APPENDIX A

NORTH HERTFORDSHIRE DISTRICT COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2017-2022

CABINET (26.7.16)

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MEDIUM TERM FINANCIAL STRATEGY 2017-2022

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 allow us to achieve 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 current political climate means that there is significant uncertainty within the MTFS and therefore it will be kept under review until it is agreed at Council in February. Even once the MTFS is agreed it is still just a plan, and therefore it will be monitored throughout the year. The budget monitoring reports (revenue and capital) that are provided to Finance, Audit and Risk Committee and Cabinet are a key component of this.

1.5 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. 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, voluntary and other 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.

2.0 The current picture

2.1 The 2016-21 MTFS set the following budgets for four years:

£000	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Net revenue expenditure	16,553	16,958	16,346	15,871
Estimated Funding	(16,300)	(15,404)	(15,190)	(14,582)
Use of reserves	253	1,554	1,155	1,289
General Fund brought forward	6,201	5,948	4,394	3,239
General Fund carried forward	5,948	4,394	3,239	1,950
Assumed savings and income efficiencies to be delivered (cumulative)	357	1,157	1,907	2,607

This was based on assumptions at the time. The subsequent revenue monitors for quarter 3 and year end identified updates to these numbers. Most of these were budget carry-forwards in to 2016/17, but there was also an ongoing increase in expenditure of £41k identified. Other amounts, including estimates of funding levels, have also been further reviewed.

2.2 The net revenue expenditure for future years includes any known future pressures, the effect of any efficiency initiatives, pay inflation and contract price inflation. Inflation estimates are based on forecasts of relevant indices. More detail on the assumptions made are contained within Annex A.

2.3 The most significant individual pressure over the next two years is lump sum pension payments. 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. The council made an additional capital payment of £2,447k 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. The impact of this capital payment substantially comes to an end for 2017/18 and the annual lump sum would therefore increase. This pressure has therefore been built in to the budget forecasts. The Council is seeking permission to be allowed to make another capital pension fund contribution which would again defer this revenue cost pressure. This requires approval from the Department for Communities and Local Government.

2.4 Net expenditure in the following four years is therefore forecast to be:

£000	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Gross expenditure brought forward	28,462	28,005	27,961	27,875
Ongoing base budget adjustments, including previously identified savings	-895	-154	-166	5
Savings to be identified	-800	-700	-650	-600
Pay inflation	130	140	150	150
Contractual inflation	400	420	430	430
Pension scheme contribution increases	558	100	0	0
Investment budget	150	150	150	150
Carry-forwards and other one-off budget changes	-89	0	0	0
Total gross expenditure (excluding Housing Benefit subsidy)	**27,916**	**27,961**	**27,875**	**28,010**
Sales, Fees and Charges	-8,026	-8,223	-8,464	-8,701
Interest and commercial rental income	-1,435	-1,435	-1,435	-1,435
Specific Grants and Contributions	-2,476	-2,541	-2,627	-2,711
Net Expenditure- to be funded from taxation and general grants	**15,978**	**15,762**	**15,348**	**15,162**

2.5 In revising the MTFS it is necessary to review the forecasts of funding available for the following years. The main general funding streams for the Council are Business Rates, Revenue Support Grant, New Homes Bonus and Council Tax. Each of these is subject to some degree of constraint, reduction or risk.

2.6 Locally retained business rates give us some financial incentive to promote growth in the business base of the district. This should also help to increase employment and therefore assist in reducing welfare dependency. The gains received from any growth are relatively small (around 7%) and there are also similar risks arising from any reductions. There is also a need to fund any refunds that arise from appeals. Central Government has recently launched a consultation on the full localisation of Business Rates. This does not mean that the Council would get to keep all the Business Rates that it collected, or even that they would all remain in Hertfordshire. There would still be a redistribution of Business Rates around the country, and any additional funding will be accompanied by additional responsibilities. The principles in the consultation are reasonable in that they seek to match new funding and responsibilities, both initially and in the medium term. There is also a principle that the new responsibilities make sense in being delivered by local government i.e. they build on local government strengths, support improved outcomes for citizens and support economic growth. The intention is that there will be a local solution for each area, but there is a risk that given the number of authorities involved there could be some degree of imposed solution. The current modelling assumes that business rate income will increase with inflation. It does not try to predict any new funding or responsibilities at this stage, and therefore assumes the status quo.

2.7 The provisional settlement in December 2015 was that income from Revenue Support Grant would reduce much more quickly than had been forecast. The amount in 2016/17 was £339k less than forecast, and no grant received from 2017/18 onwards. In fact we would also be required to pay an additional tariff on business rates (effectively negative revenue support grant) of £1,071k from 2019/20. The final settlement (in January 2016) provided some additional funding as transition grant in 2016/17 and 2017/18. The amounts for 2017/18 onwards are draft at this stage but the offer was made that Authorities could sign up to a four-year budget if they provided an efficiency plan. The Chartered Institute for Public Finance and Accountancy (CIPFA) have produced some guidance on what an efficiency plan would look like, and we will look to comply with this. There is still uncertainty as to the extent to which it could protect us from further funding changes. The current model assumes that Central Government income will be in line with the January 2016 settlement. There is a very high uncertainty on funding levels beyond the current national parliament.

2.8 There is a proposal that the amount of New Homes Bonus (NHB) will be reduced to sharpen the incentive i.e. any bonus will be paid for a shorter period of 4 years rather than 6 years. This change was reflected as part of last years MTFS as it is highly likely to happen. The consultation also included incorporating 'dead-weight' to reflect that a number of new homes would be built anyway and therefore we should only receive a bonus for exceeding this level. There is also a consideration as to whether the current split between District and County (currently 80:20) should continue. A shift towards the County element being greater would reduce the income that NHDC received. The other significant element of the consultation is that new NHB will not be paid to those Authorities that do not have a Local Plan. The current model assumes the change to 4 years, but does not build in the other potential adjustments at this time.

2.9 The January 2016 settlement slightly changed the rules on what level of Council Tax increase would trigger a local referendum limit for shire district Councils. Rather than being 2%, it became the higher of £5 or 2%. The current model assumes the policy adopted last year of 0.1% less than the % referendum limit (i.e. 1.9%). Additional Council Tax income would be generated by moving to 1.99% (£9k) or £5 (£46k). Both these totals are for 2017/18 and would compound upwards for each year that they were applied for. By 2020/21 a £5 increase in each year would be an additional £168k income per year (above the 1.9% level). The Council's element of Band D Council Tax would be £231.96 rather than £228.53.

2.10 It is very uncertain what even the short-term impact will be of the referendum decision to leave the EU. A further period of recession seems very likely which would reduce Central Government tax receipts. Alongside this there have been promises made that funding for the NHS will be increased. The Chancellor has said that he will relax his target for closing the budget gap by the end of this parliament. The identity of the new Prime Minister is also likely to affect the direction that the Government will take. We should therefore be ready to review forecasts in light of any further announcements, including the Autumn Budget Statement or a new Budget.

2.11 The estimated levels of funding available to NHDC are therefore estimated as follows:

£000	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Council Tax	-10,417	-10,668	-10,925	-11,188
Revenue Support Grant	0	0	0	0
Business Rates- including tariff adjustment	-2,544	-2,619	-1,633	-1,632
New Homes Bonus	-2,173	-1,626	-1,575	-1,846
Other	-101	40	25	25
Total funding (excluding Housing Benefit subsidy grant)	**15,235**	**14,873**	**14,108**	**14,641**

2.12 Combining the tables in paragraphs 2.4 and 2.11 gives the following use of reserves and level of efficiencies that need to be achieved.

£000	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Net revenue expenditure	15,978	15,762	15,348	15,162
Estimated Funding	15,235	14,873	14,108	14,641
Use of reserves	743	889	1,240	520
General Fund brought forward	6,061	5,319	4,430	3,190
General Fund carried forward	5,319	4,430	3,190	2,670
Assumed savings and income efficiencies to be delivered (cumulative)	**800**	**1,500**	**2,150**	**2,750**

This is based on making use of the Council's general fund balances to cushion the impact of making efficiencies in the early years. The Council has deliberately increased its general fund balances for this purpose. A minimum general fund balance of around £1,600k has been calculated for the purpose of protecting the Council against known and unknown financial risks. The Council is required to consider and keep to a minimum general fund balance, as part of prudent budget planning. The very high uncertainty for year 5 (2021/22) makes it difficult to estimate what further savings will need to be delivered.

3.0 Next Steps- Bridging the Gap

3.1 Corporate Business planning will need to be undertaken to identify how the required savings and income efficiencies will be delivered. This will be within the context of the Financial Management principles contained within Annex B. These form part of our Financial Management and Governance arrangements, which are subject to annual external audit and have consistently been found to be healthy. The scoring of options (principle 23) will be subject to review as whilst it raises relevant considerations, the scoring does not provide sufficient differentiation between options.

3.2 The roles and responsibilities of Councillors, Officers and Corporate Board are detailed in Annex C. In summary the actions that will be required are:

- There were efficiencies included in last year's MTFS that did not have savings values confirmed. Officers will continue to work on these to determine the level of savings that can be achieved.
- Officers (including Corporate Board) will continue to review current models of service delivery, and put forward proposals as to potential changes and the savings that could be achieved. Options may include:
  - Up-front (capital) investment to enable change
  - Working with others e.g. joint provision, joint procurement
  - Challenging the extent to which they deliver Corporate Priorities
- The Commercialisation Board (Officers and Councillors) will continue to work on options for generating revenue income from capital investment and/ or trading. These options are likely to involve a lag between investment and savings generation.
- Councillors will be required decide on whether to take forward the options presented.
- The Head of Finance, Performance and Asset Management will monitor the assumptions made in funding and expenditure levels. When there is information that these will change, the MTFS will be updated and the implications presented back to Cabinet.

ANNEX 1 Budget Assumptions and Policies

Key Budget Assumptions

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 of 1%.
- Any approved one-off increase in expenditure or carry-forward budgets for 2016/17 have been removed from the base figures in subsequent years
- Reduction in Government support in terms of Revenue Support Grant and Business Rates tariff adjustment is based on the January 2016 settlement.
- New Homes Bonus (NHB) will be awarded for 4 years from 2017/18. No dead-weight has been assumed. The split between District and County is assumed to remain at 80:20. It is assumed that the Council will have a Local Plan which will allow it to continue to receive NHB. The number of new homes per year is based on prudent estimates and could be higher.
- 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.
- Contract inflation in accordance with the individual contract terms
- Pay inflation at 1% in each year.
- Pay increments due in 2017/18 and future years have been built in to the model. 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 do not currently include the assumption of making a capitalised lump sum payment in March 2017, as this is subject to agreement by the Department for Communities and Local Government.
- 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 in the fees and charges policy below, 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.
- Council tax precept will be increased by 1.9%.
- 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.

- The current assumption is that payments from Hertfordshire County Council as part of the Alternative Financial Model (AFM) for waste will continue. Pressures in relation to waste growth and cost of disposal may affect this in the future.
- 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.

Income Policy

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 CPI plus 2% (at November). 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 optimised 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. 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.

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 are required to include an equality analysis.

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.

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.

Risks and General Fund Level

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 around £16 million and a Bellwin Threshold of £32k, the minimum 5% balance is in the region of £800k.

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. Where there is the potential for increased volatility in funding levels, 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 **or** to review the allowance made for a specific risk

Specific 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.

In addition to the General fund balance, the Authority maintains a number of earmarked reserves and provisions, one of which is the special reserve.

Use of Capital

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.

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.

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.

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.

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.

As a result of the reducing levels 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 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.

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.

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 position will then be reviewed. Once this figure is reached, NHDC will also explore other ways of financing any necessary capital expenditure, e.g. revenue contribution to capital; borrowing.

NHDC will also remain mindful of the Capital Financing Requirement (CFR). Once this reaches a negative of £10 million (as @ 31 March 2016, the actual figure was a negative £18.7m) 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.

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, or other groups to take on community assets. On a case by case basis, this will be consistent with the Income policy principles (above), the Council's adopted Community Halls Strategy and also the Community Asset Transfer policy

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.

ANNEX 2 Financial Management Principles

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 or other 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.

22) 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.

23) 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.

24) 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.

25) 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%

26) 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.

27) 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.

28) 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.

29) 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. 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.

30) 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.

31) 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.

32) 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).

33) Once the underlying amount held by Treasury Management for investment purposes reduces to £20 million this position will be reviewed. 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.

34) 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.

35) 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.

ANNEX 3 Roles and Responsibilities

The role of Councillors in this 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

The role of all Officers is to:

- put forward suggestions for actions to deliver the objectives and new opportunities
- ensure that existing spend and new projects link to and deliver one (or more) of the Council's objectives
- 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

The Corporate Board of officers is led by the Chief Executive. The group:

- facilitates a critical review of existing expenditure. This involves reviewing the base position, challenging existing budget allocations and creating the ability to reallocate money to strategic priorities.
- review service areas in comparison to other authorities to determine opportunities for improvements and cost reductions, or to explain reasons for any differences.
- reviews bids for additional resources/ investments. All bids will be subject to detailed scrutiny and scoring process before inclusion in the draft budget. The strategic priorities fund can be allocated by the Board for short-term investments.