APPENDIX A

NORTH HERTFORDSHIRE DISTRICT COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2016-2021

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MEDIUM TERM FINANCIAL STRATEGY 2016-2021

1.0 Introduction

1.1 The Medium Term Financial Strategy (MTFS), the Council's key financial planning document, is an integral part of the Council's Corporate Business Planning process. The Council operates a system of priority led budgeting, with those district priorities set out in the "Corporate Plan" policy document. The MTFS then sets out how the financial management process will contribute to delivering those priorities and sets out a clear framework for our financial decision making. The strategy is updated annually. We fully expect that it will change over time, as new opportunities, or policy decisions affect the bottom line.

1.2 We have developed three high level objectives for the Council for 2016/21, which are:

- To work with our partners to provide an attractive and safe environment for our residents, where diversity is welcomed and the disadvantaged are supported

- To promote sustainable growth within our district to ensure economic and social opportunities exist for our communities, whilst remaining mindful of our cultural and physical heritage

- To ensure that the Council delivers cost effective and necessary services to our residents that are responsive to developing need and financial constraints

1.3 The MTFS includes a forward look over the next five years to assess the spending pressures we are likely to face and the level of savings that will need to be made to keep Council Tax increases to minimum possible levels. It also facilitates the achievement of our legal duty to set a balanced budget each year. It provides guidance for officers in building the short, medium and longer term picture of financial requirements and challenges facing the Authority and enables financial planning to be carried out in advance to help the Authority meet future demands. Planning now to meet known, or anticipated, changes in the future provides greater opportunity to phase in the impact of the changes. Planning for the future will mean that the Authority can ensure sufficient funds are held in balances to be in the best position to react swiftly to changing demands and emergencies as priorities or policy demands alter. Our high level objectives are set for at least a five year period, with a review at the end of five years (or sooner should external circumstances dictate), which assists the planning for the future and the ability to shift resources to those priority areas of work over a reasonable length of time.

1.4 The further the MTFS looks to the future, the more uncertainties there are. Most of the MTFS will be in the next Spending Review period and the new Parliament, and accordingly forecasts of funding cannot be estimated with a great degree of certainty at this time.

1.5 The Chancellor has announced there will be a further Budget presented on 8th July 2015, although it is unlikely that the specific consequences of this will have filtered through to the individual council level by the time this Strategy is reported to Cabinet (although we are aware that there are in year departmental reductions at national level and that the Public Health Budget to local authorities will reduce by £200 million immediately). Therefore it is highly likely that further changes will need to be incorporated into this Strategy and budget setting considerations following the autumn Spending Review.

1.6 Most Councils will need to continue to significantly increase the level of savings made – this will not be unique to North Hertfordshire. Strong leadership from both elected members and officers will be paramount in continuing to challenge, monitor and support the Council to deliver the on-going efficiency and productivity improvements required.

1.7 In these challenging financial times, one of the principal aims of the MTFS is to optimise income generation and efficiency savings wherever possible and keep down costs in order to minimise the impact on essential services. However, the extent of savings already made in previous years means that it is difficult to find further major efficiencies without investing in transformation for all areas of operation, to minimise adverse impacts on front-line service delivery.

1.8 Significant savings in the costs of the day-to-day services will be required over the planning period and this will require a focus on new ways of delivering services (e.g. channel shift, enhanced internet capabilities, working with community and voluntary partners, demand management) and new ways of working (e.g., accommodation strategy, agile working, electronic document management systems, procurement, etc.). A number of these projects will require upfront investment in order to achieve ongoing savings

1.9 In these challenging times, and with public resources under continued strain, relationships with the local voluntary and community sector are important in achieving different delivery models for services and facilities that might otherwise cease. We will aim to maintain and build on these relationships and will do this by promoting self-help and volunteering to build sustainable community capacity. North Hertfordshire is well placed in this regard already, as we have a higher level of volunteering than any other district in the county, and recent surveys of residents demonstrate a commitment to continue and build on this.

1.10 There are also opportunities which now exist through the introduction of the Localism Act 2012, which not only set out more clearly areas in which local authorities could become more commercially orientated, but also offered local community organisations a number of rights; these include the right to bid, and right to challenge. Whilst resource and capacity will be necessary to consider and progress these Rights, it can offer NHDC an opportunity to look differently at the use, operation and future of assets and services.

1.11 In a similar manner to previous years, the government now focusses on comparative figures concerning a local authority's "revenue spending power". This is a definition which encompasses an individual authority's:

- Council Tax Requirement
- Settlement funding assessment
- New Homes Bonus
- Specific Grants
- Public Health Grant

1.12 The Business Rates Retention (BRR) scheme is now the principal form of local government funding. The BRR brought a number of new terms and principles into local government funding. In summary these were:

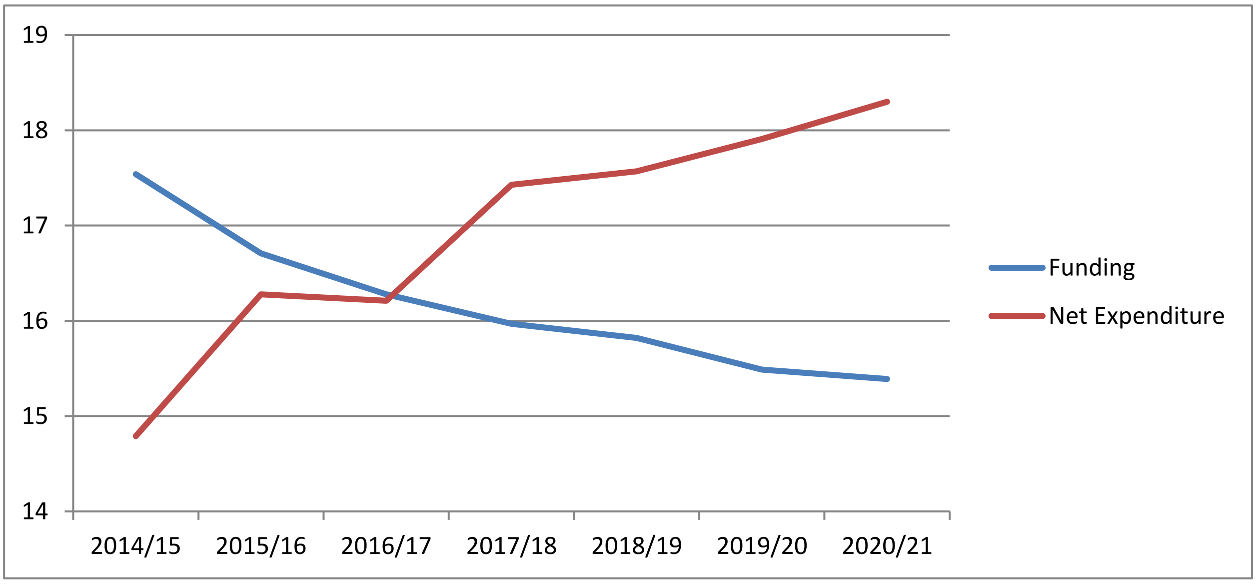
- The **Settlement Funding Assessment** (SFA) for an authority is split between resources received through **Revenue Support Grant (RSG)** and a Business Rates Retention (**Baseline Need)** amount
- It is the **Baseline Need** amount that is funded through retained business rates, with the **RSG** amount being guaranteed.
- A key determinant for local authority funding is the actual business rates collected i.e. it is this figure that will determine if authorities receive funding comparable to the **Baseline**

Need amount (and therefore the SFA), or a higher/lower amount. Local authorities therefore need to factor in local business rates income forecasts, alongside the provisional settlement figures, in order to estimate local resource levels for each year. The key uncertainties in forecasting business rates income are fluctuations in the tax base and the collection rate. The collection rate (percentage of business rates owed that is actually collected) by NHDC has remained relatively consistent over the last year and is around 97%. However, the overall tax base has reduced as a result of successful appeals. This (and a significant increase in the number of new appeals to be provided for) is the reason why NHDC is carrying a deficit position of £3.03m with regard to the collection of business rates as at 31 March 2015.

1.13 There is a Safety Net within the BRR system. This is triggered if an authority sees its income (from the business rates element of funding) in any year decline by more than a set percentage below its baseline funding level. For 2015/16, North Herts joined the Hertfordshire Business Rates Pool. Outside a pool, North Herts was forecast to pay £352k in levy payment to the government and would have had to bear the first £188k (i.e. -7.5%) of any reduction in business rate income below the baseline need of £2.5m before the safety net would have applied. However, within the pool North Herts is forecast to pay a levy on the pool of £43k and make a £281k gain from the levy.

1.14 The Local Government Association has produced an interim update to its funding outlook for councils to 2019/20 (to be revised following the 8th July Budget). This report provides a very useful background to the national picture of Local Government finances. The main messages are that the funding gap could be as large as £9.5bn by 2019/20. Based on an analysis by the Office of Budget Responsibility in March 2015, the LGA projections reductions in Local Government DEL in 2016/17, 2017/18 and 2018/19 of 12.1%, 11.6% and 4.7% respectively. 2015/16 is also identified as the year in which service reductions start to account for a higher proportion of savings than efficiencies do. Applying similar funding assumptions to our local model reveals a similar picture for North Herts (shown below) if no efficiencies are made, with a growing funding gap that needs to be addressed. The over-achievement of savings in 2013/14 and 2014/15 has meant funding has exceeded net expenditure and as a result reserves have been increased to provide some support in dealing with this funding gap.

Forecast Resources v Net Expenditure



1.18 Further information on any aspect of the Council's finances can be obtained from the Council's website at the following address:

http://www.north-herts.gov.uk/council-and-democracy/budgets-and-spending/budgets-year

1.19 The Local Government Association have produced a "financial position analysis" to enable local authorities to gain as much information as possible about where they stand in relation to other English authorities, both in terms of the present and the future, strengths and weaknesses, risks and opportunities. This model is designed as a tool to help councils assess their financial position compared to other councils.

1.20 For NHDC, indicators for the present (based on current financial accounts) show the following, in comparison with all other District Councils:

- Good levels of working capital. The analysis notes that authorities with sufficient working capital would have less difficulty liquidating sufficient assets to fund continuing operations in the event of a short-term debt problem.

- Improving (increasing) levels of reserves in times of uncertainty. If an authority has historically contributed to reserves, it is more likely that the immediate years pose less of a threat to resilience. At the same time, any use of reserves or contributions to reserves is likely to be the result of local strategic decisions.

1.21 Indicators of the future position, (which are based on the LGA's future funding outlook model) identify:

- Limited business rates buoyancy in North Hertfordshire, This is a measure of relative economic growth in the recent past and the LGA assumption is that this is a momentum indicator, i.e. growth is more likely to continue where it is already taking place

1.22 The analysis also identifies the council's risks, particularly concerning projected spending pressure and pension liabilities. The latter may not be an immediate concern but will have an impact on council finances in the future – for example affecting employer contribution rates.

1.23 In terms of opportunities, the analysis identifies that NHDC is well placed for investment property income and receipt of New Homes Bonus (NHB). An increased value of investment property indicates more opportunity to raise income. Higher NHB provides a stable source of income for councils and is a signal of a lively house building market. However, this NHB funding stream is government policy, so there is a risk of it ceasing.

1.24 The summarised view of the future for NHDC is that the council is well placed to face the challenges in the medium term, has relatively low (and manageable) risk and financial exposure, and also has potential competitive advantages from use of investment properties and council property assets. The challenge will be to make good use of these advantages and the Medium Term Financial Strategy seeks to enable this.

2.0 Financial Management Principles

2.1 The Council has a duty to manage public funds and have a system of internal control and governance arrangements to ensure that all public money is responsibly managed. Our Financial

Management and Governance arrangements are subject to annual external audit and have consistently been found to be healthy.

2.2 The following principles underpin the Council's financial management arrangements;

1) The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body

2) The Council will ensure that its published financial information is accurate, transparent, reliable and understandable

3) The Council will ensure that budgets are aligned to the Priorities for the District and based on prudent and realistic estimates

4) The Council recognises that it will not be able to continue to resource current levels of service given the ongoing scale and pace of funding cuts and will ensure that budget savings are identified to minimise the impact on frontline core services.

5) Procurement is conducted on a competitive basis, in accordance with Contract Procurement Rules, and will utilise e-procurement technologies.

6) The measures taken to reduce energy usage will include the principle that initial investment in energy saving and efficiency improvements may proceed where they can be demonstrated to be viable.

7) The Council will maintain good financial controls as set out in Financial Regulations and Contract Procurement rules and at all times will have regard to advice from the section 151 officer (Chief Financial Officer), Monitoring Officer and their deputies.

8) The Council will base its decisions on complete, reliable, timely financial information and after an evaluation of the risk implications.

9) The Council will monitor the revenue and capital budgets on a quarterly basis and more frequently if monitoring raises issues of concern, through reports to Cabinet. If, as a result of in-year financial monitoring, it appears to the authority that there has been deterioration in its financial position, it will take corrective action/measures as are considered necessary to deal with the matter. It will hold its managers accountable for their overall budgets.

10) The Council will work with partners in the public, private and voluntary/community sectors, and in a leading or supporting role, to maximise the resources available to deliver our priorities through a variety of means, whether that be jointly, directly or indirectly.

11) The Council will use one-off grants for time-limited or invest to save projects which do not add costs to the base budget in the longer term. Analysis of any ongoing revenue cost which may be incurred will therefore be undertaken prior to any commitment to use such grant funding.

12) The Council will not subsidise areas which are the responsibility of another precepting body other than through a one-off match-funding arrangement where it is in the interests of the local Council tax payers.

13) Before committing to additional expenditure, the Council will ensure that the funding and/or efficiency savings have been identified to meet the additional costs.

14) The Council will maximise its commercial income where possible within statutory constraints to ensure that, as a minimum, fee charging services break-even over time and are provided with

a nil cost subsidy from the taxpayer. Where legally possible the aim will be to generate a surplus. The Council will seek to increase its fees and charges annually by the rate of inflation (CPI) plus 2% (as adjusted to also reflect the impact of VAT increases or relevant comparative data obtained via benchmarking) except where legal requirements, contractual obligations, market forces or other special circumstances render this inappropriate. Further background information is provided in Fees & Charges policy (Annex A).

The Council will explore trading opportunities as and when they are identified with the aim of generating income to support the continued ability to deliver the services valued by the residents and businesses in the area.

15) The Council will seek to optimise income from the use of all of its assets, offering concessions (as appropriate and affordable) to encourage use by all members of our community in pursuit of our strategic objectives. Not only will the Council seek to manage all its assets cost-effectively, but will also encourage community lessees to move towards running assets on a self-sustaining financial basis to reduce/remove the financial impacts on the wider taxpayer, or for alternative third sector organisations to take on community assets. This will be considered on a case by case basis and will be consistent with the Income Generation principles in Section 5, the Council's adopted Community Halls Strategy and also the Community Asset Transfer policy.

16) The Council will allocate resources to support organisational transformation that will improve services to the public and represent value for money in line with our priorities. We will achieve value for money by:

- Ensuring that all of our limited resources are allocated to our corporate objectives through a vigorous corporate business planning process
- Achieving service and budgetary targets through tight budgetary control and good project management
- Seeking opportunities to utilise capital funding for invest to save schemes and proposals that generate higher rates of return than investments, after also considering the ongoing revenue impacts of proposals.
- Maintaining the policy of competitive tendering and adopting best procurement practices including joint procurements with other authorities wherever possible
- Minimising waste and achieving efficiency savings year on year
- Measuring service quality against appropriate locally determined performance indicators
- Working with the Local Enterprise and Local Strategic Partnership and other partners
- Listening to the views of residents, service users, businesses and staff and responding to service requirements
- Promoting equality of opportunity

- Exploring new ways of working, such as through shared services and other collaborative opportunities, with other local authorities/partners

17) The Council will continue to maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities and will ensure the levels held are sufficient to meet all known future liabilities. Due to the increased volatility from the change to funding from, e.g. the localisation of Business rates, and the potential impact of New Homes Bonus changes, we will maintain the minimum General Fund balance of at least 5% of net expenditure for unknown risks, plus a prudent allowance for known risks, when annual budgets are set, and will have a phased approach to the use of balances to ensure that the potential for erratic movements in Council Tax requirements is smoothed as far as possible. A Special Reserve is also held to respond to unavoidable movements in contract costs, to fund one-off costs needed for invest to save schemes and to cushion the impact of any changes to New Homes Bonus. Also see Reserves Policy (Annex B) for further information.

18) The Council will continue to explore alternative means of service delivery including partnering, enabling, outsourcing, shared services, trading arrangements and will aim to make best use of IT and changes to our work processes to ensure cost effective, economic and efficient services are provided at the level the customer requires. Before new opportunities are put forward for consideration, services should be able to answer yes to the following questions
    - Is this a service that the local area needs?
    - Can commercial income be generated to support the delivery of services

19) Where a business case identifies future savings, these will be built into the base budgets to encourage managers to realise the anticipated efficiency savings.

20) The Council will seek efficiency savings to compensate for any increase in Directorate expenditure subject to the likely impact based on four questions and prioritisation of the identified savings against the scoring matrix.
    - Is the saving fundamental to delivery of the Council's priorities?
    - Will the saving impact on delivery of Council's priorities and how?
    - What are the risks involved in making the saving?
    - Will the saving continue in future years?

21) The Council has established a clear link between the budget strategy and the risk register to ensure that necessary funds are available to progress work to mitigate the Top Risks. The Top Risks are regularly reported to the Finance, Audit & Risk Committee and Cabinet and any impact on budgets is taken into account.23)The Council recognises the risks inherent in the budget strategy and in particular the impact of a change in interest rates on the investment income and will therefore limit the reliance on investment income.

22) The Council will seek to maintain a Strategic Priorities Fund of up to £100k (subject to affordability) to assist in facilitating the shift in resources to meet key priorities. In-year underspends up to the £100k limit may be carried forward to provide the necessary finances. The fund, allocated by the Corporate Board, is utilised to encourage financing of innovations/invest to save bids, to enable the outputs from service reviews and continuous performance improvement strategies to be funded and to facilitate achievement of strategic priority projects.

23) All investment priority bids for both Revenue and Capital are subject to robust scrutiny from the Corporate Board and Members, where they are subject to six basic questions and then scored in accordance with the scoring matrix below;
    - Is the expenditure fundamental to delivery of the Council's objectives?
    - Is this a service that the local area needs?
    - Can commercial income be generated that can be gained to support the delivery of services?
    - Is there an absolute priority to incur the expenditure in the next 12months?
    - What are the risks involved in not spending the money?
    - Will the growth result in quantifiable savings in future years?

Revenue

Criteria	Points score range
Contractual Obligation	0 but noted as obligation*
Statutory/Discretionary/Core or Non Core	0-10
A project identified in the Priorities for the District	5 per main action
Continuous Improvement	0-5
Income Generation / Efficiency Gains	0-10
Health & Safety	0-5

Capital

Criteria	Points score range
Statutory/Discretionary/Core or Non Core	0-10
A project identified in the Priorities for the District	5 per main action
Health & Safety	0-5
Invest to save	0-10

*No score is given on the basis that a contractual commitment should not be seen as a barrier to change. It may be possible to negotiate a change in contract terms, albeit at a price, and clauses to reflect this possibility should be included in standard contract terms.

24) The Council will set the level of Council Tax increase year on year at no more than 0.1% below the Referendum threshold imposed by Government. If no Referendum threshold is imposed, the council will ordinarily set the level of Council Tax increase year on year at no more than 2%

25) The Council identifies the functions which are lower or non priority for resource allocation, based on a scoring matrix, and continuously seeks to move resources away from the lower priority functions.

26) The Council will continue to use the Corporate Board process to undertake the detailed exploration of budgets to identify potential efficiencies. Corporate Board will continue the work on value for money, budget assessments and income generation options, with a view to informing decisions on services where we may wish to spend less and provide less.

27) The Council will keep under review the potential for making further lump sum revenue contributions from balances, to offset some of the deficit on the superannuation fund, thus improving the revenue position in future years. This is subject to advice from the fund actuaries.

28) The Council will operate its capital programme, borrowing and investments in accordance with the CIPFA Prudential Code. The revenue impact of the Capital Programme will be included in the revenue budget. This includes the potential reduction in income from cash investments that could result from capital investment. For capital expenditure on Council Assets (as detailed in the Asset Register and included in the Council's Balance Sheet) the minimum level for capital funding will remain at £20,000 for property and construction and £10,000 for vehicles, plant and equipment for 2016/17. Where the Council is allowed by statute to treat expenditure on third party assets as capital and it can be demonstrated to the Strategic Director of Finance, Policy & Governance that the expenditure meets the requirements of the Prudential Code, a minimum level will not be applied.

29) The Council will ensure the level of planned capital spending in any one-year matches the capacity of the organisation to deliver the schemes. Income generated from asset sales in one

part of the district may be applied to projects in any part of the district. Consideration will be given to using some of the interest receipts from investment of capital receipts to set up a Revenue Contribution to Capital fund. Should any increased income be received as a result of an improvement in interest rates in the year, we will consider making a contribution to such a fund.

30) The Council will utilise set aside capital receipts in a sustainable and prudent manner to assist in funding the capital programme. Consideration will also be given to opportunities to utilise capital funding for invest to save schemes and proposals where the project can be demonstrated to generate income in excess of the lost interest amount on the capital sum required. The lost interest estimate will be taken to be the five year interest rate and the business case will include this loss of interest in the financial assessment.

31) The Council may use capital funds to acquire land and property for development and/or investment purposes with such land used for economic, commercial, social or business development, or other income generation, or revenue cost reduction, purposes. The General Power of Competence, under the Localism Act allows authorities to generally do “anything that an individual may do” – and follows/ improves upon the previous “well-being powers” under the Local Government Act 2000 so that Councils can operate beyond their own boundaries and do so for commercial purposes for a charge, for the benefit of the authority/ area or people in its area (unless existing legal limitations apply).

32) Once the underlying amount held by Treasury Management for investment purposes reduces to £20 million (as @ 31 March 2015 this figure was £35.72m) this will be considered the minimum threshold. Decisions to drop below this level will be considered on a case by case basis by Cabinet. This policy will be reviewed at least annually to consider the impact of changing interest rates and also at the point when the minimum retained investment threshold is approaching.

33) The Council will use any funds available from the Community Benefit Agreement in partnership with North Hertfordshire Homes (established as part of the Housing Stock Transfer Agreement) in accordance with the following categories:

- Provision of additional social housing
- Community benefit such as enhancement of community centres; provision and enhancement of recreation areas such as children’s play areas; provision and enhancement of landscaped areas(e.g. to deter anti-social behaviour); road safety and congestion initiatives.
- Any projects proposed by the Council which are within North Herts Homes’ objectives and powers.

The Council will apply the same principles to any potential housing receipts payable to NHDC, generated by North Herts Homes, with respect to clawback and overage payments (which were also principles established as part of the Housing Stock Transfer Agreement). Alternatively, if no agreed scheme is forthcoming then clawback/overage may be due to the Council.

34) Full Council may approve as part of the annual budgetary process that unallocated Area Committee budgets can be carried forward from one year to the next and not be subject to the normal rules for carry forward budgets.

35) The MTFS will cover the five year period April 2016 to March 2021 and will be rolled forward as part of the annual strategy review every summer.

3.0 Corporate Business Planning

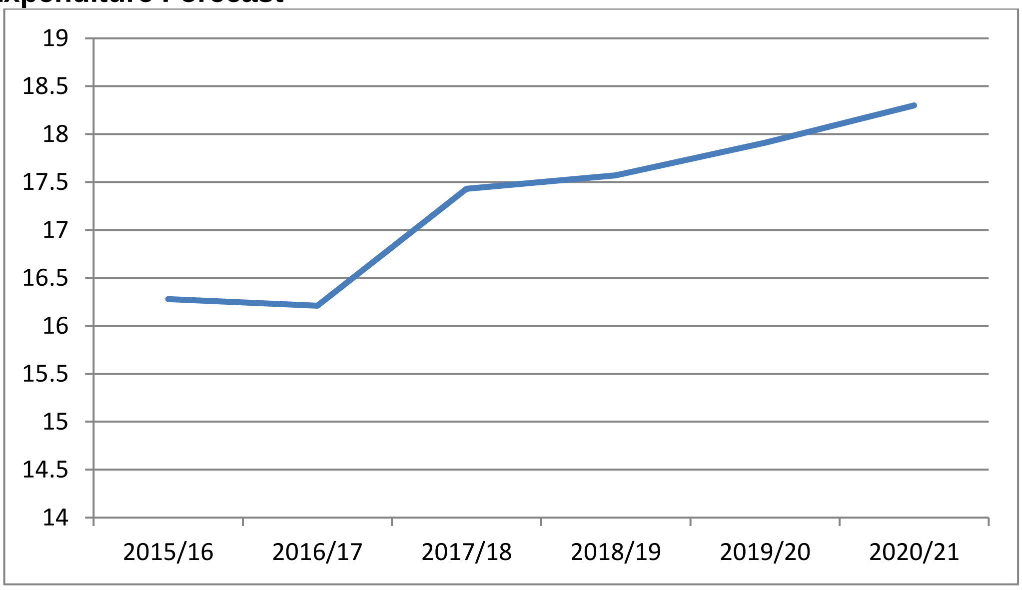
3.1 The MTFS complements the Corporate Plan as a means of ensuring that the Council's finances are aligned with its Objectives. The projects identified for completion in the Corporate Plan have budget allocation, are approved pending external funding confirmation, or are a combination of the two. Achievement of the anticipated outcomes set in the Corporate Plan Document is monitored in-year.

3.2 The Council operates a system of priority–led budgeting. This ensures that resources are directed and/or redirected to the achievement of the Council's priorities and ultimate delivery of the high level objectives for the District. This is supported by the procurement strategy that seeks to ensure that commissioning and procurement activities specify, source, procure and manage external contractors appropriately, thereby linking directly to quality, value and effectiveness in delivering the corporate priorities. The procurement strategy contributes further by encouraging the exploitation of new savings opportunities and delivery of cashable savings.

3.3 The procurement strategy for the council will seek to achieve value for money, whilst also ensuring that services are procured in a sustainable way that assesses environmental impacts and whole life costs, along with compliance with the Social Value Act. A Collaborative procurement approach is applied, using consortia/partnership contracts, as well as buying into contracts negotiated nationally by the Crown Commercial Service (CCS) and this avenue continues to develop

3.4 The Corporate Business Planning process facilitates a critical review of existing expenditure through the work of the Corporate Board of officers led by the Chief Executive. This group reviews the base position, challenges existing budget allocations and creates the ability to reallocate money to strategic priorities. Over recent years, we have been successful in identifying efficiencies that have enabled funds to be reallocated to help meet Council priorities and our on-going work continues this focus on efficiency. However, there is continual pressure on expenditure budgets through contractual inflation, changing and evolving statutory obligations and increased demand for services. Without the achievement of further efficiencies, or growth in income generation, the net expenditure of the Council is expected to grow by roughly £2 million over the period 2016/17 to 2020/21 (demonstrated in the graph below) and illustrated further in the appendices. This is the picture without factoring in key financial risks such as changes to waste collection and the impact of welfare reform.

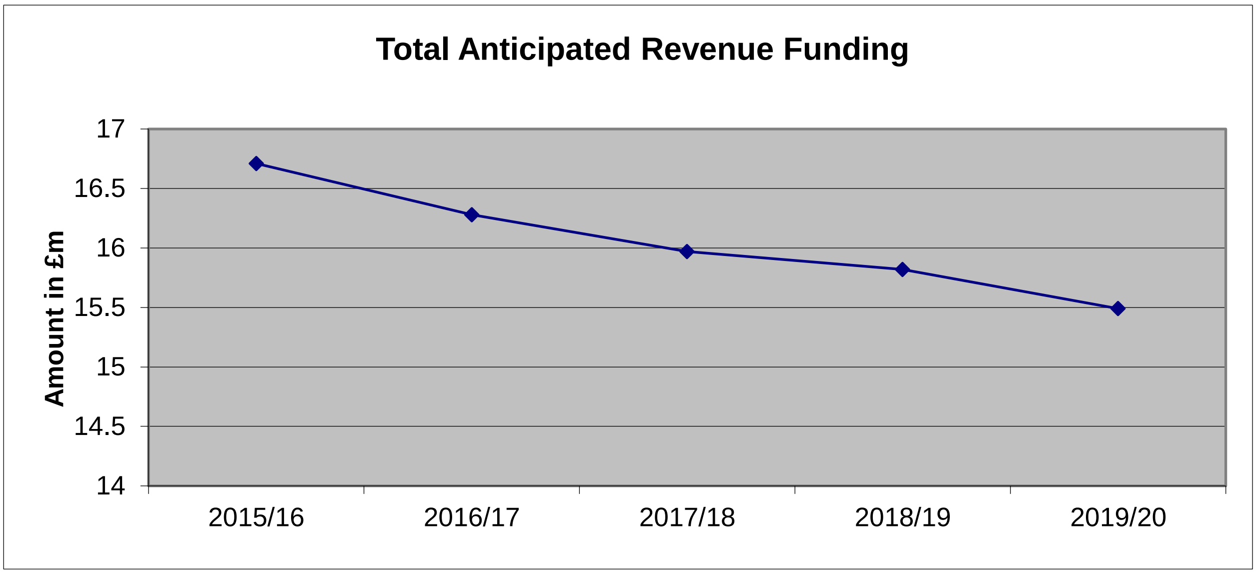
Net Expenditure Forecast



3.5 As shown in the table below, since 2005/06 this challenge process has generated some £12.0 million of funds for redirection or to balance the budget through a mixture of increased income and expenditure efficiency savings.

Year	Funds available for redirection £(m)
2005/06	1.5
2006/07	1.3
2007/08	0.9
2008/09	0.6
2009/10	1.2
2010/11	1.3
2011/12	1.9
2012/13	0.6
2013/14	0.7
2014/15	1.6
2015/16	0.4
Total	**12.0**

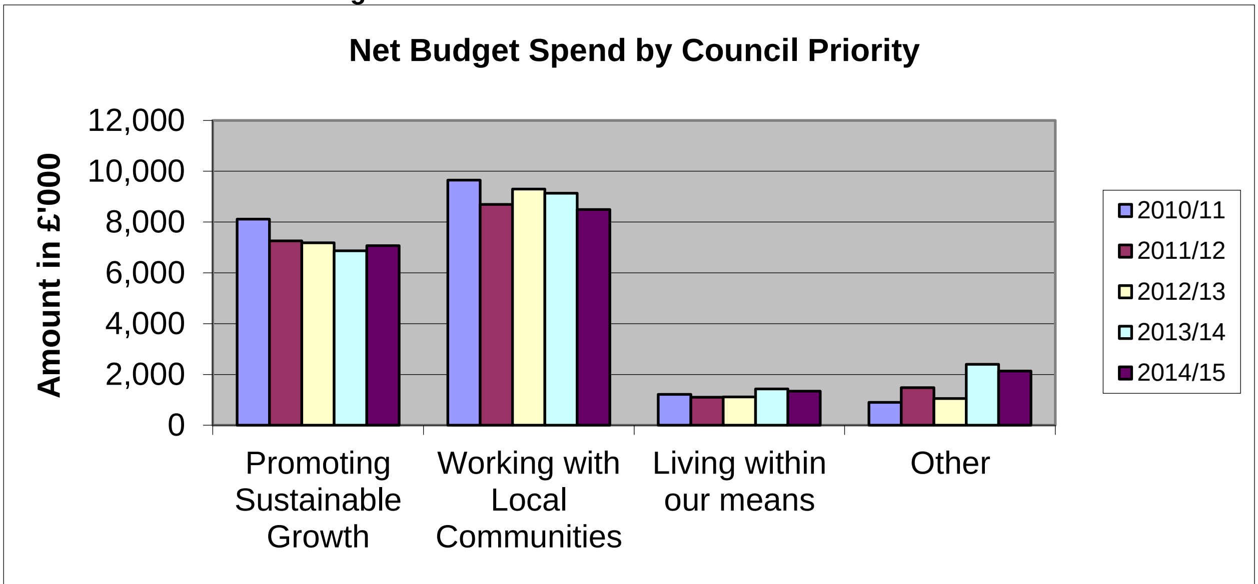
3.6 The graph below demonstrates the anticipated changes in total funding over the period 2015/16 to 2020/21 based on the 2015/16 position from the illustrative local government finance settlement with further anticipated reductions in the Settlement Funding Assessment in each year thereafter. We do anticipate the District Precept to grow by 0.5% because of the growth in the overall taxbase, and for fees and charges to increase inline with CPI plus 2%. We also currently anticipate NHB to continue at a broadly flat level. The estimates assume no increase in the rate of council tax over 2016/17 to 2020/21. These figures are taken from Appendix 1.



3.7 The Council has formalised its approach to Value for Money, defining this as the relationship between Price, Performance and Perception. The Council's Corporate Business Strategy has provided a methodology by which the service, performance and customer perception can be more closely linked to cost, enabling us to compare with statistically similar "nearest neighbour" and/or other appropriate comparator authorities and measure ourselves more critically. The Challenge Board (now Corporate Board) had identified a programme to review service areas where we appear at first sight to be high cost and drill down into the detailed reasons for this so that we can then make informed choices about any action that may be required. An equivalent approach may be taken for income generated by fees & charges and in either case may combine VfM and other assessment techniques. Functions had also been categorised as Statutory or Discretionary and this, combined with information on cost and performance is being used to inform decisions on potential areas for efficiency.

3.8 The alignment of the 2011/12 to 2015/16 budget estimates to the Council's proposed three priorities of, Promoting Sustainable Growth, Working with our communities and Living with our means is demonstrated in Chart 1. The allocation includes capital charges and reflects an approximation of Officer time to various aspects of their work and hence the Council's priorities.

Chart 1: Distribution of budget to Council Priorities



3.9 All projects undertaken by officers across the authority should link directly to one of the Council's objectives and priorities which underpin, or contribute to improving the value for money of day to day activities, and the scoring matrix in paragraph 2.2 (20) is used to rank any bids for additional resources. If a link to the priorities cannot be demonstrated, the project should not be supported with financial resources and should not proceed. Examples of the types of detailed project work undertaken and supported by redirected funds include business case development for a joint waste service; crematorium, open plan refurbishment of the council offices, energy efficiency measures and green space strategy improvements.

3.10 Existing functions of the Council should also be considered in terms of how they contribute to the priorities of the Council. This will assist in de-prioritisation of functions. This represents difficult, but necessary, decisions to both secure a balanced position in the short term and address larger scale financial challenges in the medium term.

3.11 **Corporate Structure**

3.11.1 The assessment of functions also encompasses the need to periodically review the organisational structure of the Council to ensure that it remains flexible and responsive to changing demands and able to deliver the Council's objectives. This aspect is particularly concerned with the ability of the organisation to meet the requirements of competing priorities and growing external pressures on council services, rather than simply reducing staffing resources.

3.11.2 Council last endorsed a change to the Senior Management Structure linked to the corporate business planning cycle for 2011/12 driven principally by economic circumstances at that time and the need to achieve efficiencies of nearly £2million that year. The overall structure and level of resourcing at a senior level has not altered significantly during the intervening period with the notable exception of the Strategic Director Planning, Housing & Enterprise post being held vacant since 2012 and the Corporate Manager – Strategic Planning also remaining vacant. Line management arrangements have adequately dealt with these matters prior to a Corporate restructure taking place.

3.11.3 There have been significant changes to the environment in which Local Government has been working since the last review of senior structures. These changes include:

- Systematic funding reductions which are likely to continue
- Increased responsibilities e.g. through the Localism Act, customer expectations and other legislative changes
- Changes to welfare and benefits arrangements
- Shared service opportunities
- Further commercialisation of services to build on the approach which has already delivered service improvements and cost reductions
- Historically low interest rates that impact on income

3.11.4 The Council has responded to these challenges in a positive and effective way. Costs overall have been reduced by £12m since 2005, with £6.5m of the reductions occurring since 2010. Performance of the Council's services has improved in virtually all areas and this can most importantly be seen through increases in customer satisfaction. Services to the public have operated more efficiently (and in many areas service has been enhanced) however, whilst we may seek to maintain this approach, Local Government generally is recognising that in some areas service cuts are almost inevitable.

3.11.5 It can be noted that the Council in July 2015 considered the Objectives for the next 5 years and these are now feeding into the MTFS and the resulting Corporate Business Planning Process. In relation to considering structural change the following factors will underpin the review process and the final structural arrangements:

- ➢ Cost effective and cost neutral compared with the existing arrangements
- ➢ Robust and resilient
- ➢ Targeted to delivering the Council's Priorities
- ➢ De-prioritising those areas which are not specified priorities and there is no statutory responsibility
- ➢ Ensuring that the daily services run efficiently
- ➢ Focussed on providing appropriately skilled resource into areas where service development provides economic advantage and alternative delivery models may be used

Roles and Responsibilities

3.12 The role of Councillors in the Corporate Business Planning process is to

- set vision and strategic direction
- agree the Council's high level objectives and priorities
- agree the specific projects to achieve the priorities
- agree the rolling MTFS including decisions on the time-frame to be covered, external influences to be considered and included, strategy for use of balances, assumptions regarding government support and the implications of doing so, income policy, capital strategy and setting indicative council tax levels for future years
- scrutinise proposals for funding prioritisation and de-prioritisation as set out by managers
- decide between options presented
- decide on options for increasing fees & charges where a proposed approach varies from that outlined in the income policy
- give due consideration to both the risks and opportunities of options as the council necessarily explores new avenues
- discuss savings suggestions and income generation proposals with relevant Officers.
- take a corporate overview of the budget position once decisions on individual prioritisation have been taken.
- set the level of Council Tax each year
- scrutinise and monitor the budget throughout the year

3.13 The role of all officers is to

- put forward suggestions for actions to deliver the objectives and new opportunities
- manage services to deliver the actions in the plan within budget allocations
- explore alternative ways of delivering services, including assessment of risks and opportunities
- propose income generation and service transformation opportunities
- report on value for money and continuous improvement
- monitor the budget throughout the year and ensure spending is in line with policy requirements

3.14 Pension Scheme Impacts:

Local Government Pension Scheme

3.14.1 In December 2013 the Actuary provided the results of the 2013 valuation of the pension fund. The results suggest a 75% funding level. This is an improvement on the 2010 valuation when the results suggested a 73% funding level, however a significant deficit remains. The next valuation should be available to contributing authorities in December 2016.

3.14.2 The Council's revenue contributions to the pension fund consist of two elements. The first is an annual contribution of 15.5% of payroll, which is the employer's contribution to cover for the future benefits of the current employees. The second is the annual lump sum payment, which is the contribution towards the fund deficit and the benefits gained by previous employees in previous years.

3.14.3 The council made an additional capital payment of £2.447m to the pension fund in March 2014, following DCLG approval. This helped to alleviate pressure on the general fund by reducing the annual revenue payments towards the fund deficit, and therefore reduce pressure on Council Tax, over a period of funding uncertainty. This option would also be considered for the future, if available.

3.14.4 Employee Auto enrolment into the LGPS could increase costs if employees do not subsequently opt out again within the 3 months allowed for opt out. However, as NHDC is not experiencing a significant turn-over of new employees, the funding position in this respect is stable at present, although is being monitored. All entitled employees must be enrolled into a pension scheme, and it is the responsibility of the employee to opt out if they wish. However, on the third anniversary of opting out, the employee will be re-enrolled and it is their responsibility to opt out again. A financial risk allowance has been made in 2016/17 to cover increases in pension costs arising from changes to the LGPS and auto enrolment.

State Earnings Related Pension Scheme

3.14.5 The Government has announced that it is bringing forward the introduction of the new Single Tier Pension, from April 2017 to April 2016. The estimated cost to all public sector employers is £3.3bn per annum. The Chancellor stated that "public sector employers will have to absorb the burden, as is always the case with tax changes" before adding that "any spending review in the next Parliament will, of course, take the £3.3 billion cost into account". It remains to be seen how transparently these costs are acknowledged, as they cannot simply be absorbed into RSG changes as this source of funding is on a downward trajectory and is projected to be at or near nil by 2020/21.

3.14.6 When introduced, the Single Tier Pension will replace the existing basic and additional state pension and end contracting out of the state pension scheme for those in defined benefit schemes, such as LGPS. The estimated cost to NHDC arising from increased employers NI payments is estimated as £100k per annum.

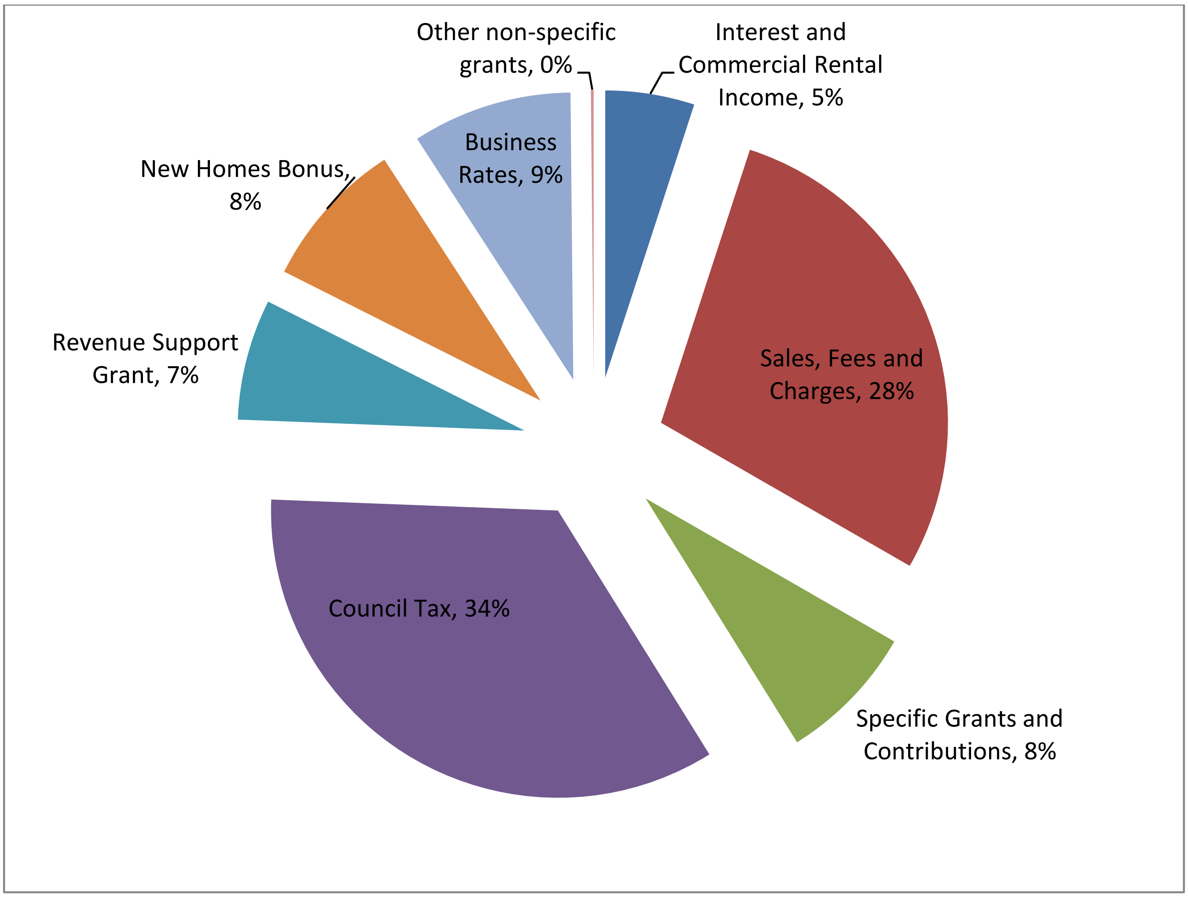
(Contracting out is where an individual pays a lower rate of NI because they contribute to a certain kind of workplace pension scheme,).

4.0 North Hertfordshire Revenue Budget - the current picture

4.1 The net expenditure on the General Fund for 2014/15 was £14.831million (the adjusted 13/14 figure was £15.439million). This was a net decrease of £1.283million (or 8%) on the original budget of £16.114million. This includes the request to carry forward £464k of budgets from 2014/15 to 2015/16 for projects which have not completed by the end of the financial year. Following approval the revised net expenditure for 2015/16 is £16.249million. Regular budget monitoring and reporting on progress against carry forward budgets, budgets where savings are to be made and those where investment has been permitted, ensures that Members and officers are actively managing the financial position. Through the monitoring process, we are able to use the lessons learned to update the rolling financial strategy and this is done in the summer each year.

4.2 The following chart indicates the main sources of income to the Authority (excluding housing and council tax benefit subsidy).

2015/16 Funding



4.3 The Authority can decide how much income it will raise from discretionary fees and charges (noting section 5 of the MTFS) and through the precept on the Council Taxpayer (subject to any capping restrictions). The National Non Domestic Rate level is set nationally and this remains the case under the Business Rates Retention scheme.

4.4 Over recent years, the proportion of the Council's expenditure met by Government grant has fallen significantly and this results in a change to the "gearing" ratio between central and local funding. The table below firstly demonstrates the effect of gearing by way of example and then demonstrates that NHDC Council Tax represents 61% of net expenditure currently and is continuing to increase over the period 2015/16 to 2020/21.

	Year One	Year Two	% increase
	£	£	
Expenditure	100,000	120,000	20%
Government Grant funding	(60,000)	(60,000)	0
Council Tax	(40,000)	(60,000)	50%
Council tax as % of expenditure	40%	50%	10%

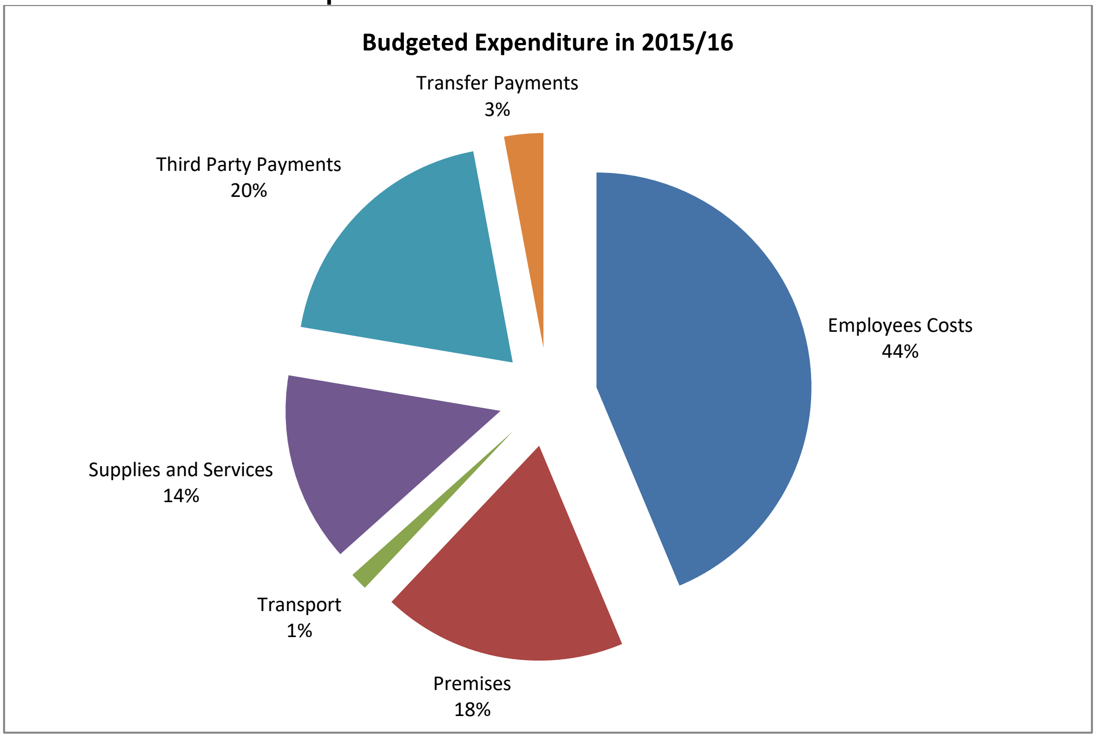
	2015/16 £'000	2020/21 £'000	% increase
Net Expenditure	16,249	16,801	3%
Council Tax income	(9,854)	(11,099)	13%
Council Tax as % of net expenditure	61%	69%	13%

Current estimates of total funding available to the council over the next few years are shown in the table below. This includes the Settlement Funding Assessment from Central Government; other Government Grants; Council Tax and New Homes Bonus. Taken together, the Government refers to this as a local authority's "revenue spending power".

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant (RSG)	2.735	1.874	1.159	0.695	0.417	0
Retained Business Rates Baseline	2.428	2.495	2.501	2.559	2.636	2.717
Settlement Funding Assessment	**5.162**	**4.369**	**3.660**	**3.254**	**3.054**	**2.717**
Less: Grant paid to Parish Councils for Ctax Reduction Scheme	(0.080)	(0.068)	(0.056)	(0.050)	(0.047)	(0.041)
New Homes Bonus (NHB)	1.982	2.431	2.652	2.692	2.694	2.641
Other Non-Specific Government Grants	0.796	0.583	0.021	0.021	0.021	0.021
Retained Business Rates over and above Baseline	0.093	0	0	0	0	0
Collection Fund Surplus / (Deficit)	0	(0.742)		0	0	0
District Precept (Council Tax)	9.590	9.854	9.903	9.953	10.002	10.052
Total Funding	**17.544**	**16.427**	**16.180**	**15.870**	**15.724**	**15.390**

4.5 The following chart shows the main areas of expenditure in 2015/16 excluding housing and council tax benefit payments.

Chart 3 –Main areas of expenditure



Local Government Finance Settlement

4.6 The Local Government financial settlement is now based around a Settlement Funding Assessment. This incorporates both the Revenue Support Grant from Government and the amount of locally collected business rates that the Authority is allowed to keep (for NHDC this is currently around 6% of the total business rates collected, after the levy is applied). The Revenue Support

Grant is expected to be £1.874million for 2015/16 and the retained business rates are expected to be £2.495million. Together this gives a “settlement funding assessment” of £4.369million. This is roughly 15% lower than the amount received in 2014/15 of £5.162million. Funding for future years will be confirmed towards the end of 2015, although initial estimates are provided above.

4.7 The Council has received and will continue to receive several other specific grants for some areas of our expenditure, e.g. benefits administration. Often the grants are time-limited and in such cases, Members have taken the decision that the funding should not be used to support ongoing expenditure but rather should be used for one-off or invest to save projects which will improve performance without adding to on-going costs. This is a sound strategy which is followed for any performance related grant funding.

4.8 In 2014/15 the Council received some £40.029 million as earmarked revenue specific grant funding, although the bulk of this funding relates to subsidy payments. Often the announcements of this type of funding are made after the Council has set its annual budget making it difficult for Councils to plan ahead. As a result the estimated grant income for 2015/16 of £39.917million may increase as more announcements are made during the year. The New Homes Bonus is a non-specific (i.e. non ring-fenced) stream of grant funding and as such is reported as part of the overall funding settlement along with the Revenue Support Grant and retained business rates.

ANALYSIS OF GOVERNMENT GRANTS:

	2013/14 £000’s	**2014/15 £000’s**	**2015/16 £000’s**
Benefits Administration grants	984	984	844
Housing & Council Tax Benefit Subsidy	37,545	37,875	38,209
Waste minimisation - HCC contribution	362	606	395
Waste Service Transport Subsidy	30	17	24
National Non-Domestic Rates Administration grant	182	193	181
Community Safety Grant	26	24	24
Council Tax Reduction Scheme - New Burdens Grant	66	82	25
Homelessness Prevention Grant	0	58	0
Community Right to Bid	16	16	0
Individual Electronic Registration - Electoral Commission	27	54	40
Air Monitoring - Defra	28	0	0
DCLG Waste Grant for Flats recycling	58	74	76
Health and Well Being Grant - HCC	10	0	0
Neighbourhood plan Grants - DCLG	0	30	0
Public Health Grant	0	16	100
	39,335	**40,029**	**39,917**

4.9 The authority has developed its exit strategy approach for time-limited external funding so that services to the public do not suffer at the end of the funding period. Grant funding lifecycles will be monitored throughout the year and as grants come to an end they will be reported in the annual budget report. We will not rely on time-limited funding for core activities and will always ensure that cost neutral arrangements are in place for service provision at the end of the funding period.

Council Tax

4.10 The following table shows the amount of Council tax income since 2009/10. The Council also receives compensation within its settlement funding assessment for when it accepted the council tax freeze grant.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Total Council Tax Income (£M)	9,579	9,780	9,885	9,944	9,356	9,589	9,854
Taxbase (Band D Equivalent)	49,461	49,749	50,282	50,586	46,705*	46,978	47,371
Council Tax Band D(£)	193.68	196.59	196.59	196.59	200.32	204.13	208.01
Increase on prior year	3.9%	1.5%	0%	0%	1.9%	1.9%	1.9%

*The decrease in taxbase in 2013/14 is the result of the adoption of the Local Council Tax Reduction Scheme. Prior to 2013/14 the Council claimed the cost of the payment of Council Tax Benefits from the Department of Work and Pensions.

4.11 In accordance with our policy, the expected Council Tax increase for 2016/17 should be no higher than 0.1% below the Referendum threshold. If no Referendum threshold is imposed, the council will ordinarily set the level of Council Tax increase year on year at no more than 2%

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4.12 The Government has retained the potential to use their capping powers. The Localism Act includes the requirement for a referendum should a council tax increase be “excessive” (for the year in question if in excess of 2%). At this stage a figure of 0% has been used in the forecast financial position at appendix 1. Were we to increase council tax by 2.0% in 2016/17 approximately £200k of additional income would be achieved, with this financial benefit compounded in future years. A 2.0% increase in Council Tax would amount to an increase of around 8 pence per week for a Band D property.

5.0 Income Generation

5.1 As a minimum in recent years, where legally possible the Council has sought to increase discretionary fees and charges annually in line with inflation, as measured by RPI. For 2016/17, and having regard for the constraints below, it is proposed that this policy is amended to CPI plus 2% (at November). Further background is provided in the Fees & Charges policy appended as annex A. Responsibility for this process, and subsequent fee levels, lies with Strategic Directors. The Council has previously taken the decision that certain discretionary services should move towards a break-even position, and some specific services must be provided at a net nil subsidy to the taxpayer wherever possible, and in these cases fees and charges may already be increased at a higher rate should it be required. Any other deviations from the strategy of increases by CPI plus 2% have to be explained and reported. Generally speaking, charges are maximised to a level where we are reasonably confident they will not deter use of the service or impact on achievement of the policy objectives the Council is pursuing. We are conscious of the price sensitivity for some areas of our charges and that some charges can be in the upper quartile. It is therefore important that, as part of any review, we consider charges levied by competitors, and similar local authorities, to inform our own fee setting (see also 5.3 and 5.4). The charging policy and particularly the level of subsidy for some charges is under constant review, as is applicability of charging for the use of our assets, as well as services.

5.2 As part of further developing the Medium Term Financial Strategy, we continue to investigate the appropriateness of service subsidies and also the funding of functions which are the responsibility of other bodies. We recognise that we should give careful consideration to each individual case before reaching a decision and should apply the test: "should the Council Tax payer pay for all or part of a service or should it be the service user?" Many of the services we provide are subsidised and during the budget setting process, service managers are now asked to review the extent of the subsidies and are asked the following questions:

- Does the service support the Council's high level objectives and priorities?
- Is the service statutory or discretionary and, in either case, do we have discretion over the level at which it is provided?
- What proportion or sections of the population use the service?
- What is the level of subsidy?
- What is the reason for the service subsidy?
- Is there a strategy in place which determines the level of subsidy going forward?
- Is there the opportunity to make greater use of or secure external grants to reduce the subsidy?
- What impact would a reduction in the level of subsidy have on the service?
- How much income could be generated by a removal of the subsidy?
- Should any removal be subject to a phasing in process and if so over how many years?

Changes made to service delivery will include an equality analysis.

5.3 Research undertaken by LG Futures (a Public Sector Finance advisory service) regarding fees and charges levied in 2013/14 by Authorities across the country highlights that, NHDC had an income to expenditure ratio of 17.1% (for 2012/13 it was 17.6%). Compared to its Nearest Neighbour group, this income to expenditure ratio for NHDC was lower than the average of 20.4% (2012/13 average: 20.1%). When compared to other authorities across England, the income to total expenditure ratio was also below average. NHDC was ranked only 132nd out of the 201 shire districts (122nd in the prior year). At a macro level, this suggests that NHDC does have some scope to increase income from sales, fees and charges from current activities, even after an increase of £0.76m was achieved in 2013/14 and this has led to proposed fees & charges uplift level proposed elsewhere in this Strategy

5.4 Very broadly, if the income level for services currently above the median were maintained and those below median were moved to the median level, then the increased full year income to NHDC is estimated as £1.8m. As with any national comparators these figures should be taken as broadly indicative only as allowance is not made for specific local factors. Nevertheless, this area merits further analysis and assessment as even if the estimated change in total revenue was set to the Median benchmark level for all services (i.e. some charges increase to the median, whilst others were decreased to the median) this would still represent an increased annual income of just over £900k overall.

5.5 The Council will seek to manage all its assets cost-effectively, including opportunities to optimise income from the use of these assets, offering concessions (as appropriate and affordable) to encourage use by all members of our community in pursuit of our priorities. We will also continue to explore opportunities in regard to our assets, including long term leases which effectively constitute a transfer, whereby community groups take on responsibility for the operation and overall facility management.

5.6 The Local Government Act 2003 permits local authorities to trade with both public and private sector bodies. In broad terms authorities may not trade for profit unless that activity is performed through a company. The Localism Act 2012, while vesting a general power of competence, retains this requirement. Section 4 of the Localism Act restricts the ability of a local authority to carry out activities for a commercial purpose using the general power. Section 4 (2) provides that if a local authority undertakes a commercial activity in exercise of its general power it must only do so through a company (for this purpose this covers limited or "registered society" i.e. formerly co-operative, community benefit society or industrial provident society). Consequently, these provisions will be considered when exploring alternative service delivery models.

6.0 Expenditure Assessment

6.1 High level research undertaken by LG Futures regarding unit costs for Authorities across the country highlights that North Herts would incur additional expenditure of £0.6m if unit costs in all categories were set to the group median ("Nearest Neighbour" group according to CIPFA's assessment of councils with similar economic and social characteristics). This provides a certain level of general indication that effective cost control measures are in place. However, this cost could be converted to a saving of up to £1.2m if costs currently below the median were kept at current levels and costs above the median were reduced to the median level. As with any national comparators these figures should be taken as broadly indicative only and do not take into account past political decisions regarding appropriate service levels. The unit costs (expenditure per resident) used in this exercise are based on the planned expenditure for 2014/15, as reported in the Revenue Account (RA) returns to Central Government.

6.2 Overall, North Hertfordshire's unit costs are 2.6% lower than the Nearest Neighbour average (they were 5.2% higher in the prior year) and are ranked eleventh out of sixteen authorities in the group. The highest unit costs by service area were for Highways & Transport, being 6th out of sixteen authorities; Cultural & related services (4th highest in the group); and Environmental & Regulatory Services (7th highest). Reducing these figures to the median would achieve efficiencies of: £0.46m for cultural & related services; £0.1m for highways & transport and £0.58m for Environmental & regulatory services. It is noted; however, that political choices and past decisions quite legitimately will have a bearing on the level of expenditure in particular areas.

6.3 Highways & transport includes parking services, transport planning, policy & strategy and environmental safety & routine maintenance. Cultural & related services include culture & heritage, recreation & sport and also open spaces. Environmental & regulatory services include waste, recycling & street cleansing and community safety.

7.0 Capital Arrangements.

7.1 The Prudential Code for Capital Finance in Local Authorities came into operation in April 2004. Under the code, authorities are free to borrow and invest so long as their capital spending plans are affordable, prudent and sustainable.

7.2 Local Authority capital spending improves services, protects the value of the Council's portfolio of assets and replaces existing assets as they reach the end of their useful lives. Capital investment is not a luxury since without it, local authorities would become unable to deliver even their existing services let alone respond to new demands.

7.3 The code requires authorities to set the prudential indicators specified in the code and to base borrowing decisions on a sound treasury management strategy. The Authority has a separate treasury management strategy which complies with the requirements of the code.

7.4 The code also requires Authorities to estimate their borrowing requirement year on year with the unfunded element of the capital programme determining the borrowing limit. Having established the borrowing limit, authorities must then determine whether it is affordable. At this point in time this council does not require borrowing to fund the capital programme.

7.5 By following the principles of priority led budgeting, we seek to ensure that we can demonstrate how all capital schemes in the programme link to the Council's vision and high level objectives and the scoring mechanism for prioritisation is also applied to all capital schemes. This requires an annual reappraisal of all schemes not yet commenced to ensure they are still relevant and to ensure scarce resources are directed to the Council's main objectives in any one-year. This will mean that inclusion in the future capital programme will not automatically guarantee that a scheme will be undertaken. Due to the nature of the schemes included in the Capital Programme and the long lead-in times for some projects, the Council has adopted an approach of giving a firm commitment to schemes in the next two financial years and outline commitment to those from year three onwards. Given current funding uncertainties, all schemes remain subject to annual review. A key issue in obtaining a firm commitment to a capital scheme is that the full revenue implications of the capital proposal must be included in the revenue budget, and the base budget for future years reflects these decisions.

7.6 As a result of the falling available balances of usable capital receipts to fund capital expenditure officers established that the Council is able to use some of formerly "set aside" housing receipts from stock transfer, but will need to ensure it is affordable and do so in a prudent manner. In addition the council will continue its programme of generating capital receipts by disposal of surplus or under-used assets to contribute towards funding the capital programme, where these represent good value for money for the taxpayer. One use of capital funds that will be considered is to acquire land and property for development and/or investment purposes. This may be used for economic, commercial, social or business development, or other income generation purposes. The Council will also consider placing a long term capital reserve of up to £5 million into a long-term Property Fund.

7.7 The Council will utilise set aside capital receipts in a sustainable and prudent manner to assist in funding the capital programme. Consideration will also be given to opportunities to utilise capital funding for invest to save schemes and proposals where the project can be demonstrated to generate income in excess of the lost interest amount on the capital sum required. The lost interest will be taken to be the five year interest rate. The allowance for lost interest part of the calculation is required to demonstrate that the proposal generates savings in excess of lost interest, however the total revenue saving is accounted for when assessing achievement of annual savings. Note that, both the proposal for use of capital receipts and the total revenue saving will also need to take full account of any potential revenue impact (cost) which may be incurred by the new capital scheme, including where that revenue cost will not necessarily be borne by the instigating service. For 2014/15 onwards a minimum retained capital figure has been set at £20million (as @ 31st March 2015 this figures stood at £35.72m), being the approximate rolling average five-year capital programme value. This policy will be reviewed at least annually to consider the impact of changing interest rates and also at the point when the minimum threshold is approaching. Should any increased income be received as a result of an improvement in interest rates in the year, consideration will be given to using some of the interest receipts from investment of capital receipts to set up a Revenue Contribution to Capital fund.

7.8 Following on from the previous paragraph, NHDC will use its retained capital receipts in a planned way and once the Capital Investment figure reaches £20 million this will be considered the minimum threshold. Once this figure is reached, NHDC will also explore other ways of financing any necessary capital expenditure, e.g. revenue contribution to capital; borrowing.

7.9 NHDC will also remain mindful of the Capital Financing Requirement (CFR). Once this reaches a negative of £10 million (as @ 31 March 2015, the actual figure was a negative £20m) this will be reported to Cabinet. The Capital Financing Requirement (CFR) is a key measure for the Council because, when this reaches zero, an annual Minimum Revenue Provision (MRP) must be charged to the General Fund. Local authorities are normally required each year to set aside some of their revenues as provision for debt, i.e. to make a minimum revenue provision. Paragraphs 27 and 28 in the Local Authorities (Capital Finance and Accounting England) Regulations 2003 require local authorities to make a prudent amount of minimum revenue provision (MRP). More precisely, the provision is in respect of capital expenditure financed by borrowing or credit arrangements. As NHDC currently has a negative MRP this is not required, however once MRP reaches zero (and then moves into a positive position) it will be.

7.10 Council will seek to manage all its assets cost-effectively and also to encourage community lessees to move towards running assets on a self-sustaining financial basis to reduce/remove the financial impacts on the wider taxpayer, or to take on all responsibility for the asset, or for alternative third sector organisations to take on community assets. On a case by case basis, this will be consistent with the Income policy principles in 5.2, the Council's adopted Community Halls Strategy and also the Community Asset Transfer policy

7.11 Opportunities to capitalise staff costs on specific capital schemes will be considered at the outset and included within the scheme budget if appropriate. This approach must be agreed with Accountancy Services in the first instance. Employment costs can be attributed to a capital scheme provided their input satisfies the requirements of FRS 15. In brief, employment costs may be charged to a capital scheme provided their input directly contributes to the completion of the asset. In order to do this, a specific record of the time committed directly to the scheme must be maintained.

8.0 Asset Management

The council's overall Asset portfolio is valued at over £85 million in 2015. The majority of the valuations are based on the direct replacement cost for the asset, not the estimated market value. The main asset groupings within this are given in the table below.

Category	**Amount £000's**
Leisure centres	14,860
Swimming pools	11,620
Industrial units	11,260
Community Centres	8,680
Car parks	7,560
Land for sale	4,250
Open space	3,240

We intend to use the property portfolio to support the Council's identified objectives and we plan to improve the performance of our assets in four ways.

8.1. Supporting Corporate Objectives

Sustainable economic growth is a key element of our Corporate Plan, as is enabling the delivery of affordable housing. The Council is using its assets to support these goals by seeking to:

- Reduce or re-invigorate the public sector footprint in our towns, including property owned by the Council, and using surplus land to support regeneration;

- Use Council land in business areas to support business growth and economic development;

- Free up under-utilised sites for better usage options, potential housing or other development.

8.2. Performance of the Current Portfolio

The Council needs to maximise the financial benefits of its asset portfolio. Over half of the portfolio is held for use by the community, reflecting the importance the Council places on community well-being, although these assets need to pay their own way. Investment properties, held to generate revenue, account for a further third of the portfolio. These commercial assets deliver an annual net income of around £1.0 million. Taking the portfolio as a whole, it accounts for about £0.7 million of annual expenditure and returns income of £1.05 million, so that the net benefit is about £0.35 million per annum, equivalent to 3.5% of income from Council tax payments to give some context. Increasing this level of return is vital to support the Council's day to day expenditure on services.

8.3. Improving Financial Performance

The Asset portfolio supports the Council's MTFS in a number of ways, and these may be analysed between those policies that reduce costs and those that increase income.

(i) Cost reduction plans

- Proactive maintenance
- Maximising commercial leverage in procurement, i.e. by tendering for schemes of works across the portfolio, rather than tendering for work at individual assets
- More efficient energy and waste strategies
- Working with partners who may be better placed to operate assets

(ii) Income plans

- Rent reviews to address poor returns
- Disposal of assets that offer a poor return with the proceeds invested in income generating assets
- Focussing the investment portfolio on income generation
- Increasing income from business rate retention through economic growth, facilitated by use of council assets
- Where appropriate, looking to maximise value from changing the use of assets, including garage sites and under-utilised or redundant buildings.

8.4. Management framework

The Asset Management Group considers the way in which the Council utilises assets and makes decisions on asset related matters, identifying procedures and governance arrangements to monitor and improve the use of its assets to increase efficiency and maximise returns. The Asset Disposal Strategy and Community Asset Transfer policy are two key sources of guidance. The Asset Management Group is chaired by the Council's Strategic Director of Finance, Policy & Governance. Significant Asset Management proposals are reported to Committee for approval.

The Council is examining the potential for further investment in leisure and recreation across the district. This would provide additional quality of life infrastructure, as well as income generation options, to support the additional housing and economic developments that will be taking place over the next few years.

9.0 Balances position - General Fund & Collection Fund

9.1 Best Practice guidance issued by CIPFA states that the general fund balance may be between 5% and 100% of net expenditure. With an original estimate of net revenue expenditure of over £16 million and a Bellwin Threshold of £32k, the minimum 5% balance is in the region of £800k. A policy document with regard to reserve balances held is attached as an annex to the MTFS.

9.2 When setting the budget each year, the Council considers the potential impact of the risks in the assumptions made and adjusts the minimum 5% figure accordingly. In view of the increasing volatility of funding due to the localisation of Business rates, and also the Council Tax Reduction Scheme, it is prudent to **either** consider increasing the minimum level of General Fund balance to around 10% to cope with any sudden change in income from business rates **or** to review the allowance made for the risk of changes to collection patterns. The difficult economic position in recent years has seen occasions when we have experienced a 5% reduction in NNDR income. Under the previous scheme, that reduction had no impact on our funding position. Under the new system, a Council bears the first 7.5% (around £190k) of any loss if not within a pool. However, within the Hertfordshire pool in 2015/16, North Herts is forecast to pay a levy on the pool of only £43k (rather than the £352k that would be due outside the pool) and make a £281k gain from the retained pool levy, giving a net benefit of around £238k.

9.3 NHDC has sought advice from LG Futures during 2014/15 with regard to maximising NDR income retention, including how to avoid losing resources unnecessarily to the levy (such as by omitting Small Business Rate Relief Grant), which would be non recoverable, and forecasting for future years. One outcome has been that NHDC has joined a Business Rates pool with Hertfordshire County Council and four other Hertfordshire district/borough authorities for 2015/16. The Pool aims to optimise the amount of business growth retained in Hertfordshire by reducing the levy paid to Government. The Pool authorities must, however, cover any losses made by Pool members. Membership of this pool will be reviewed on an annual basis. That advice also considered the following questions:

- Forecasting for successful appeals
- To spread or not spread the cost of appeals in 2014/15
- The level of provision
- The actual cost of appeals
- The interaction with authorities' pooling groups (current and potential future groups)

9.4 Risks are identified and classified as high, medium or low risk and allowance is made for a proportion of the risk value. For high risk items, 50% of the risk value, for medium risk, 25% of the risk value and for low risk items, 0%. This is regarded as an appropriate risk management approach to risk likelihood and value. Although the total assessment of risk for 2015/16 was £5.7 million, taking a proportion of the risk into account meant that it was prudent to increase balances by £873,000 above the minimum level. This suggested that it was advisable to maintain a minimum overall General Fund balance in the region of £1.7 million for 2015/16.

9.5 The 2014/15 outturn figures show a General Fund Balance at 31 March 2015 of £5.986 million. In addition to the General fund balance, the Authority maintains a number of earmarked reserves and provisions, one of which is the special reserve.

9.6 Other earmarked reserves and provisions as at 31 March 2015 include the Housing & Planning Delivery reserve (£259k), an Insurance Fund (£38k) used to finance potential claims for risks not covered by external policies, an Information Technology Reserve (£152k) for the purchase of hardware and software items (although this is now fully committed), and an Environmental Warranty reserve (£209k).

9.7 Collection Fund

The key aspects of the Collection Fund are outlined below:

9.7.1 The Authority collects Council Tax on behalf of itself, Hertfordshire County Council and the Hertfordshire Police and Crime Commissioner. Business rates are collected on behalf of itself, Hertfordshire County Council and Central Government. Because of this difference it is necessary to account for Council Tax and Business Rates separately within the Collection Fund and maintain a separate surplus/deficit position.

9.7.2 A total of £37.6million (£37.3m in 2013/14) was owed to the Collection Fund from business rate payers in the District for 2014/15 after all deductions and exemptions. Payments from the Collection Fund for business rates were made on the basis of the original estimate for 2014/15, submitted to Government on the NNDR 1 form in January 2014. The Council paid £3.8million (10%) to Hertfordshire County Council and £18.5million (50%) to Central Government as their share of the business rate estimate for 2014/15. £15.0million (40%) was paid to the NHDC general fund as the District share of the estimate for 2014/15. However, the Authority then paid £12.5million from the general fund to Central Government in the form of a tariff, leaving the Authority with £2.5million to help fund general fund activities.

9.7.3 Regulation allows the Authority to make charges to the Collection Fund for the following items:

- Cost of Collection Allowance – this amount is stipulated by Central Government and is a contribution to the general fund for the cost of administering the business rates collection. This was £181k for 2015/16.
- Write off of uncollectible amounts and increase in bad debt provision – Debt that is deemed uncollectible is written off. The amount written off in 2014/15 was £435k. A provision is then made for the amount of outstanding arrears that may need to be written off in the future because it is likely to be uncollectible. The amount of bad debt provision as at 31st March 2015 was £639k (provision @ 31 March 2014 was £786k).
- Provision for Appeals – Regulation requires that the Authority make provision for appeals (both backdated and in year appeals). At the 31st March 2015 there was a total of £34.8million of rateable value subject to appeal. The deadline for submission of appeals for prior years was 31st March 2015, which led to an increase in appeals lodged. Any new appeals received after this date will only apply from 1st April 2015 (if successful). It is estimated that around 25% of these appeals will be successful and the reduction in rateable value of these successful appeals will be around 16% on average. The calculated provision for appeals is £2.34million in total (this was £1.34 million as @ 31 March 2014).

9.7.4 The Business Rates Collection Fund at 31st March 2015 is in a net deficit position of £3.03million overall (the NHDC proportion being £1.2m). The main reason why business rates have moved further into deficit is as a result of successful appeals and a significant increase in the number of new appeals to be provided for. The Council also receives a number of section 31 grants to compensate for a number of business rate relief measures introduced. This is paid to the General Fund, not the Collection Fund and the council received £646k in 2014/15 (£444k in 2013/14) in section 31 grants. These are held in earmarked reserves (DCLG grants) to assist in covering the Collection Fund deficit.

9.7.5 In contrast, the Council Tax Collection Fund is in a net surplus position of £218k, although there was a deficit during the year of £129k. The NHDC share of this surplus position is £75k. The NHDC amount of the overall Collection Fund balance is a deficit of £1.2m and therefore as part of the budget setting process for 2015/16 a contribution to the collection fund was planned from the general fund budget to address this deficit.

10.0 The Financial Context 2016-21

10.1 The existing strategy has been reviewed and the financial principles in section 2 consolidate previous practices and prepare us for the financial element of the Corporate Business Planning process for 2016-21.

10.2 A number of changes have been implemented in recent years to further improve our financial management strategy, namely:

- Identify how much the Council spends against each objective
- Identify the areas that are lower or non priority for allocation of resources including review of statutory and discretionary services.
- Review the level of income generated by services that charge, compared to the costs of provision of those services
- Reduce future reliance on interest rate income
- In order to mitigate against the risk of non delivery of approved savings, all agreed savings are allocated to the relevant directorate budgets prior to distribution
- Amending the Council Tax "rule" to reflect the possibility of negative RPI figures
- Option to capitalise staff costs in accordance with FRS 15.
- Further emphasis on invest to save opportunities, and proposals that can generate better rates of return than investments, with regard to capital expenditure
- Developing more financially self-sustaining arrangements where possible for Council properties
- And now, further exploration of income generation and profit making proposals, allied with options for not for profit enterprises with voluntary/community/charity organisations that deliver valued social benefits at a reduced or nil net cost to the council.

10.3 It is also recognised that a savings plan alone will not be sustainable. This needs to be supplemented by growth through development, investment and property management, bringing new money into the council and helping to play our role in stimulating the local economy by promoting sustainable growth. The final strand is to generate income from services and assets, getting the most from all our resource.

Identifying the Efficiency target for 2016 onwards

10.4 The MTFS is updated on an annual basis, however its role is to look forward over several years and incorporate medium and longer term financial planning, as well as an assessment for the coming year. The intention is not only to achieve a balanced budget for the following year, but also ensure due consideration is given to proposals that may take longer to develop and then deliver ongoing benefits for many years.

10.5 Officers across the Authority have been asked to provide estimates for major changes to the base budget for the next five years. These are changes brought about by environmental issues, changes to demography which will impact on service provision, new statutory requirements, actions to support the strategic priorities and service pressures. In accordance with the normal Corporate Business Planning cycle, the estimates provided for 16/17 will be subject to robust scrutiny by Senior Management Team and the Corporate Board over the coming months before the final lists are presented to Members in the autumn. For this year again, in light of the ongoing budget pressures caused by continuing reductions in government support, officers will further build on the analysis of functions that are statutory and those that are discretionary and will continue to work on prioritisation of services and new ways of working. Officers will also be updating the high/low cost analysis to reflect the previously agreed savings and other changes approved as part of the 2015/16 budget. It is also proposed to commence a rolling review of all service budgets on a zero-base budget basis. Officers will also plan for the medium to longer term and consider transformation projects which may require some initial investment before delivering benefits from 2017/18 onwards, These include work on the council's future office accommodation needs, future car-parking policies, further channel shift work to deliver more of our services electronically where that is more cost effective, new income generation opportunities and continuing work on sharing services with other authorities,

10.6 In line with the new Corporate Plan 2016 - 2021 the Council intends to continue working with partners to ensure North Hertfordshire remains a vibrant place where people can live, work and prosper and, whilst the Council may no longer be able to provide a function directly, the potential for other partners to provide that function will be explored. The Community Rights captured in the Localism Act may play a role in this area. The Council has always recognised that the wider ambitions can only be realised through collaboration and partnership with the whole range of organisations involved in the LEP and elsewhere.

10.7 Over the coming months, Officers will continue to work up estimates in greater detail and Members will need to consider what they are prepared to fund and the risks involved in not providing funding. In accordance with our existing strategy, we will consider;

a) Is the item fundamental to delivery of the vision for the area of North Hertfordshire and delivery of the Council's strategic priorities?
b) Is this a service that the local area needs?
c) Is there a commercial income that can be gained to support the delivery of services?
d) Is there an absolute priority that we do this within the next twelve months?
e) What are the risks involved in not proceeding with the project, spending the money or making the proposed reduction?
f) Will the investment result in quantifiable savings in future years, or lead to increased income levels – i.e. is it an invest to save bid, and therefore contributes effectively to our efficiency agenda, or an income optimisation option?
g) What is the realistic timescale required for the project, one or more years?
h) Does the reduction mirror the reduced priority determined by the Council in its Corporate Plan?
i) Will any cost reduction carry on in future years?

10.8 Items put forward for consideration for short, medium and longer term efficiencies are expected to have explored a number of areas;

- procurement options including partnership or shared working,
- whether the effect on performance of the individual service will align with corporate aims, including taking account of the views of members on achieving performance indicator targets to the Cabinet's agreed level.
- comparative information (benchmarking) with other authorities
- the risks and opportunities created by proposals, recognising that there is an expectation that alternative and/or innovative measures are required.

Service Priority Bids

10.9 Working patterns within Directorates are constantly changing and investment is sometimes needed to facilitate the change and lead to improved services to customers. All investment bids will be subject to further work and a robust scrutiny and scoring process through the Corporate Board as outlined above before inclusion in the draft budget in December. In accordance with the existing strategy, we will continue to seek compensating efficiencies for any growth designed to enhance service delivery and will not therefore make any allowance within the strategy for cost increases in this category.

Key Budget Assumptions

10.10 Inflation indices are reviewed on an annual basis and the forward budget projections amended accordingly. At this stage in the budget planning process, it is prudent to take a cautious approach and, in identifying the likely Council Tax requirement, the strategy focuses on the pressures on expenditure and assumes that income will rise in accordance with the determined policy. The figures presented in the MTFS financial projections appendices include the following assumptions in line with the current financial strategy

- Starting point is the current year base budget
- Year on year spend is adjusted to take account of cyclical variations in expenditure
- Investment income changes in accordance with the cash flow/investment projections to take account of the reducing balance of capital receipts and assumptions regarding interest rates
- Assumed average interest rate achieved on treasury management deals in 2015/16 and onwards of 1%.
- Any approved one-off increase in expenditure or carry-forward budgets for 2014/15 have been removed from the base figures in subsequent years
- Reduction in Government support – the implications for local government funding following the 2015 Budget will not be known until the Spending Review in the autumn. However, the headline figures quoted in the budget show that local government funding reductions will be phased over three years (2016/17 – 2018/19) rather than two years. Initial Local Government Association modelling before the Budget suggested reductions from 2016/17 to 2018/19 of 12.1 per cent, 11.6 per cent and 4.7 per cent respectively.
- New Homes Bonus will be awarded at a similar rate to the previous years (delivery of approximately 350 new homes each year). The government have stated that they wish to make changes to NHB; however we still await confirmation of what these will be.
- Some of the New Homes Bonus will be used for investment in Council priorities over the life of the bonus scheme, while the remainder is required to continue the delivery of services in the face of other government funding reductions and is built into the base budget. Any further new investment will require more savings to be made in services.
- If NHDC adopts a Local Plan then in excess of 4,000 homes could be built in the five years to 2019-20, however if no Local Plan is in place this figure would be well below 2,000 and current modelling is based on this lower figure.
- Contract inflation in accordance with the individual contract terms
- Pay inflation at 1% in each year.
- Pay increments due in 2016/17 and future years have been built in to the model (approximately £80k for 2015/16) Pay increments are part of contractual pay and the calculation is based on those staff due to receive an increment, the remainder having already reached the top of the grade
- Pension fund contributions to reflect the positive impact of the £2.447m capitalised lump sum payment made in March 2014.
- No allowance is made for general inflation on remaining expenditure.
- The principle to be applied is that discretionary fees and charges income will be increased by CPI at November, plus 2%. where legally possible and subject to market impact assessment. However, some fees may be increased further following actions referenced in para 5.4, whilst others may be increased less where it is considered appropriate.
- Use of the special general fund reserve will happen on a phased basis to prevent erratic movements in Council Tax increase.
- The overall Council tax base figure will rise by 0.5% per annum.
- An assumed 99% collection rate for the purposes of calculating the Council tax base (although this may need to be revisited to reflect potential reduced collection rates for groups adversely affected by the localisation of Council Tax support).
- An assumed 97% collection rate for Business Rates
- The minimum General Fund balance will be maintained at 5% of net expenditure plus an allowance for known financial risks.
- Any future changes to the local Council Tax Reduction Scheme will aim to have a cost neutral impact.

- A vacancy savings target set at approximately 2.5% of salary budget to yield in the region of £0.23 million is included in the base budget in each year.
- Any investment in Area Committee budgets to reflect additional responsibilities will be offset by reductions in Directorate budget
- The Council will not subsidise areas which are the responsibility of another precepting body other than through a one-off match-funding arrangement where this is in the interests of the local Council tax payers.
- Full Council may approve as part of the annual budgetary process that unallocated Area Committee budgets can be carried forward from one year to the next and not be subject to the normal rules for carry forward budgets.

All assumptions are subject to further refinement as we go through the budget process and more certain information becomes available.

10.11 A summary of the general fund estimates is provided in Appendix 1 and demonstrates that without further efficiencies or a council tax increase the funding gap will grow to £3million by 2020/21 resulting in complete erosion of retained general fund reserves. Appendix 2 demonstrates that a phased efficiency programme increasing from £200k in 2016/17 to £700k in 2020/21 (total efficiencies of £2.6million) would result in a more prudent use of reserves over this period. Appendix 3 shows that this efficiency target reduces to £1.5m over the same period if there is a council tax increase of 1.9% in each year.

10.12 When considering targets for planning purposes, it must be borne in mind that the figures shown in the medium term estimates table are a single point in a range of potential outcomes. Therefore sensitivity analysis is carried out, as outlined below and financial reserves have been increased in recognition of potential new pressures.

Sensitivity analysis:

- Each 0.5% variation in pay award would result in approx. £60k variation in overall costs for each year
- Each 0.5% variation in non pay contractual inflation would result in approx. £90k variation in costs for each year concerned
- Each 0.5% variation in Council tax yield would result in approx. £50k variation in income to NHDC for each year concerned
- Each 0.5% variation in BR base would result in approx. £12k variation in income to NHDC for each year concerned (up to threshold)

Other unquantified pressures include: welfare benefit changes, changes to the New Homes bonus scheme, further government funding reductions

Growth figures put together now are intended to identify likely spend pressures for next few years, and £1.1m has been added to Reserves for potential new pressures. The approach to Reserves is set out in annex B.

11.0 Risks inherent in the Assumptions

11.1 At this stage in the budget cycle we are looking at key pressures in future years, not only those which will have a significant impact on the budget for 2016/17.

11.2 Figures quoted now will vary by the time the draft budget is set in December, once we have further clarity around key funding changes, most specifically the Budget announcements in July 2015 and the draft Local Government Finance settlement in December 2015. Work will continue between now and then to further refine the figures and the assumptions used. Reports will be brought to Cabinet at key stages in accordance with the Corporate Business Planning timetable.

11.3 There are a number of key risks associated with the assumptions in this report including delivery of economic growth to generate additional retained business rates, the potential wider implications of the Government's welfare reform agenda, uncertainty with regard to New Homes Bonus payments (a revised government position is awaited), uncertainty in relation to funding reductions and controlling the increasing costs of the collection of waste.

11.4 More specifically, these can be described as:

- Following localisation of Business Rates in April 2013, growth above Government forecasts leads to additional income to the Council, as long as this is not disproportionate growth (classed as more than 10% of NNDR Base), whereas collectable amounts could fall by over 7.5% (£190k) before the "safety net" applies. To date, collection rates have remained high and so no adverse impact has occurred. To mitigate the risks posed, the Council has joined the Hertfordshire Business rates pool. The deadline for submission of backdated appeals was 31st March 2015 and led to an increase in appeals provision to £2.34m. It is also noted that a re-baselining of business rates is due within the five-year time horizon of the MTFS. This is a crucially important issue for the council as business rates now form a significant proportion of overall income. This also has direct and positive linkages to improving local employment, so reducing demands on the Welfare budget. Therefore regeneration and economic growth in the district is a key area for development and investment in line with the Corporate priority to promote sustainable growth.

- A national consultation exercise is also underway regarding how the business rates system could be fundamentally overhauled, although any changes are required to be cost-neutral overall.

- As a result of the Welfare Reform Bill and the introduction of the Universal Credit, a 10% cut in funding was passed on to Local Authorities. The scheme was implemented from 1st April 2013 and indications in the early years of operation are of no significant adverse impacts on collection rates, however this is monitored closely. In terms of on-going welfare reform, the Local Government Association comment that in two-tier areas the cost implications are expected to fall mainly on District Councils, however this cannot currently be modelled and so the Authority will continue to monitor local impacts.

- Possible changes to the New Homes Bonus system were the subject of government consultation in the autumn of 2013. The results of the consultation feedback led to the government re-thinking their proposed revisions, although no alterations to the scheme have been proposed as at 15th July 2015. As a result of this ongoing uncertainty around the NHB scheme, allied with the understanding that the number of new residential properties built in the district may not continue at current levels, the Council will seek to reduce its reliance on NHB to balance the budget.

- There also remain a number of other unknowns with regard to changes to existing funding streams. For example the Better Care Fund is not 'new funding' but an amalgamation of money top sliced from a range of schemes, including the Disabled Facilities Grant scheme, and thus whilst there may appear a benefit in terms of receipt of one fund, it could be at the detriment of the existing source. Such changes will be kept under review, and appropriate action taken to readjust forecasts, estimates, budgets etc. should this be necessary.

- The costs of waste management and disposal continue to be a pressure. There is no assurance that funding received from Hertfordshire County Council under the Alternate Financial Model (AFM) will continue. Landfill tax rate has increased by £8 per tonne per annum until 2014/15.

Future rises will be inline with RPI. Prices for recyclable material continue to fluctuate with further falls in income representing a potential risk to the authority.

- The provision of a long-term waste disposal site is a key challenge for all Hertfordshire Councils. We are currently supporting the County Council in the search for a long-term Transfer Station to support waste and recycling collection operations; and exploring the opportunity to work in partnership with a neighbouring authority for the provision of waste, recycling and street cleansing services.

11.5 The Authority has a treasury management strategy and the principles of that strategy are used to influence the assumptions made about likely interest receipts. The figures presented include assumptions on the interest rate and the impact of longer term borrowing. There has been no improvement in interest rates since the approval of the budget for 2015/16 in February, and commentators continue to suggest that interest rates will probably remain constant for at least another year. Members should be aware that a 0.5% change in interest rates is equivalent to approximately £250k.

11.6 In considering the impact of potential variations to the figures presented, Members should be aware that a 1% increase in Council Tax in 2016/17 would generate approximately £100k income.

11.7 The Strategy focuses on the next five years and as it rolls forward each year, we will have an eye on the impact on the District, its infrastructure and its partners, and of the pressures to increase housing numbers.

12. Conclusion

12.1 The review of the MTFS has once again been undertaken against the background of significant reductions and changes to funding, and the additional cost of service pressures, bringing with them the need to plan ahead for the future with far fewer resources. These factors could jeopardise the Council's sustainable financial position unless budget savings and income generation are delivered to allow the Council to deliver its corporate priorities. The lump sum payment to the Pension fund has contributed considerably to balancing the budget for the next five years and so this opportunity will be taken to make longer-term plans. The overall financial management strategy is not simply about saving money, it is concerned with all the things we need to do to make us financially stable so that we can continue to deliver our overall strategy and thrive as a resilient council.

12.2 The Chancellor has reiterated that public spending control is central to the Government's commitment to reduce the deficit. Therefore expenditure reduction plans will continue and austerity measures are likely to remain in place until at least 2018.

12.3 Due to measures taken in 2013/14, NHDC has the opportunity to put in place plans to achieve a balanced budget over a number of years. By planning for the medium to longer term, consideration can be given to transformation projects which may require some initial investment before delivering benefits from 2017/18 onwards, These include work on the council's future office accommodation needs, future car-parking policies, further channel shift work to deliver more of our services electronically where that is more cost effective, new income generation and development opportunities and continuing work on sharing services with other authorities

12.4 The long-term aim is to have sustainable levels of revenue budget and capital programme focused on the council priorities, so enabling the council to achieve progress against the Priorities for the District, meet statutory requirements, satisfy the aspirations of residents, demonstrate best value, and balance the budget. The ongoing period of financial austerity, and growing service demands, makes this a very challenging set of tasks. However, budget setting in any one year cannot be viewed in isolation from the medium-term projections and this long term aim.

12.5 Although the financial context is ever more challenging, the Council has a track record of identifying and delivering significant savings and for annual expenditure to be under agreed budget, all within a framework of effective financial planning. This approach will need to continue to ensure that a sustainable financial position can be maintained. Consideration is being given to embarking on an assessment of significant budget areas, via a rolling zero based budget programme, so that Cabinet can take decisions in relation to prioritisation in order to set future year's budgets. To support this approach, external resourcing will be utilised in order to ensure that other operations of the council continue whilst this exercise is underway.

12.6 There is a significant need to generate income from growth in business rates and we are members of the Hertfordshire Business Rates pool for 2015/16. Economic growth and regeneration are key to delivery of additional funding for council services.

12.7 The Council will assess the option to use social media to consult on the budget in addition to articles in the NHDC News. The Council's website will also continue to provide details of opportunities for involvement in the budget consultation process. A further potential option would be to consider a participatory budget exercise in order to gain additional insights from a selection of residents. If undertaken, this exercise would be carried out by an external provider.