Hertfordshire	10	164.00
Parish Council Precepts	2	29.62
Total	**100**	**1,686.40**
*** Average band D inclusive of general expenses**		

9. The Medium Term Financial Forecast

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

9.2 The medium term financial plan has been derived from the Council's Corporate Vision and its objectives, known statutory requirements, changes anticipated in economic factors such as inflation and individual service plans.

9.3 The medium term financial plan is set out in Appendix 2 and shows an anticipated budget gap over the medium term to 2021/22 of £1,606k, which can be summarised as follows:

Table 12: Medium Term Financial Forecast	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
Net Budget Requirement	11,860	12,307	11,467	11,685
Funding	11,860	11,137	11,215	11,501
Funding Shortfall	-	1,170	252	184
Cumulative Funding Shortfall	**-**	**1,170**	**1,422**	**1,606**

9.4 The following key assumptions have been used for the purpose of this financial forecast:

- That the funding shortfall each year will be met by ongoing and sustainable efficiency savings and additional income.
- Government funding through the Settlement Funding Assessment (SFA) will continue to reduce with the Revenue Support Grant being completely phased out and actually showing a negative balance by 2019/20 due to the tariff/levy adjustment in that year.
- Council Tax increases of £5 per annum until 2019/20 and then 2% per annum thereafter, subject to annual approval by the full Council. This is in line with the Governments assumptions on Council Tax increases in their Core Spending Power forecasts and follows the change in legislation to enable all District Authorities to raise their council tax by an additional 1% (to 3%) or £5 whichever is greater, as set out in the four-year settlement funding assessment, until 2019/20.

- Growth in existing Fees and charges is in line with RPI inflation. This is in cash terms i.e. both real growth and any inflationary increase.
- Reduced reliance on the New Homes Bonus (NHB) following changes to the scheme and a significant reduction in grant also due to the longer term uncertainty of the scheme (refer to paragraph 8.14).
- Employee & Member related expenditure, includes pay award of 2% each year, any pay award would require Full Council approval as part of the annual budget setting process.
- The net inflationary impact, net growth and increase in costs due to contractual obligations is to increase by RPI. Other costs such as utilities and fuel costs are projected to increase by up to 3% per annum reflecting the uncertainty in these supplies. The Council will continue to keep tight control over costs and make better and effective use of its resources. Part of the process will be through the application of its Procurement and VfM Strategy.
- Reserves 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. 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.
- Interest rate forecasts are in line with the assumptions of the Council's investment advisors, Link Asset Services, who expect the base rate to start increasing from the final quarter of 2018 with further increases late in 2019 and 2020. Whilst an interest rate hike will have a positive impact on investment returns this will not be significant, particularly as Hertsmere's cash balances reduce over time as it invests in capital projects. Investment returns are built into the overall general fund, shown within the Corporate budgets.
- Business Rates growth includes an element of one off gains due to be released through the Collection Fund in 2018/19. Any pooling gains will be treated as one-off and will be held in reserves for funding future investment opportunities.
- The full Universal Credit service will be rolled out across most of the borough from December 2018. This is flagged as a risk in this Strategy and will be monitored and assessed throughout the roll out period to 2020. To date there has been no real impact on Hertsmere's benefit caseload however as the full service commences the impact will be monitored and built into the financial forecast, further detail is set out at paragraph 4.12.

Key Principles

9.5 The Council has been very prudent with its financial management and the external auditors have highlighted this over the years. The budget strategy and budget setting process continue to follow a similar process as adopted in prior years. This includes engaging stakeholders and an extensive process of consultation including a three-yearly participatory budgeting exercise as discussed in paragraph 4.18.

9.6 The Council adopts the following key principles in its budget setting and financial forecasting:

- To keep the level of council tax as low as possible against the background of continued austerity measures and reduction in grants.
- To further explore alternative service delivery, to secure financial savings and efficiency gains, such as partnership working and shared services with neighbouring authorities and more innovative ways of delivering services which takes into account the provisions of the Localism Act.
- 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 e.g. by developing our land.
- 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 adopt better and smarter procurement practices to secure quality and value for money contracts.
- To ensure all projects are properly monitored and risk of slippage identified and properly managed.
- That VfM continues to be a key driving force in evaluating current and future service delivery.
- 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 the use of trading powers to generate additional income and from the Localism Act.
- To identify resources available to achieve the Council's Asset Management Plan.
- To set aside, as far as possible, sufficient funds in order to provide for the replacement of major assets such as equipment, vehicles etc.
- To set contingencies at an adequate and prudent level.

10. Sensitivity Analysis

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

10.2 Also set out in appendix 2 is the "Medium Term Financial Forecast 2018/19 to 2021/22", this includes the most likely case in terms of sensitivity incorporating all the assumptions as set out in this strategy. This shows that Hertsmere are facing a potential funding gap over the period to 2021/22 of £1,606k.

10.3 The best case scenarios considers how this gap might change if these assumptions were all to improve for example cost pressure reduce or income and funding increases. The best case shows that the overall funding variance could actually be favourable by £1,176k. On the other hand the worst case scenario shows that the funding gap could widen by as much as £5,023k if the assumptions were to all change in a negative way putting more pressure on service cost or lower levels of income.

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

10.5 Whilst there is a greater degree of certainty in respect of Government funding with the four year settlement these figures are not set in stone and Government policy could still change.

10.6 Of particular uncertainty still is the New Homes Bonus and Business Rates retention which could have a significant effect on the overall level of funding. Other variables might include regulatory changes, changes in local demand and external market forces.

10.7 The Council must monitor these variables and act accordingly.

11. Balances and Reserves Policy

11.1 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.

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

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

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

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

Table 13: Reserve Forecast

	31/03/2017 Actual £'000	31/03/2018 Actual £'000	31/03/2019 Forecast £'000	31/03/2020 Forecast £'000	31/03/2021 Forecast £'000	31/03/2022 Forecast £'000
Capital Receipts Reserve	6,585	8,246	7,389	7,889	8,389	8,589
General Fund Reserve	7,902	7,962	8,206	8,458	8,717	8,984
Earmarked Reserves	18,788	19,566	19,949	20,340	20,739	21,145

11.5 Reserves are defined by CIPFA as follows:

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

flow management."

11.6 Capital reserves are subject to certain restrictions:

"Capital reserves are not available for revenue purposes and certain of them can only be used for specific statutory purposes. The revaluation reserve, usable capital receipts, and capital adjustment account are examples of such reserves."

11.7 Revenue reserves are defined as follows:

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

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

11.9 As at 31 March 2018 the Council's pension fund showed a deficit of £36.9m. The pension fund liability reflects the outlook using assumptions that cover an extremely long term. The net liability reflects the valuation of assets which themselves can be subject to wide fluctuations over the long term. Any under performance or significant reduction in market capitalisation may lead to a significant increase in the pension deficit. The Council has always endeavoured to follow the actuary's advice in deciding the level on contribution to the pension fund and as part of prudent financial management will continue to do so.

Principles to Assess the Adequacy of Reserves

11.10 In order to assess the adequacy of unallocated general reserves (balances) when setting the budget, the Chief Finance Officer, in conjunction with the management team and Executive, should take account of the strategic, operational and financial risks facing the Authority. The requirement for financial reserves is acknowledged in the Local Government Finance Act 1992, which requires billing, and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In order to mitigate against over-committing financially, the Council is committed to producing a balanced budget.

Earmarked Reserves

11.11 Earmarked reserves are set aside for specific purposes, for each reserve held by the Council there will be a statement setting out:

- The reason for and purpose of the reserves.
- How and when the reserves can be used.
- A process and timescale for review of the reserves to ensure continuing relevance and adequacy.

New Homes Bonus

11.12 The New Homes Bonus (NHB) was introduced by the Coalition Government with the aim of encouraging local authorities to grant planning permissions for the building of new houses in return for additional revenue. Under the scheme, the Government initially matched the Council Tax raised on each new home built for a period of 6 years (this has subsequently been reduced to four years). Local authorities are not obliged to use the Bonus funding for housing development.

11.13 As part of the provisional Local Government Finance Settlement – December 2016, Sajid Javid, Secretary of State for Communities and Local Government, said that "for all its successes, the system can be improved." He confirmed that from 2017 a national baseline for housing growth would be introduced of 0.4% and that New Homes Bonus would only be payable above that level. He also confirmed that in 2017/18, NHB payments would be made for five, rather than six years, and that the payment period would be reduced again to four years from 2018-19.

11.14 Prior to 2013/14 the NHB was only used by Hertsmere for one off spending, then since 2013/14 it has formed part of the funding for the revenue general fund. In 2013/14 the full NHB was utilised for this purpose then from 2014/15 the amount was capped at £1,148k for two years with the remainder being placed into an equalisation account to be used if the Government decides to change the way it allocates NHB in the future.

11.15 Hertsmere were right to be cautious in the application of this grant which following the changes announced in 2016 has significantly reduced. The DCLG's forecast for Hertsmere's NHB for 2019/20 is £973k.

11.16 The forecast usage for revenue funding for 2018/19 is to remain at a similar level to that of the past two years as set out in table 12 below which also shows the actual, current and forecast reserves position for 2014/15 onwards. The forecast usage thereafter is set to step down to £800k by 2020/21 reflecting the reducing level of funding.

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

Table 14: New Homes Bonus Reserve

	Actual				Budget	Forecast		
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Opening Balance	**0**	**181**	**968**	**2,150**	**2,967**	**3,128**	**3,101**	**3,101**
Receipts	1,329	1,935	2,355	2,017	1,361	973	800	800
Utilised	(1,148)	(1,148)	(1,173)	(1,200)	(1,200)	(1,000)	(800)	(800)
Closing Balance	**181**	**968**	**2,150**	**2,967**	**3,128**	**3,101**	**3,101**	**3,101**

Community Infrastructure Levy (CIL) and S106 Reserves

11.18 Hertsmere formally adopted the Community Infrastructure Levey (CIL) In September 2014, implementing CIL charges from 1st December 2014. The CIL is collected locally and allows a levy to be raised from new developments to fund a wide range of infrastructure needs. With new planning permission now being subject to CIL, S106 will reduce and CIL will become the primarily mechanism for infrastructure funding for Hertsmere. This will not have any significant impact on the revenue budget of the Council as it will be administered as a separate fund largely to meet capital expenditure. Due to CIL only being payable once a development starts, Hertsmere only started to see CIL receipts from 2015/16. Table 15 shows the anticipated CIL reserves up to 2021/22:

Table 15: CIL Reserve

	2016/17 £'000 Actual	2017/18 £'000 Forecast	2018/19 £'000 Forecast	2019/20 £'000 Forecast	2020/21 £'000 Forecast	2021/22 £'000 Forecast
Opening balance	**81**	**375**	**744**	**1,128**	**1,512**	**1,896**
CIL Receipts	700	900	980	980	980	980
Forecast Spend:						
Admin	35	45	49	49	49	49
Parish Councils	71	86	97	97	97	97
Local Schemes	200	250	270	270	270	270
Other	100	150	180	180	180	180
Total Spend	**406**	**531**	**596**	**596**	**596**	**596**
Closing Balance	**375**	**744**	**1,128**	**1,512**	**1,896**	**2,280**

11.19 Table 16 below shows the S106 reserves as at 2016/17 and the forecast over the medium term. S106 funding assists with some of the initial costs of infrastructure and other costs as agreed per S106 agreement. Since the introduction of CIL, new S106 agreements will only cover affordable housing and major developments that require specific infrastructure.

Table 16: S106 Reserve						
	2016/17 £'000 Actual	2017/18 £'000 Forecast	2018/19 £'000 Forecast	2019/20 £'000 Forecast	2020/21 £'000 Forecast	2021/22 £'000 Forecast
Opening balance	**7,793**	**7,801**	**7,301**	**6,501**	**5,801**	**5,151**
S106 Receipts	1,150	500	200	100	50	50
Forecast Spend:						
S106 Expenditure	1,142	1,000	1,000	800	700	500
Total Spend	**1,142**	**1,000**	**1,000**	**800**	**700**	**500**
Closing Balance	**7,801**	**7,301**	**6,501**	**5,801**	**5,151**	**4,701**

11.20 Included within the S106 balances is £5,000k which relates to affordable housing.

General Fund Reserves

11.21 In order to maintain financial flexibility and good financial standing, in 1999 the Council adopted a policy to maintain the General Fund Revenue Reserve at a level of at least £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.

11.22 The Chief Finance Officer in consultation with the Leader of the Council and the Finance and Property Portfolio Holder has since implemented a policy to increase this amount in line with inflation in order to maintain its real value, which has been commended by the External Auditors. See table 11.

11.23 It has always been the aim of the Balances and Reserves Policy to increase, as a minimum, the level of the Council's General Fund reserves in line with the anticipated inflationary increase. Over the last few years the Council has experienced some abnormal gains such as 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 prudent to set it aside as part of the Council general Fund and especially in times of significant cuts from central government and the uncertainties surrounding the economy.

12. Capital Expenditure & Resourcing

12.1 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'"

12.2 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. 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

12.3 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

12.4 Effective and efficient capital investment will support Hertsmere's 2020 Vision to be an enterprising council, plan for the future and support our communities.

Strategic Objectives

12.5 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 2018/19 to 2020/21.
- 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.

Funding the Capital Programme

12.6 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 Executive or the full Council. Capital projects can be funded through various capital and revenue sources. Table 17 below shows the various funding sources for the latest capital programme approved by Council on 28 February 2018, these are explained in the paragraphs that follow:

Table 17: Capital Programme 2018/19 to 2020/21	Revised 2017/18 £'000	Budget 2018/19 £'000	Budget 2019/20 £'000	Budget 2020/21 £'000	Total £'000
CAPITAL PROGRAMME	**2,109**	**13,500**	**1,684**	**689**	**17,982**
Financed by:-					
Capital Receipts	174	2,363	995	0	**3,532**
Housing Enabling Fund	0	54	0	0	**54**
Innovation & Investment	550	3,355	0	0	**3,905**
S106 / CIL	516	830	0	0	**1,346**
Other Reserves	411	813	0	0	**1,224**
Revenue	140	100	100	100	**440**
External Grants	318	1,185	589	589	**2,681**
Borrowing	0	4,800	0	0	**4,800**
	2,109	**13,500**	**1,684**	**689**	**17,982**

Useable Capital Receipts

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

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

12.9 The strategy requires the Council to invest net capital receipts set aside for revenue generating projects into revenue generating asset portfolio and/or cost saving initiatives and future opportunities, such as projects where the Council is developing its surplus land with a view to sell or to keep for additional rental income.

12.10 In cases where the Council is not able to identify any affordable housing or revenue generating investments, the earmarked amounts are invested in accordance with the Council's treasury management policy.

12.11 Over the years there has been a steep decline in proceeds received under the 'right to buy' scheme, which has been hitherto a major source of capital receipts. Moreover the number of properties to which the Council is entitled to receive a share of the disposal proceeds has diminished over the years. As a result the amount of future capital receipts is unlikely to be sufficient to fund any significant future capital programmes.

12.12 As at March 17 there was a balance of £6.5m held in the capital receipts reserve with c£3.5m committed to funding capital projects in the existing programme.

Table 18: Usable Capital Receipts Forecast					
	2017/18 projected £'000	**2018/19 projected £'000**	**2019/20 projected £'000**	**2020/21 projected £'000**	**2021/22 projected £'000**
Opening Balance	**6,580**	**7,160**	**5,300**	**4,800**	**5,300**
Committed	(170)	(2,360)	(1,000)	-	-
Disposals	750	500	500	500	200
Closing Balance	**7,160**	**5,300**	**4,800**	**5,300**	**5,500**

12.13 As shown in the table 18 above, £5.5m headroom is estimated as at 2021/22 to fund revenue generating projects, or projects which will benefit the community (of which c£1.5m is reserved for affordable housing initiatives). The Asset Management Panel is responsible for recommending to Executive the utilisation of this fund and this is done on a case-by-case basis.

Earmarked Reserves/Sinking Fund

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

12.15 Table 19 below includes funds earmarked for the rolling replacement of waste vehicles, which is outside of the capital budget.

Table 19: Vehicles & Leisure Equipment Sinking Fund					
	2017/18 projected £'000	**2018/19 projected £'000**	**2019/20 projected £'000**	**2020/21 projected £'000**	**2021/22 projected £'000**
Opening Balance	**1,734**	**1,894**	**2,014**	**2,094**	2,334
Transfers in	330	330	340	340	340
Transfers out	(170)	(210)	(260)	(100)	-
Closing Balance	**1,894**	**2,014**	**2,094**	**2,334**	**2,674**

Capital budget: Management and Monitoring Process

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

12.17 Other "indirect" schemes are largely monitored directly by committees but any schemes funded via S106 contributions also form part of the financial monitoring process. The measures are linked to Council and service aims and therefore will indicate how the Council is progressing at achieving these aims.

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

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

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

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

Capital Strategy and Asset Management Planning

12.22 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.

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

Securing external funding

12.24 The Council will potentially be undertaking significant capital investment in the near future, both in house and through the Council owned development company, Hertsmere Developments Limited. This will include development of council land, acquisition of land and property and investing in our major assets such as leisure centres and will likely require some borrowing thus increasing the Council's Capital Financing Requirement (CFR).

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

13. Influences, Pressures and Assumptions

Economic Climate

13.1 As expected, in November 2017 the Bank of England (BOE) raised the base rate from 0.25% to 0.50%. This move was largely expected following September 2017 Monetary Policy Committee (MPC) meeting which saw Governor Carney state that *"a majority of MPC members judge that… some withdrawal of monetary stimulus is likely to be appropriate over the coming months."* The key question now is whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate.

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

Inflation

13.3 As of December 2017 consumer price inflation showed a year on year increase of 3.0% having eased back slightly from a peak of 3.1% in November 2017, a near six-year high. The November Inflation report summarises the MPC's prospects for inflation as follows:

"CPI inflation has risen further above the 2% target as companies pass on the higher costs stemming from the lower level of sterling. Unemployment has continued to fall and the extent of spare capacity in the economy now seems limited. Moreover, the pace at which the economy can grow without generating inflationary pressure has fallen over recent years. Over the MPC's forecast period, conditioned on a path for Bank Rate that rises to 1% by the end of 2020, demand is projected to grow at a pace that uses up the remaining slack in the economy. As imported inflationary pressures wane, domestic pressures build. Inflation is projected to remain slightly above the 2% target at the three-year point. At its meeting ending on 1 November 2017, the MPC voted to increase Bank Rate to 0.5%."

Source: Bank of England November Inflation Report

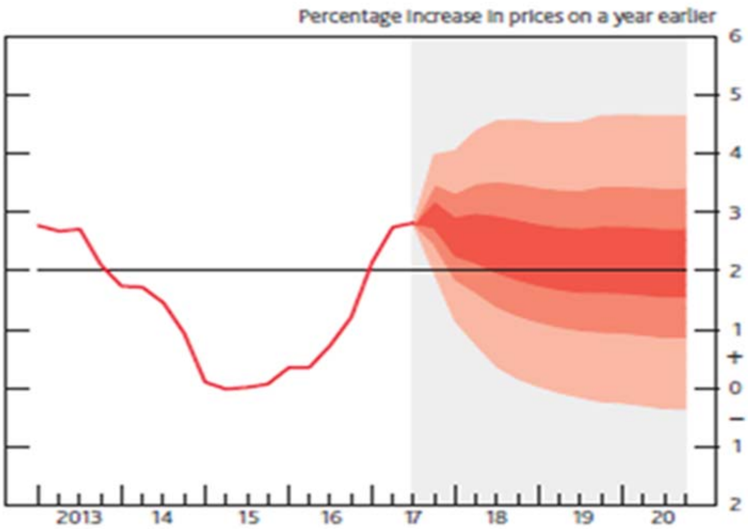
13.4 Table 20 show the latest MPC forecast summary for CPI inflation. The contractual expenditure included within this strategy (e.g. vehicle maintenance, software licences and ground maintenance) are based on these inflation forecasts.

Table 20: CPI Inflation Forecast				
Year	**Q4 2017 %**	**Q4 2018 %**	**Q4 2019 %**	**Q4 2020 %**
CPI	3.0	2.4	2.2	2.1

Source: Bank of England November Inflation Report Table 5A

13.5 Figure 9 below depicts the probability of various outcomes for CPI inflation in the future, where the darker central area of the fan being the more likely.

Figure 8: CPI Fan chart



Source: Bank of England November Inflation Report Chart 5.2

UK Base Rate

13.6 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Figure 9 below gives their central view for the base rate and for the PWLB borrowing rates:

Figure 9: UK Base Rate Forecast

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

Source: Link Asset Service – Updated Interest Rate Forecast November 2017

13.7 The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. Link Asset Services forecast above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

13.8 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investments

13.9 The continued low bank interest rate means that the investment income generated will continue to be low compared with that received from earlier years. Whilst economic forecasts anticipate that the base rate is due to rise in the fourth quarter of 2018, it is unlikely to see a return to the previous much higher levels of interest of 5%+ experienced prior to 2008.

13.10 As shown in figure 9 above the view of Link Asset Services forecasts the Bank Rate to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021.

13.11 The overall balance of risks to these forecasts is currently skewed to the upside and dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

13.12 Potential loans to Hertsmere Leisure Trust (agreed by full Council in November 2017) and to Hertsmere Developments Limited (to be considered by full Council July 2018) will need to be at commercial rates to ensure they comply with State Aid legislation. When these loans are formally entered into they will generate higher returns than can currently be sought in the money markets and any additional interest will then be factored into the Medium Term Financial Forecast.

Pay award and Pay related costs

13.13 A pay award of 2% has been agreed for 2018/19 and pay awards of 2% each year going forward have been included in this strategy which is in line with government expectations on inflation.

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

Pension Contributions

13.15 The employer's pension contribution rate is currently 18.6% in respect of future service costs plus an annual amount of £851k in relation to past service costs. This rate and amount will be reviewed as part of the next actuarial review which is due as at 31 March 2019. Actuarial reviews are carried out every three years and assess the liabilities and assets in the fund and calculate the current deficit. Future contribution rates will be set in order to bring the fund back into balance within an agreed repayment period, currently 17 years.

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

13.17 Pension auto enrolment was factored into the budget from 2017/18. This is where the Government has insisted that all entitled employees must be enrolled into a pension scheme, and it is the responsibility of the employee to opt out of the scheme. On the third anniversary of opting out, the employee will automatically be re-enrolled and the onus is one again on the employee to opt out again. Auto enrolment was effective for Hertsmere from September 2017.

13.18 The Council has always endeavoured to follow the actuary's advice in deciding the level of contribution to the pension fund and as part of prudent financial management will continue to do so.

Income from fees and Charges

13.19 It has been assumed that fees and charges will increase in line with CPI inflation, c.2% per annum. However some fees are set by statute and the Council therefore have no control over statutory fees and other fees can only be set at a level to recover costs. Income from fees and charges may see a reduction due to a potential fall in demand if the economic recovery is weak and prolonged.

Council Tax

13.20 Council tax has been assumed to increase by £5 per annum until 2019/20 and 2% per annum thereafter, subject to annual approval by the full Council. Any reduction in the collection rate would mean that less income would be received.

Housing and Council Tax Benefits

13.21 The demand for benefits is influenced by various economic factors such as economic growth or decline, changes in inflation affecting household spending power and changes in the job market and levels of unemployment. Currently the economy is growing but there is still significant uncertainty and a risk of a further recession. The current roll out of Universal Credit will also impact on demand for benefits, ultimately the Council's caseload will reduce by around 50%, albeit over a number of years, and as this happens staff arrangements will need to be reviewed and arrangements will require further discussions and clarifications with DWP. Any changes may have an impact on the Financial Strategy, Council Finances, the workforce plan and the Asset Management Plan.

Grant Aid

13.22 Voluntary sector organisations such as Citizen's Advice rely heavily on the Council for grant funding. The current grant funding of £215k per annum has been maintained despite the recent economic conditions. In addition, since 2011/12 the Council has also able to allocate an additional £37k to CA to assist with the additional demand on their services as a result of the economic downturn.

Non pay related Costs

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

Business Rates Risks / Rewards

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

13.25 Changes to the current scheme were announced as part of the Autumn Statement 2015 that would have seen 100% retention of Business Rates by Local Government, however more recent announcements in respect of the 2019/20 pilot scheme are on the basis of 75% retention. Whilst this will mean more funding from Business Rates within Local Government this will come with additional responsibilities including Housing Benefit Administration and Public Health. The scheme will also need to address current levels of funding and Tariffs and Top ups will need to continue. In November 2017 Hertfordshire authorities submitted a joint application to form a business rates pool in 2018/19.

Service Demand

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

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

Regulatory Changes

13.28 Changes in legislation always pose a risk to local authorities. The Homelessness Prevention Act comes into effect from April 2018 although the impact will unlikely be known for some time. Provision has been added to the budget for the rising cost of homelessness and some homelessness grant funding is also available ring-fenced until 2018/19.

13.29 Potential changes to the Planning system that may enable developers to seek private planning advice and approval will not only impact on or be contrary to Hertsmere's planning policies it would also impact on Hertsmere's income stream disproportionately to its costs as there will still be a legislative requirement to provide the planning service. Other changes to planning include regional strategic planning that will require Hertsmere to work cohesively with other authorities locally. There will be some grant funding for this but there will also be increased costs.

14. Risk Management

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

Responsibility

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

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

Strategy and Policy

14.4 The Council considers the assessment and minimisation of all types of risk to be vital and has a strategy in place to meet its requirements. A Risk Management Strategy was formally approved by the full Council on 24 April 2013. This Strategy is reviewed and, if necessary, revised annually. The bullet points below illustrate the impact of Risks on Financial Strategy:

- Not to be able to achieve the income required to fund the services as required by the Council's Strategy and Corporate Plan.
- The Financial Strategy will be kept under review and any unforeseen changes in 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.

Current Position

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

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

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

14.8 The Chief Finance Officer identified the risks inherent in the budget setting process as representing the greatest threats to the 2018/19 budget. This has been identified and any future risks and uncertainties have been factored in as part of the Financial Strategy based on information available at time of writing and to the best knowledge of officers. The mitigation plan is described in paragraph 14.9.

- The majority of income budgets are subject to external factors, such as demand and supply in the market and the general state of the economy.
- Unemployment may become an issue placing a greater strain on finances and staff resources.
- Due to the current economic climate collection of rates may fall and the incidence of bad debts may increase.
- Repossessions may increase which will place a demand for housing and benefit support.
- Continuous increases in the obligations placed upon the Council by Central Government, with little or no corresponding increase in funding.

Financial Strategy Risk and Mitigation Plan

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

Risk	Control Measures in place
Government reduces SFA funding further than anticipated	Keep abreast of Government policy and on the economy. To be prudent within the strategy.
Reduction in Business Rates if the local economy falls or appeal levels change	To encourage growth within the district. Additional money in place to assist businesses.
Reduction in New Homes Bonus from changes to policy or growth not materialising	To be prudent within the strategy and place less reliance on NHB to balance the budget. Keep abreast of Government policy.
Failure to achieve savings identified within the strategy	To start the process early to encourage discussions on how savings can be achieved.
Cyber Security Threats	Subscribe to the NLAWARP and SIFS warnings services to receive timely warnings of information security and cyber threats. Ensure all software patches are applied in a timely manner. Subscribe to an email filtering service. Programme of regular staff awareness training. Monitor network for unusual activity.
Reduction in fees & charges due to changes in demand, competition etc.	To be prudent with budget and to monitor on a monthly basis to be able to react to changes.

15. Council's Performance Assessment and Management

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

- To provide a measure of the competitiveness of service delivery
- To assist in the identification of potential service improvements
- To provide meaningful performance information for service stakeholders
- To generate a focus for internal service delivery
- To demonstrate Value for Money in service provision.

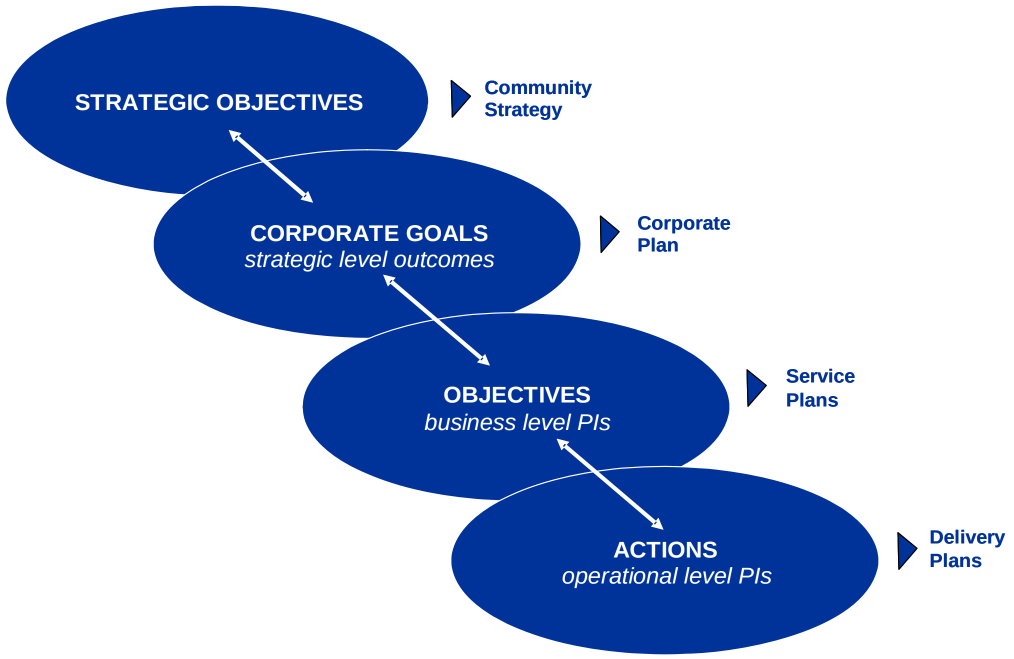
15.2 The Performance Management Strategy sets out the Council's approach to managing performance. It should be read in conjunction with the Performance Management Operational Handbook, which sets out the details of the performance management processes at the Council.

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

15.4 The Council's performance management model is shown in figure 10 below:

Figure 10 – Hertsmere's Performance Management Model

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



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

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

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

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

16. Key Partners and Alliances

16.1 The Council is committed to seeking out innovative partnerships and funding opportunities in order to deliver the financial strategy and achieve value for money.

16.2 The Council works in partnership with other authorities and local community groups (i.e. County Council, Town and Parish Councils, Clinical Commissioning Group, Police, Citizens Advice) and other service providers to co-ordinate their services in accordance with community needs.

16.3 The Council is also a member of the Local Strategic Partnership, which is made up of representatives from other major agencies. The Authority seeks opportunities for sharing the use of land and buildings with other agencies. Its Civic Offices, leisure centres as well as community centres and Hertsmere Worknet are prime examples of shared use facilities.

17. Consultation Process

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

Meeting	Purpose	Date
Executive	To receive draft Financial Strategy for consideration and recommendation to Policy Review Committee for consultation	7 February 2018
Policy Review Committee	To receive draft Financial Strategy for consideration and comment back to Executive	26 February 2018
Executive	To receive draft Financial Strategy for consideration and to consider comments from the Policy Committee for recommendation to the full Council	20 June 2018
Full Council	To consider and adopt the Financial Strategy	11 July 2018

Note: The reports and Appendices have also been discussed with the Portfolio Holder for Finance, Property and Economic Development, Chief officers and Service Heads and their comments have been included and contribution much appreciated.

18. Appendices

1. Action Plan
2. Revenue Financial Planning: 2018/19 to 2021/22 and risk sensitivity analysis
3. Capital Strategy
4. Earmarked Reserves
5. Value for Money and Efficiency Strategy incl. Efficiency Plan

APPENDIX 1

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 continue to monitor the impact following the recent recession and to take corrective measures whenever necessary.	Chief officers and Service Heads	Ongoing Action taken as and when required.
The long-term financial implications including whole life costing of any new initiatives should be considered prior to submission to Executive Committee for approval.	Chief officers and Service Heads	Ongoing
To achieve efficiency savings by improving service efficiency through new technology and new ways of working, customer centric services and partnership working. This will ensure that the financial strategy reflects service planning and the best value process.	Chief officers and Service Heads	Ongoing
Maximisation of return from the Council's Asset Portfolio and makes use of freedom of trading powers and Localism Act.	Chief officers and Service Heads	Ongoing
Monitor and maintain cost efficient and effective staffing structures.	Chief Officers Head of Human Resources & Customer Services Service Heads	Ongoing
No further commitments are to be made against the Council's capital reserves except for essential structural repairs, replacement of assets, statutory obligations, invest to save and spend to save programmes and any other extraordinary items determined by the Executive as a result of the Corporate Plan.	Service Heads	Ongoing To be reviewed six monthly

APPENDIX 1

Action	By Whom	By When
To assess the adequacy of the council's capital and revenue reserves and to ensure that remedial action is put in place to deal with any significant fluctuations.	Director of Resources	Ongoing To be reviewed annually and part of budget setting process.
To achieve economies of scale through Partnership arrangements and public/private funding is sought for any appropriate project and as part of pathfinder.	Officers	Ongoing
Wherever permissible income from all sources to be increased by at least 2% per annum plus inflation either by increasing fees and charges and/or introducing new charging strategies subject to meeting statutory constraints and as part of Participatory Budgeting process.	Officers	Ongoing To be reviewed as part of budget setting process
To promote economic development by working with the business communities with a view to maximise business rates whereby the Council retains 20% (after levy payment) of any growth.	Chief officers and Service Heads	Ongoing To be reviewed annually
To encourage a residential building programme with a view to maximise New Homes Bonus.	Chief officers and Service Heads	Ongoing To be reviewed annually
Secure reduction in expenditure through competitive tendering, smarter procurement and via approved procurement policy.	Management Team	Ongoing
To continue investing any earmarked reserves for revenue generating projects with a view to optimise return from those investments.	Chief officers and Service Heads	Ongoing To be reviewed annually

APPENDIX 1

Action	By Whom	By When
To maximise the number of social houses built by making use of S106, Housing Enabling Fund and the Community Infrastructure Levy (CIL).	Chief officers and Service Heads	Ongoing To be reviewed annually
To ensure efficient service delivery and deliver the level of efficiencies required, as shown in Appendix 2, to allow the Council to prepare a balanced, affordable and sustainable budget.	Chief officers and Service Heads	Ongoing To be reviewed annually
To assess and manage the risk associated with the Council's investments and emerging from the financial strategy.	Director of Resources and Head of Finance and Business Services	Ongoing To be reviewed annually
To assess the impact of any changes resulting from local government finance, LGPS, business rates retention, Council tax support scheme, Localism Act and Welfare Reforms and take appropriate actions accordingly.	Chief officers and Service Heads	Ongoing To be reviewed annually
To continue investigating the idea of an Enterprising Council through the setup of an innovation and trading panel to generate additional income i.e. invest to save programmes.	Members, Chief Officers and Service Heads	Ongoing

APPENDIX 2

REVENUE FINANCIAL PLANNING 2018/19 – 2021/22

Medium Term Financial Forecast

	2018/19 Budget £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000
Net Budget Brought Forward	11,478	11,860	11,137	11,215
Budgetary Increases / Savings:				
Employee & Related Expenditure Including Pension	894	274	280	285
Net Inflationary Impact, Growth and Contractual Obligations	269	139	92	94
New Pressures	-	459	66	201
Net (increase) / reduction in income	(731)	(106)	(108)	(110)
New Income	(50)	(320)	0	0
Required budget savings and efficiency gains	**0**	**(1,170)**	**(252)**	**(184)**
Net Budget Requirement	**11,860**	**11,137**	**11,215**	**11,501**
Funding:				
Government Grant:				
Revenue Support Grant	221	0	0	0
Transitional Funding	0	0	0	0
Business Rates Baseline Need	2,619	2,677	2,731	2,786
Top-up/Tariff Adjustment	0	(217)	(221)	(225)
New Homes Bonus	1,200	1,000	800	800
Local Taxation:				
Business Rate Growth	380	388	396	404
Collection Fund Surplus	427	0	0	0
Council Tax	7,013	7,289	7,509	7,736
Total Funding	**11,860**	**11,137**	**11,215**	**11,501**
Year on Year Increase/(Decrease) in Funding	0	(723)	78	286

APPENDIX 2

ASSUMPTIONS

1) The 4 year settlement remains as previously announced to 2019/20

2) Pressures and Efficiencies already agreed have been factored in from 2018/19 (including Highways Agency, Crown Road, Approved Restructures)

3) Business Rates Growth includes an element of one-off gains due to be released through the Collection Fund in 2018/19

4) Pay Award of 2% for 2018/19

5) £5 Council tax increase annually to 2019/20 and then 2% annually thereafter

6) 1% Council Tax Baseline growth from 2019/20

7) Annual inflationary increases from 2019/20 have been 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
    - Business Rates growth
    - Business Rates Baseline and Tariff (from 2020/21, following 4-year settlement)

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SENSITIVITY ANALYSIS

SENSITIVITY ANALYSIS 2019/20 TO 2021/22 £'000	BEST CASE	PER STRATEGY	WORST CASE
Net Budget Requirement			
Employee Pay Award & Related Expenditure	**1%**	**2%**	**4%**
	420	839	1,678
Net Inflationary Impact, Growth and Contractual Obligations	**CPI 1%**	**CPI 2%**	**CPI 3%**
	163	325	488
Net (increase) in income	**c5%**	**c2%**	**0%**
	(810)	(324)	-
New Pressure: Waste Round, Recycling Costs	**-50%**	**Per Strategy**	**+100%**
	310	726	1,452
Additional income: Development Sites, Profit share etc.	**Growth of £150k pa**	**Per Strategy**	**None achieved**
	(620)	(320)	-
Change in Net Budget Requirement	**(537)**	**1,246**	**3,618**
Negative RSG (Top up / Tariff Adjustment)	**No Tariff**	**Per Strategy**	**Tariff +5%**
	221	446	460
Business Rates Growth & Inflation	**+5% RV**	**Per Strategy**	**Safety Net**
	(611)	(190)	423
Reduction in New Homes Bonus	**1 yr. delay**	**Per Strategy**	**B/Fwd 1 yr.**
	200	400	600
Increase in Council Tax Requirement	**£5 / 3%**	**£5 / 2%**	**2% pa**
	(876)	(723)	(505)
One-Off Collection Fund funding 2018/19 Only	**N/A**	**Per Strategy**	**N/A**
	427	427	427
Change in Funding	**(639)**	**360**	**1,405**
Potential Budget Gap	**(1,176)**	**1,606**	**5,023**

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CAPITAL STRATEGY 2018/19 – 2021/22

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 the 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 Recent developments impacting capital decision making:

- In 2016 the Council established Hertsmere Developments Limited as a general company limited by shares to take forward the development of land within the borough with a view to generating future income streams. The company is finalising its Business Plan which will be presented to the full Council early in 2018 for approval.
- CIPFA have launched a consultation covering its *"Prudential Code for Capital Finance"* as set out in The Local Government Act 2003. The consultation reflects the increasing commercialisation of local authorities and a recognition that risk management and investment activity in the treasury function have evolved considerably in recent years.
- A number of revisions have been proposed in the consultation on a revised Prudential Code including the requirement to report on the overall strategy to Full Council in order to demonstrate alignment with service objectives and the CFO will be required to report explicitly on the deliverability, affordability and risk associated with the capital strategy.
- DCLG have 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 arrived at.

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- 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.

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 a debt free (External debt) authority.

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.

Significant recent completions include:

- Replacement of synthetic pitches
- Refurbishments of garage estate
- Resurfacing of car parks
- Disability access works
- Construction of Police accommodation at Civic Offices
- Investment in developing the Council’s land such as Windmill Lane
- Replacement of street scene vehicles
- Developing disaster recovery infrastructure
- Remediation of land at the rear of Elstree Film Studio

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- Construction of new homes for rent on Hackney Close and Buckingham Road

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 ("2020 Vision") and the Corporate Action Plan 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 2018-2021 are shown below in section 7 of Appendix 3.

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 to capital)
  - Revenue implications of capital spend (In Prudential Code)

4.3 The key components of the framework are outlined below:

- **Debt Structure:** The Council will maintain an external debt free status except when an opportunity arises to obtain a significant return on capital investment.
- **Major Repairs and Renewals:** The renewal and structural repairs of assets will 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

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current property register in order to identify any under-performing assets and produce an action plan to enhance the asset performance.

- **Capital Investment Appraisal:** A capital investment appraisal process is in place to ensure that all future projects are subject to a thorough risk assessment, option appraisal, have an appropriate business case and are prioritised in accordance with the Council's corporate priorities.
- **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 and S106 funding and CIL as means of alternate capital funding.
- **Procurement Strategy:** The Corporate Procurement Strategy to sets a clear framework for purchases throughout the Authority, which reflects The Councils Corporate Plan and stands alongside The Councils Contract Standing Orders and Constitution.
- **Additional Capital Resources:** Decisions to bid for additional resources (i.e. lottery bids, regeneration funding, Local Enterprise Partnership) will only be made if it is in line with the existing Capital Strategy and a review of service needs, capital resources and ongoing capital commitments.
- **Consultation:** The Council has engaged in two-way consultation and

communication with all its stakeholders to inform them about future strategies and plans. This process of consultation will underpin the Council's formulation of future strategies and plans

- **Key Priorities:** The projects in the capital expenditure programme are linked to the strategic aims of the Council, as per the Corporate Plan and the 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.

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 strategic plan.

BEING AN ENTERPRISING COUNCIL ❑ Maintain financial resilience and work towards self sufficiency ❑ Explore innovative ways to deliver services, particularly through collaborative working ❑ Optimise use of our assets; Land, Staff and Financial	Priorities and targets**:** ❑ Optimise return from Council's assets by seeking opportunities to re-utilise/dispose of underutilised sites or to develop land with a view to sell or use for housing needs within the Borough.
PLANNING FOR THE FUTURE ❑ Ensure future growth meets the needs of the borough and its residents ❑ Support a thriving local economy ❑ Help increase the supply of affordable housing to meet local need ❑ Seek to protect and enhance the natural environment	Priorities and targets: ❑ Installation of electric charging points across the borough which aims to reduce emissions in Hertsmere and improve air quality. ❑ Construction of new homes for rent, on the open market and for Temporary Accommodation

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SUPPORTING OUR COMMUNITIES	Priorities and targets:
❑ Support our residents to be healthier and live longer ❑ Work in partnership to build a safe, strong and cohesive community ❑ Provide opportunities to enable all the people of Hertsmere to lead fulfilling lives	❑ Improve the range of recreational facilities and activities for our residents by investing in parks and open spaces. ❑ Enhancement of pitch and pavilions for outdoor sports provision. ❑ Undertake key environmental improvements to parks and open spaces.

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 CIL Board and in respect of the Budget Process via the Budget Panel, the Executive 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

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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

Membership

6.3 The group will consist of senior managers with all 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	Corporate Director (Chief Finance Officer)
Finance & Business Services	Head of Finance & Business Services (Chair) Financial Services Manager Financial Accountant (Minutes & Agenda) Assistant Accountant (Capital & Systems) IDS Manager
Engineering Services & Asset Management	Head of Engineering & Asset Management Property Services Manager
Street Scene	Head of Street Scene Senior Contracts Manager Assistant Chief Environmental Health Officer
Partnerships & Community Engagement	Head of Partnerships & Community Engagement Housing Services Manager
Human Resources & Customer Services	Head of Human Resources and Customer Services Customer Services Operations Manager
Legal & Democratic Services	Head of Legal & Democratic Services
Planning & Economic Development	Head of Planning & Economic Development

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7. Capital Programme 2018/19 – 2020/21

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

Capital Programme 2017/18 to 2020/21	Revised 2017/18 £'000	Budget 2018/19 £'000	Budget 2019/20 £'000	Budget 2020/21 £'000	TOTAL £'000
Asset Management	552	5,394	995	0	**6,941**
Development Company	75	425	0	0	**500**
Engineering Services	0	0	0	0	**0**
Planning & Economic Development	26	80	0	0	**106**
Environmental Health	430	689	689	689	**2,497**
Partnerships & Comm. Engagement	0	4,800	0	0	**4,800**
Street Scene Services	727	1,676	0	0	**2,403**
Finance & Business Services	299	436	0	0	**735**
Human Resources	0	0	0	0	**0**
	2,109	**13,500**	**1,684**	**689**	**17,982**
Financed by:-					
Capital Receipts	175	2,362	995	0	**3,532**
Housing Enabling Fund	0	54	0	0	**54**
Innovation & Investment	550	3,355	0	0	**3,905**
S106 / CIL	516	830	0	0	**1,346**
Other Reserves	411	813	0	0	**1,224**
Revenue	140	100	100	100	**440**
External Grants	318	1,185	589	589	**2,681**
Borrowing	0	4,800	0	0	**4,800**
	2,109	**13,500**	**1,684**	**689**	**17,982**

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EARMARKED RESERVES

Category of Earmarked Reserves	At Apr 18 £'000	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases or to fund major reorganisations	7,339	Where expenditure has been approved and planned as part of the Councils capital programme it is prudent to set aside funds and underspend balances to meet future commitments
Land Drainage	535	To fund land drainage and flood related costs
Insurance reserves	82	Reserves held to meet potential and contingent liabilities
Pension reserves	500	To meet future pension fund deficits and one off costs arising from staff restructuring
Reserves of trading and business units	81	Surpluses arising from in-house trading retained to cover potential losses in future years
Reserves retained for service departmental use	9,881	Sums set aside to meet future commitments, this includes projects and other initiatives still in progress
Reserves for unspent revenue grants	1,129	
Other reserves <£20k	19	
Total Reserves	**19,567**	

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VALUE FOR MONEY AND EFFICIENCY STRATEGY

1. Value for Money

1.1 The Council has a statutory duty for delivering value for money with public funds. It should keep its internal controls under continuous review in order to manage all its limited resources in an efficient and effective manner, taking into account guidance on good practice issued from time to time by the Councils auditors and appropriate advisory bodies.

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

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

1. **Economy –** the most economically advantageous price paid to provide a service. i.e. doing more at the same or lower cost.
2. **Efficiency –** a measure of productivity – how much you get out in relation to what you put in. i.e. doing more than before, with the same resources.
3. **Effectiveness –** a measure of the impact achieved and outcome. i.e. providing a better quality service with the same resources as now.

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

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

1.6 Policy and approaches to Value for Money.

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

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3) To maximise opportunities to achieve the 'three Es' for all the Council's activities.

4) To strictly monitor and manage the Council's performance at all levels.

5) To benchmark the Council's performance against similar organisations and aim to achieve performance within the top quartile.

6) To demonstrate to its external and internal auditors that the Council is achieving value for money for all activities undertaken.

7) To ensure the Council's committee reports fully cover all relevant implications such as financial, legal, efficiency, risk management, corporate etc. prior to decision-making.

2. Responsibility

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

3. Efficiency

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

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

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

Efficiency gains 2005/06 to 2017/18 (A: Actual) (E: Estimate)	Year on Year Efficiency Gains £'000	Cumulative Efficiency Gains Relative to 2004/05 £'000
Value For Money (VFM) gains		
2005/06 (A)	366	366
2006/07 (A)	312	678
2007/08 (A)	466	1144
2008/09 (A)	640	1784
2009/10 (A)	539	2323
Comprehensive Spending Review (CSR) gains		
2010/11 (A)	124	2,447
2011/12 (A)	1,802	4,249
2012/13 (A)	376	4,625
2013/14 (A)	187	4,812
2014/15 (A)	489	5,301
2015/16 (A)	438	5,739
2016/17 (A)	358	6,097
2017/18 (A)	362	6,459
2018/19 (E)	234	6,693

3.4 The Council embraced the agenda of delivering identifiable Value for Money gains and this provided the Council with a more structured and formal approach that will ensure that focus remains on how best to get the most from taxpayers' money. This continues to be achieved through the adoption of leading edge management practices, exploiting the potential of new information and communication technologies, and developing more focused delivery vehicles with private, voluntary and community as well as public sector partners.

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4. Approach to Delivering Value for Money and Efficiencies

4.1 Procurement:

- Competitive tendering.
- Updating of contract procedure rules has standardised procedures and documents with regards to all types of procurement.
- Adoption of new technologies in the form of e-procurement.
- Considering partnership contracts as the first approach to all procurements. This could either be by utilising existing framework contracts (such as the Office of Government Commerce) or collaborating with other Hertfordshire / Regional public sector bodies).
- Introduction of the e-market place should result in economies of scale and reduction of process costs.
- Procurement of a vendor neutral system of recruiting agency staff.

4.2 Personnel:

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

4.3 Corporate plan and policy framework:

- Business Process Review (to eliminate duplications and inefficiencies in processes).
- Continuous service improvement.
- Partnership and collaborative working.
- Shared infrastructure and back office processes.

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- New technologies and realising the benefits from investment in ICT.
- Best use of E-government National Projects.
- Strategic procurement.

4.4 **Asset management plan:**

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

4.5 As the Council becomes more and more efficient, the challenge of achieving further efficiency savings will become more difficult to realise.

5. Government Funding

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

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

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

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

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

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6. Efficiency Plan

6.1 On 28 February 2018 Hertsmere's full Council meeting approved the Council Tax and set a balanced budget for 2018/19, it also approved the Capital programme and Treasury Strategy to 2020/21.

6.2 This Financial Strategy looks forward beyond 2018/19 over the medium term to 2021/22. The strategy sets out the pressures the Council face over this period and how it intends to tackle them. Appendix 2 sets out the Revenue Financial Plan for the period to 2021/22 which shows a current budget gap of £1,208k.

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

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

6.5 Hertsmere prides itself on its commercial and innovative approach to service delivery and income generation and recognises that it needs to continue on this path to bridge its budgetary gap over the medium term.

6.6 Senior management and members are already working together on commercial initiatives including investment in Council owned land and investment in our Leisure facilities and have set up a Development Company to generate an ongoing commercial income stream.

6.7 A £5million loan to Hertsmere Leisure Trust was approved in principle by the full Council in November 2017 for investment in three of Hertsmere's leisure centres. Subject to the loan being formalised this will generate additional income to the Council in the form of loan interest over the next 10 years and there is also the potential of a 50% profit share from the additional income anticipated from this investment.

6.8 The business case for the development company, Hertsmere Developments Limited, has now been compiled and will be presented to the full Council in July 2018 for approval and for agreement of loan funding of up to £50million for the planned investments. This will result in an ongoing income stream to the Council initially by way of loan interest and as the company becomes more established and becomes profitable by way of dividend.

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6.9 Currently the income from these initiatives is not built into the Medium Term Financial Forecast but once formalised they will be added and will go some way to meeting the current funding gap.

6.10 Senior managers have also held brainstorming sessions to generate further ideas for efficiencies and income generation.

6.11 The Efficiency Plan programme below sets out the actions Hertsmere is taking to balance its budget over the medium term:

Efficiency Plan Programme

Description	Responsible Body	Action	Date
Revenue Budget 2018/19	Executive	Recommend for Consultation	January 2018
	Policy Committee	Consultation	January 2018
	Executive	Recommend for Approval	February 2018
	Full Council	Approval	February 2018
Budget and funding 2018/19 to 2021/22 Presentation and Brainstorming	Management Team	Identify efficiency proposals	March 2018
Financial Strategy 2018/19 to 2021/22 (incl. Efficiency Plan)	Executive	Recommend for Consultation	February 2018
	Policy Committee	Consultation	February 2018
	Executive	Recommend for Approval	June 2018
	Full Council	Approval	July 2018
2018/19 budget monitoring and savings tracker	Management Team/ Budget Monitors/ Operations Committee	Performance monitoring	Monthly 2018/19

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Description	Responsible Body	Action	Date
Develop efficiency proposals	Management Team in consultation with Portfolio Holders	Work up efficiency proposals into realistic options	May / June 2018
First review efficiency proposals	Management Team	Consultation	June / July 2018
	Budget Panel	Consultation	
	Management Board	Agree efficiency proposals to be fully developed	
Fully develop efficiency proposals – business case and implementation timetable	Management Team		July to September 2018
Budget Strategy Report	Executive	Approved budget strategy and timetable	September 2018
Review fully developed efficiency proposals	Budget Panel	Consultation	October 2018
	Management Board	Consultation	
Budget Strategy update report	Executive	Approve strategy and efficiency proposals to date	November 2018
Revenue Budget 2019/20	Executive	Recommend for Consultation	January 2019
	Policy Committee	Consultation	January 2019
	Executive	Recommend for Approval	February 2019
	Full Council	Approval	February 2019
Financial Strategy 2019/20 to 2022/23 (incl. Efficiency Plan) **N.B.** only the appendices will be updated annually, the full strategy documents will be	Management Team / Chief Officers / Portfolio Holder	Review and update	December 2018
	Executive	Recommend for consultation	January 2019

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Description	Responsible Body	Action	Date
updated as required every three years	Policy Committee	Consultation	March 2019
	Executive	Recommend for Approval	April 2019
	Full Council	Approval	April 2019
2019/20 budget monitoring and savings tracker	Management Team/ Budget Monitors/ Operations Committee	Performance monitoring	Monthly 2019/20