NORTH HERTFORDSHIRE DISTRICT COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2015-2020

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MEDIUM TERM FINANCIAL STRATEGY 2015-2020

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, those priorities set out in the "Priorities for the District" 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 The Council adopted the following high level priorities for a minimum five year period (ending 31 March 2019) on 5 September 2013

- **Promoting Sustainable Growth**
  This encompasses employment, housing, leisure and the infrastructure to support the anticipated growth required in the district, and the Council continues to encourage an environment in which businesses and people can flourish. The Council's emphasis will be on sustainable growth.

- **Working with local communities**
  As a Council we need to listen to what people tell us is most important and a priority to them, tailoring the services provided so that our limited resources are concentrated on the things that matter to our communities. This will inevitably bring challenges as there will be many different opinions about the allocation of resources and it will be difficult to steer a course through the competing opinions to deliver the outcome that is best for North Herts.

- **Living within our means**
  The means at the Council's disposal is not just about money but is also about other resources such as people, knowledge, investments, land and buildings. The Council needs to ensure it is getting the most from all of its resource even if that means radical changes to what is done and how it is done. The aim has to be to stand on our own with little or no government assistance, and keep Council Tax as low as possible with minimal impact on frontline services.

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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 provides guidance for officers in building the short, medium and longer term picture of financial requirements 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 a position to react swiftly to changing demands and emergencies as priorities or policy demands alter. By anticipating the pressures at an early stage, we can plan to meet challenges by ensuring that limited financial resources are targeted to the Council's and residents' highest priorities. Priorities 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 priorities over a reasonable length of time.

1.4 The Local Government Finance settlement for 2014/15 was published on 5th February 2014 and covers the period until March 2016 only. According to the Local Government Minister, local authorities will face an overall reduction in spending power of 2.9% for 2014/15; and no local authority would experience a decrease of more than 6.9%. For NHDC the “spending power” figure for 2014/15 is £17.444 million and represents a 1.1% decrease on the adjusted 2013/14 spending power assessment. In a similar manner to the previous three years, the government’s headlines focus on comparative figures concerning a local authority’s “revenue spending power” – a definition which encompasses an individual authority’s:

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

However, if the council tax precept is excluded from the spending power then it can be shown that government funding in 2014/15 is £8million, which represents a 4.5% decrease on government funding in 2013/14, and this will reduce by a further 4.8% in 2015/16.

1.5 Other key issues in the settlement announcement included:

- The 2% cap on the Business Rate Multiplier has been applied for 2014/15, with a Section 31 grant being payable for 2014/15, and later years, to compensate for the lost RPI on business rates.
- Council Tax Freeze Grant for 2013/14 is now included within the Settlement Funding Assessment for 2014/15 and 2015/16 (previously only planned for 2015/16).
- Council Tax Freeze Grant funding (if taken) for 2014/15 and 2015/16 will be built into the Spending Review baseline.
- Council Tax referendum threshold remained at 2%
- The New Homes Bonus top-slice has been reduced by £100m for 2014/15 and 2015/16 (this is not new money, but will mean that RSG increases and the New Homes Bonus adjustment grant will fall by the same amount).
- The New Homes Bonus remains in existence, although we are aware that the government intends to amend the current system, but the detail of such changes are currently unknown.

1.6 This also represents the second year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding. In 2013/14, the BRR introduced a number of new terms and principles into local government funding. In summary these are:

- 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. This SFA was called the Start-Up Funding Assessment (SUFA) in 2013/14.
- It is the **Baseline Need** amount that is funded through retained business rates, with the **RSG** amount being guaranteed.

- All factors being equal, if local authorities collect business rates in line with their **NDR Baseline** (the amount of Non Domestic Rates(i.e. business rates) authorities are considered able to collect), the retained amount should be comparable with the **Baseline Need** amount. However, there are winners and losers from the methodology used i.e. the government has made an assumption regarding the amount of business rates that authorities will be able to collect. This assumption may be too high or too low for individual authorities, thereby causing authorities to gain or lose.
- A key determinant for local authority funding is therefore 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 2014/15 and beyond. 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 is partly the reason why NHDC is carrying a deficit position of £796k with regard to the collection of business rates as at 31 March 2014.
- There is no cap on the amount of resources that an authority can receive through the scheme. However, the scheme includes a levy on additional receipts due to NDR growth. As in 2013/14, there is a proportional levy ratio of 1:1 i.e. for every 1% increase in business rates base, an authority would see no more than a corresponding 1% increase in income, as measured against its “Baseline Need”, with a maximum levy rate of 50%.

1.7 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. This remains at 7.5% below baseline need for 2014/15, which for North Herts means that funding could drop by £180k before the safety net was reached. The intention is that the baseline will increase by RPI each year, so that the level of protection offered by the safety net remains constant over time.

1.8 As in 2013/14, the government plans to refund amounts that are not used (for New Homes Bonus, the Safety Net and Capitalisation) to local government, in proportionate share to the **Settlement Funding Assessment**. The amounts that will be due through refunds will not be known until further information is available i.e. the final New Homes Bonus allocations, the forecast use of the safety net and the number of applications for capitalisation.

1.9 The following information was confirmed regarding Council Tax:

A council tax referendum principle of 2% will apply for 2014/15. Council tax freeze grant of 1% will be paid for 2014/15 and 2015/16 for those authorities that freeze or cut council tax for 2014/15.

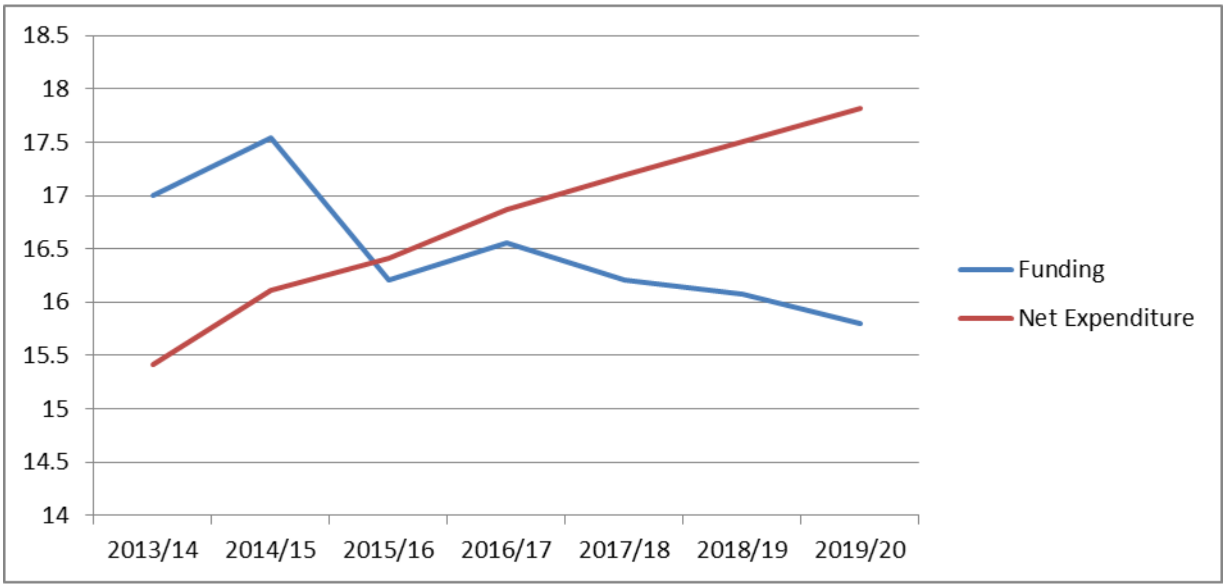
The 2014/15 council tax freeze grant allocations will be included in the Spending Review baseline (i.e. 2016/17 onwards).

The referendum principles will include levies and will therefore be based on the level of Band D council tax. The Referendums Relating to Council Tax Increases (Principles) (England) Report 2014 to 2015’ sets a 2% referendum principle for all principal local authorities, police and crime commissioners and fire and rescue authorities.

There are no referendum principles for local preceptors (and so town/parish councils remain free to increase their council tax requirement at their discretion), but these could be introduced for future years if necessary, to “provide protection for local taxpayers”.

1.10 The Local Government Association has revisited its funding outlook and published a report in July 2014. This report has become an annual publication in recent years and is a useful background to the national picture of Local Government finances. By first estimating the future path of council spending and funding they have bought these trends together to form a picture of local authority funding overall. This shows that the overall funding gap increases by an average of £2.1billion per year, starting at £3.4billion in 2014/15 and reaching £12.4billion by 2019/20. Although the model can only represent a rough guide to local authorities’ future funding, it is relevant as the analysis reveals the continued expectation that a budget gap between net expenditure and income to fund that expenditure will remain over the period to 2019/20, despite ongoing savings measures. Applying similar funding assumptions to our local model reveals a similar picture for North Herts (shown below) 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 a cushion to help deal with this funding gap

Forecast Resources v Net Expenditure



1.11 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/index/council_and_democracy/budgets_and_spending/budgets_for_this_year.htm

2.0 Financial Management Principles

2.1 The Council has a duty to the public for responsible use of their money and the Council has a system of internal control and governance arrangements to ensure that all public money is soundly managed. Our Financial Management and Governance arrangements are subject to annual external audit and have consistently been found to be sound.

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) The Council will maintain sound 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.

6) The Council will base its decision making upon complete, reliable and timely financial information and an evaluation of the financial and risk implications.

7) The Council will monitor the revenue and capital budgets on a quarterly basis and more frequently if monitoring raises issues of concern, reporting 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 such action as is considered necessary to deal with the situation. It will hold its managers accountable for remaining within their overall budgets and will empower them to use the virement powers within the Financial Regulations to make the business decisions necessary to do so.

8) 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.

9) The Council will use one-off grants for time-limited or invest to save projects which do not add to the base 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.

10) Before committing to additional expenditure, the Council will ensure that sufficient additional funding and/or efficiency savings are identified to meet the additional costs.

11) The Council will maximise its commercial income where possible to ensure that fee charging services break-even over time and are provided with a nil cost subsidy from the taxpayer where appropriate, or return a surplus where appropriate, and will increase its fees and charges annually by the rate of inflation (or to 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. This can include exploration of trading opportunities as and when they are identified. The Council will also seek to optimise income from the use of its assets, offering concessions (as appropriate

and affordable) to encourage use by all members of our community in pursuit of our strategic priorities.

12) The 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. This will be consistent with the Income policy principles in 5.2 and the Council's adopted Community Halls Strategy.

13) 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 priorities 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.
- Maintaining the policy of competitive tendering and adopting best procurement practices
- 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

14) The Council will maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities and will ensure the level of balances and reserves is sufficient to meet all known future liabilities. Due to the increased volatility from the change to funding from the localisation of Business rates, and the impact of New Homes Bonus pooling proposals, we will maintain the minimum General Fund balance at 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 deal with unavoidable movements in contract costs and to fund one-off costs needed for invest to save schemes.

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

16) The Council will seek efficiency savings to compensate for any increase in Directorate expenditure subject to consideration of the likely impact based around 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 carry on in future years?

17) 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.

18) 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.

19) 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.

20) 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 four basic questions and then scored in accordance with the scoring matrix below;
    - Is the expenditure fundamental to delivery of the Council's priorities?
    - Is there an absolute priority that the expenditure is incurred 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 & Capital	Points Score Range
1	Contractual Obligation	0 but noted as obligation*
2	Statutory/Discretionary/Core or Non-Core	0-10
3	A project identified in the Priorities for the District	5 per main action
4	Continuous Improvement	0-5
5	Inclusion	1-3
6	Income generation	7-10
7	District Wide Survey	1-6
8	Health & Safety	0-5
9	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.

21) The Council will set the level of Council Tax increase year on year either at a rate no higher than RPI plus two percentage points or 0% plus two percentage points where RPI is a negative figure, as circumstances dictate and bearing in mind any Council tax capping criteria imposed by Government.

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

23) 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 and on-going review of services which are statutory and discretionary with a view to informing decisions on services where we may wish to spend less and provide less.

24) 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, subject to consideration of the advantages and disadvantages of such a payment following advice from the fund actuaries.

25) 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 2015/16. 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.

26) 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.

27) 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.

28) The Council may use capital funds to acquire land and property for development and/or investment purposes with such land used for economic, commercial and business development, or other income generation purposes. The General Power of Competence, under the Localism Act, provides the potential for Councils to operate beyond their own boundaries, which also applies to land/property purchases.

29) NHDC will use its retained capital receipts in a planned way and once the Capital financing Requirement (CFR) reaches a negative of £10 million 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 capital threshold is approaching.

30) 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 agreed categories i.e.

- 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 generated by North Herts Homes with respect to clawback and overage payments (which were also principles established in the Housing Stock Transfer Agreement). Alternatively, if no agreed scheme is forthcoming then clawback/overage may be due to the Council.

31) The MTFS will cover the five year period April 2015 to March 2020 and will be rolled forward one year as part of the annual strategy review every summer.

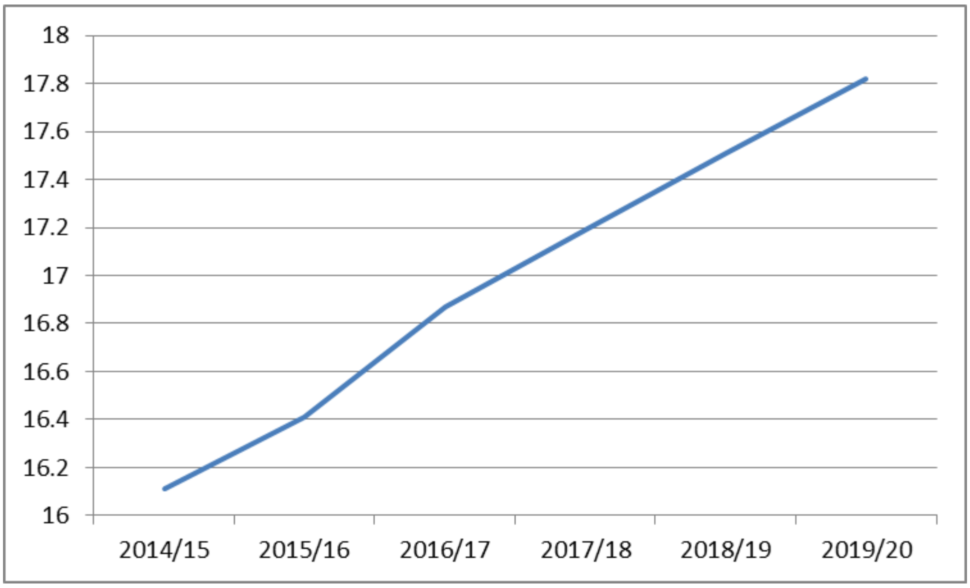
3.0 Corporate Business Planning

3.1 The MTFS complements the Priorities for the District as a means of ensuring that the Council's finances are aligned with its priorities. The projects identified for completion in the Priorities for the District have budget allocation, are approved pending external funding confirmation, or are a combination of the two. Achievement of the anticipated outcomes set in the Priorities for the District 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 Priorities 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 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 £1.7million over the period 2014/15 to 2019/20 (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.

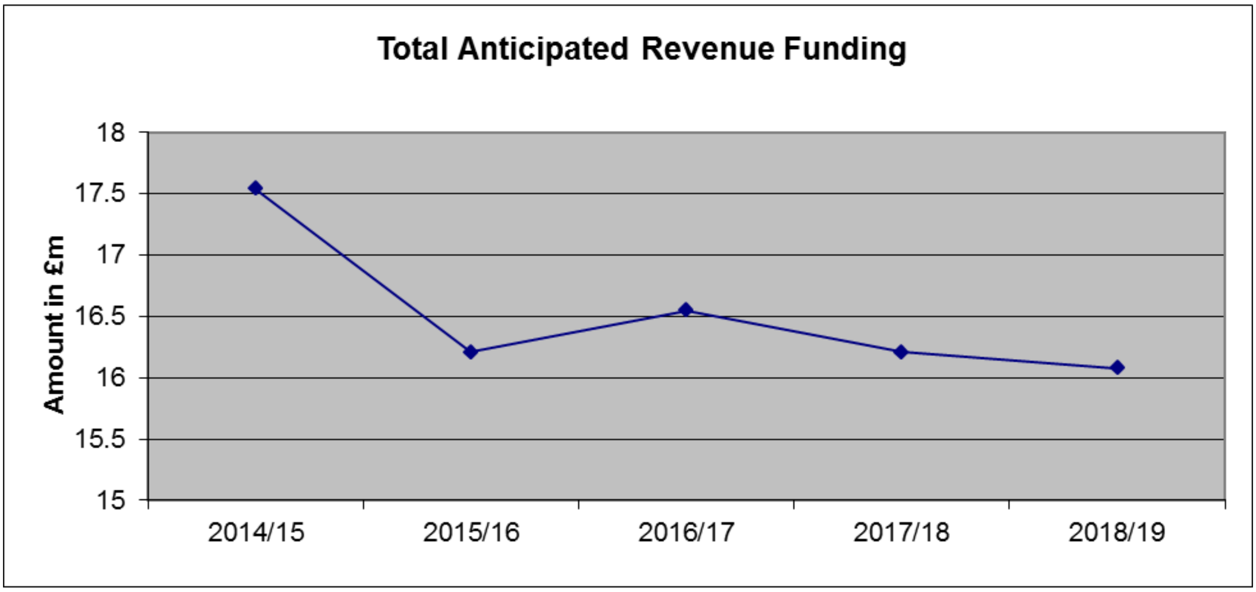
Net Expenditure Forecast



3.4 As shown in the table below, since 2005/06 this challenge process has generated some £11.5 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	1.5
Total	**11.5**

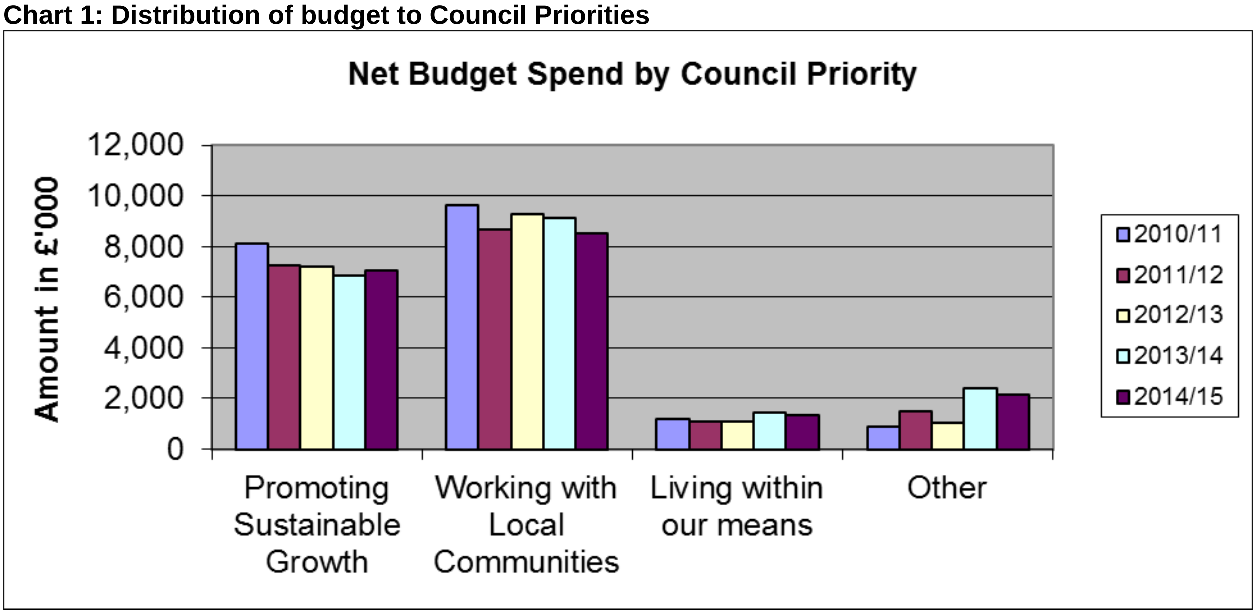
3.5 The graph below demonstrates the anticipated changes in total funding over the period 2014/15 to 2019/20 based on the 2015/16 position from the illustrative local government finance settlement with further anticipated reductions in the Settlement Funding Assessment in each year thereafter. We do anticipate the District Precept to grow by 0.5% because of the growth in taxbase, and for fees and charges to increase inline with inflation. We also anticipate New Homes Bonus to continue to increase until 2016/17 when the total annual amount of this funding will level off as the first year's allocation comes to the end of its six years life. The estimates assume no increase in the rate of council tax over 2015/16 to 2019/20. These figures are taken from Appendix 1.



3.6 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 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. Challenge Board had also categorised functions as Statutory or Discretionary and this, combined with information on cost and performance is being used to inform decisions on potential areas for efficiency.

3.7 The alignment of the 2010/11 to 2014/15 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



3.8 All projects undertaken by officers across the authority should link directly to one of the Council's priorities 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 crematorium, rural capital funding and delivery of capital works, rationalising and improving museum facilities, open plan refurbishment of the council offices, waste collection and recycling provision, energy efficiency measures and green space strategy improvements.

3.9 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.

Roles and Responsibilities

3.10 The role of Members in the Corporate Business Planning process is to

- set vision and strategic direction
- agree the Council's 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 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
- 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

3.11 The role of all officers is to

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

3.12 Pension Scheme Impacts:

Local Government Pension Scheme

3.12.1 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.

3.12.2 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.

3.12.3 The council sought, and received, a Capitalisation Direction from DCLG for a sum of £2.447m in 2013/14. This additional payment was made to the pension fund in March 2014 and has been treated as capital expenditure inline with the direction received. This capital funding has therefore been utilised to help 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.

3.12.4 This lump sum payment option whereby NHDC has paid in more of the lump sum payment earlier means that it will start earning interest in the Pension fund earlier. The added benefit is that the return of assets in the pension fund (estimated at 4.8%) is greater than the return from the Council's cash investments (estimated at 1%). The Lump Sum contribution in 2013/14 of £2.447million has reduced the annual lump sum contribution to £565k (from £693k) until 2017/18. If no lump sum contribution had been made, the annual lump sum payment to reduce the Fund deficit would have needed to increase from £693k by £186k per year, starting, in 2014/15, 2015/16 and 2016/17.

3.12.5 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.

State Earnings Related Pension Scheme

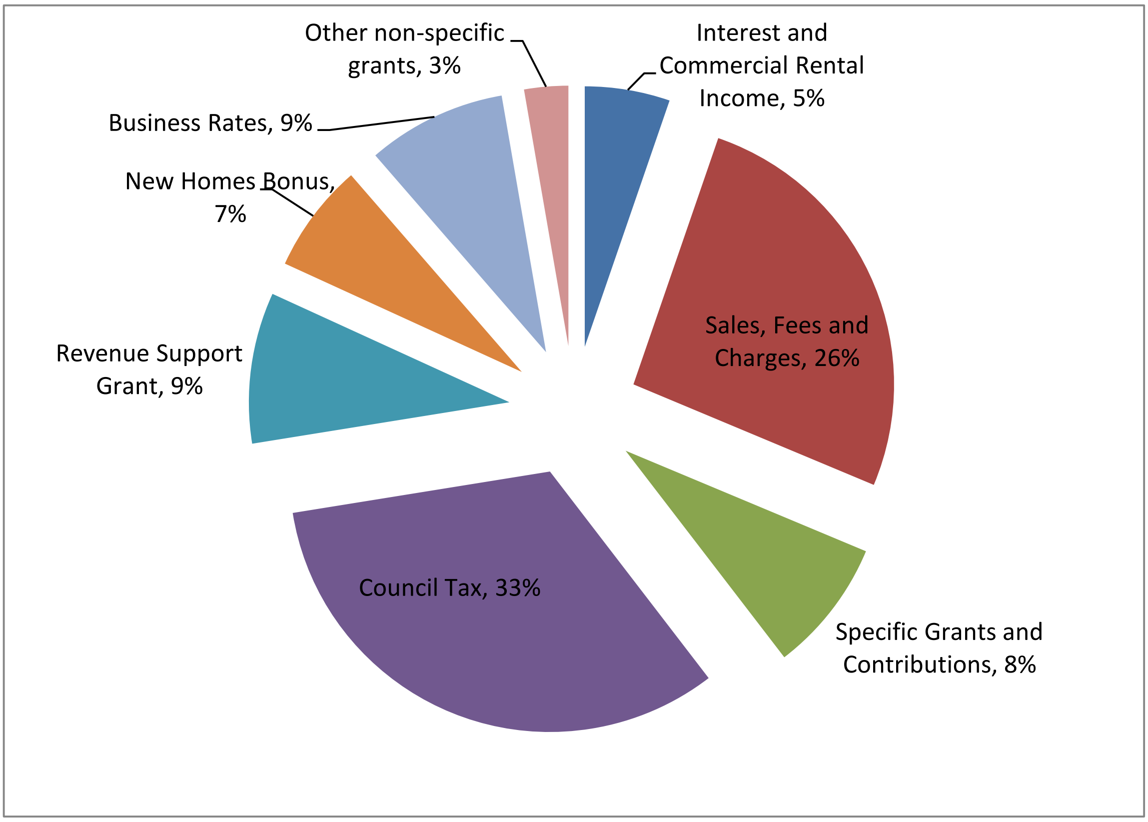
3.12.6 The Government has announced that it is bringing forward the introduction of the new Single Tier Pension, from April 2017 to April 2016. The estimated cost to all public sector employers is £3.3bn per annum. The Chancellor stated that "public sector employers will have to absorb the burden, as 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, or whether they would simply be absorbed into overall RSG changes and therefore be unidentifiable.

4.0 North Hertfordshire Revenue Budget - the current picture

4.1 The net expenditure on the General Fund for 2013/14 was £15.439million (adjusted 12/13 figure £16.107million). This was a net decrease of £1.252million (or 7.5 %) on the original budget of £16.691million. This includes the request to carry forward £351k of budgets from 2013/14 to 2014/15 for projects which have not completed by the end of the financial year. Following approval the revised net expenditure for 2014/15 is £16.114million. Carry forward requests in the 2013/14 financial year amounted to £489k. 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).

2014/15 Funding



4.3 The Authority can decide how much income it will raise from discretionary fees and charges 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 new Business Rates scheme. Government grant is based on a formula and from 2011/12 each local authority was placed into one of four floor levels, based on a ranking determined by grant dependency The floor damping system is self financing within each group of authorities so that authorities in one group do not cross-subsidise the floor for authorities in another group. NHDC is a Band 4 authority and as such receives the highest percentage cuts in grant.

4.4 Over the last six 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 60% of net expenditure and is continuing to increase over the period 2014/15 to 2019/20.

	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%

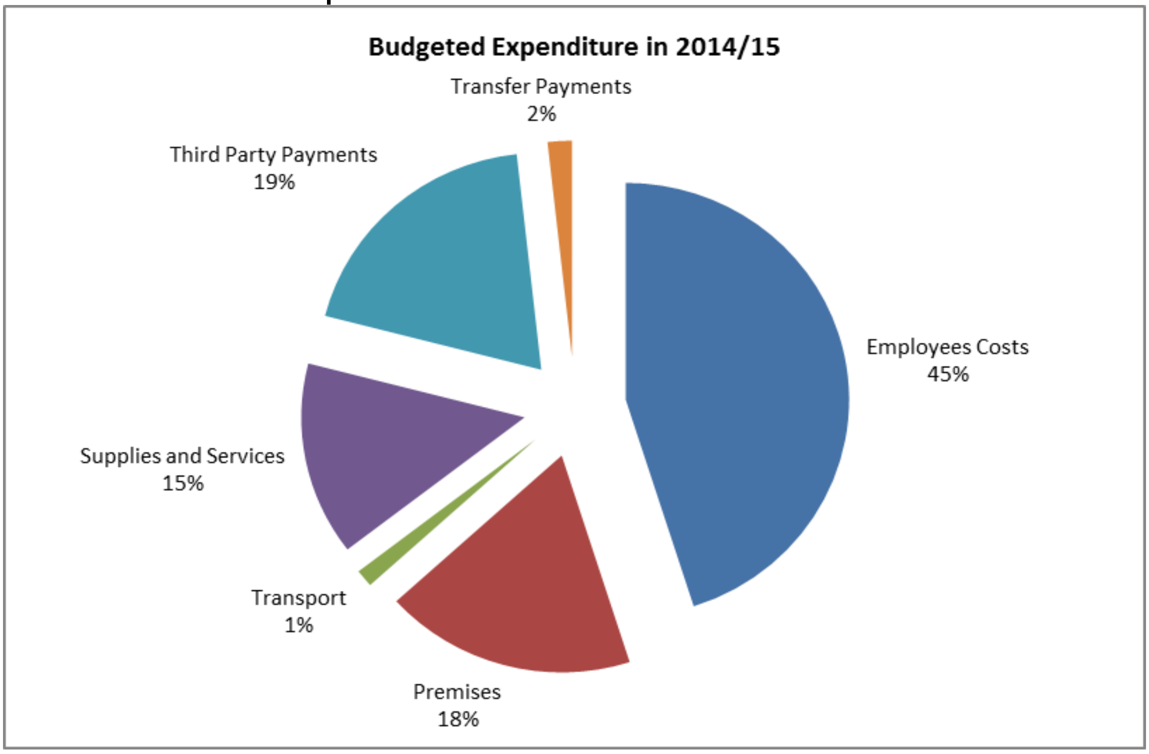
	2014/15 £'000	2019/20 £'000	% increase
Net Expenditure	16,114	17,823	11%
Council Tax income	(9,590)	(10,802)	13%
Council Tax as % of net expenditure	60%	61%	1%

The basis on which funding is now distributed has changed and therefore from 2013/14 the presentation shown in the table below is appropriate. This illustrates the new Settlement Funding Assessment (SFA), previously known as the Start Up Funding Assessment (SUFA) categories and also the gross, instead of net, position.

	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	1.442	1.068	0.705	0.356
Retained Business Rates Baseline	2.428	2.495	2.577	2.670	2.771	2.877
Start-up Funding Assessment	**5.162**	**4.368**	**4.019**	**3.738**	**3.476**	**3.233**
Less: Grant paid to Parish Councils for Ctax Reduction Scheme	(0.080)	(0.068)	(0.062)	(0.058)	(0.054)	(0.050)
New Homes Bonus (NHB)	1.982	2.431	2.884	2.782	2.782	2.782
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	0
District Precept (Council Tax)	9.590	9.638	9.686	9.734	9.783	9.832
Total Funding	**17.544**	**16.216**	**16.548**	**61.217**	**16.008**	**15.817**

4.5 The following chart shows the main areas of budgeted expenditure in 2014/15 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 roughly

6% of the total business rates collected, after the levy is applied). The Revenue Support Grant is expected to be £2.735million for 2014/15 and the retained business rates are expected to be £2.428million. Together this gives a “settlement funding assessment” of £5.162million. This is roughly 13% lower than the amount received in 2013/14 of £5.961million.

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 2013/14 the Council received some £39.335 million as earmarked revenue specific grant funding, although the bulk of this funding relates to the subsidy for housing benefit 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 2014/15 of £39.845million 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:

	2012/13 £’000	**2013/14 £’000**	**2014/15 £’000**
Benefits Administration and Fraud Initiative Grants*	888	984	592
Council Tax Support Administration Subsidy*	0	0	136
Housing and Council Tax Benefit Subsidy**	45,848	37,545	38,230
Waste minimisation – Herts County Council contribution	395	362	395
Waste Service Transport Subsidy	33	30	31
National Non-Domestic Rates Administration Grant	181	182	184
Portas Grant ***	10	0	0
Homelessness Prevention Grant****	88	0	0
Community Safety Grants	28	27	29
Council Tax Support Scheme – New Burdens Grant	89	66	82
DWP New Burdens	3	0	29
Play Project – HCC	2	0	0
Community Right to Bid/Challenge	13	16	9
Assets of Community Value New Burdens	0	0	8
Gt Ashby Gardens	13	0	0
Individual Electronic Registration Grant	0	27	46
Air Monitoring, DEFRA	0	28	0
HCC Health and Well Being Grant	0	10	0
DCLG Waste Grants for Flats recycling	0	58	74
Total	**47,591**	**39,335**	**39,845**

** following the abolition of Council Tax Benefit and the introduction of Localised Council Tax Support in April 2013 the funding for administration of these schemes will be disaggregated from 2014/15.*
***2012/13 was the final year of the Council Tax Benefit Scheme. In 2013/14 and onwards the new Council Tax reduction Scheme is managed within the Collection Fund. Funding for the scheme has been incorporated within the overall Settlement Funding Assessment*
****the authority is required to act as administrator only of this grant on behalf of the Letchworth Town Centre Partnership, who are responsible for identifying areas of expenditure from the grant to best support local businesses. It is also a one-off grant, not to be repeated in future years.*
*****from 2013/14 the grant funding for Homelessness prevention has been incorporated within the overall Settlement Funding Assessment.*

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 2008/09. The Council also receives compensation within its settlement funding assessment for when it accepted the council tax freeze grant.

	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Total Council Tax Income (£M)	9,111	9,579	9,780	9,885	9,944	9,356	9,589
Taxbase (Band D Equivalent)	48,876	49,461	49,749	50,282	50,586	46,705*	46,978
Council Tax Band D(£)	186.41	193.68	196.59	196.59	196.59	200.32	204.13
Increase on prior year	4.5%	3.9%	1.5%	0%	0%	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 existing policy, the expected Council Tax increase for 2015/16 should be no higher than RPI plus two percentage points or 0% plus two percentage points where RPI is a negative figure. This will be assessed in more detail if this is likely to trigger a referendum, as described in the next paragraph.

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 in excess of 2% be proposed. 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 2015/16 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 8 pence per week for a Band D property.

5.0 Income Policy

5.1 As a minimum the Council increases discretionary fees and charges annually in line with inflation, as measured by RPI. Responsibility for this process, and subsequent fee levels, lies with Strategic Directors. The Council has 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 be increased by more than RPI, should it be required. Any deviation from this strategy has 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 often 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. Further work on establishing services which are statutory or those which are discretionary will also influence decisions on charging levels and we make use of a combination of CIPFA (Chartered Institute of Public Finance and Accountancy) statistics, internal performance information and comparative data from other sources, to inform our decisions on charges.

5.2 As part of further developing the Medium Term Financial Strategy, we continue to investigate the continuing 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 priorities?
- Is the service statutory or discretionary and 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 by Authorities across the country highlights that, in 2012/13 NHDC had an income to expenditure ratio of 17.6% (for 2011/12 it was 17.1%). Compared to its Nearest Neighbour group, this income to expenditure ratio for NHDC was lower than the average of 20.1% (2011/12 average: 19.8%). When compared to other authorities across England, the income to total expenditure ratio was also below average. NHDC was ranked only 122nd out of the 201 comparable authorities.

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 income to NHDC is estimated as £0.9m, with highways & transport (primarily parking) and planning & development services (building & development control) being those offering most potential for review. 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 income of just over £290k 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 strategic priorities.

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, 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 limited company. 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 could achieve notional savings of £0.4m 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). However, this saving could be up to £1.7m 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 2013/14, as reported in the Revenue Account (RA) returns to Central Government.

6.2 Overall, North Herts unit costs are 5.2% higher than the Nearest Neighbour average and are ranked sixth out of sixteen authorities in the group. The highest unit costs by service area were for Highways & Transport, being 5th out of sixteen authorities; Cultural & related services (3rd highest in the group); and Central Services (7th highest). Reducing these figures to the median would achieve efficiencies of £0.96m for cultural & related services; £0.3m for highways & transport and £0.26m for central services.

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. Central services include corporate & democratic core, local tax collection and emergency planning.

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 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.

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 strategic priorities 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 priorities 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. Firm commitment requires the full revenue implications to 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 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, which would form part of the retained capital amount referred to below.

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 is set at £20million, 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. As referred to at 2.0, 26), 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.

7.8 NHDC will use its retained capital receipts in a planned way and once the Capital Financing Requirement (CFR) reaches a negative of £10 million this will be considered the minimum threshold. Once this figure is reached, NHDC will seek other ways of financing any necessary capital expenditure, e.g. revenue contribution to capital; borrowing. 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. As at 1 April 2014, the CFR stood at a negative £23.3million.

7.9 The 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. This will be consistent with the Income policy principles in 5.2 above and the Council’s adopted Community Halls Strategy.

7.10 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.

7.11 The Government has taken on board concerns regarding the need for greater flexibility on capitalisation by agreeing to consult on allowing some flexibility for local authorities to use asset sale receipts to finance one-off costs of service transformation and this situation will be monitored.

8.0 Balances position - General Fund & Collection Fund

8.1 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 £15 million and a Bellwin Threshold of £35,000, the minimum 5% balance is in the region of £800k.

8.2 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, the Council will bear the first 7.5% of any loss and, at this stage the potential maximum risk of loss for 2014/15 is estimated in the region of £180k.

8.3 NHDC has sought advice from CIPFA during 2013/14 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. The CIPFA review also includes consideration of the following questions:

- Forecasting for successful appeals
- To spread or not spread the cost of appeals in 2013/14
- The level of provision
- The actual cost of appeals
- The interaction with authorities' pooling groups (current and potential future groups)

8.4 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 2014/15 was £6.2 million, taking a proportion of the risk into account meant that it was prudent to increase balances by £1.2million above the minimum level. This suggested that it was advisable to maintain an overall General Fund balance in the region of £2 million for 2014/15.

8.5 The 2013/14 outturn figures show a General Fund Balance at 31 March 2014 of £3.933 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 which stands at £1.767 million on 31 March 2014. Members have previously agreed that this fund will be used on a phased basis for invest to save projects and to support unavoidable fluctuations in contract prices as contracts are renewed. The balance in the special reserve has been increased for 2014/15 to provide a means of funding the implementation of alternative ways of working to assist the delivery of efficiencies over the next five years.

8.6 Other reserves and provisions as at 31 March 2014 include the Housing & Planning Delivery reserve (£243k), an Insurance Fund (£28k) used to finance potential claims for risks not covered by external policies, an Information Technology Reserve (£293k) for the purchase of hardware and software items, and an Environmental Warranty reserve (£209k).

8.7 Collection Fund

8.7.1 As 2013/14 was the first year of the new retained business rates regime and the Council Tax reduction scheme, the key aspects of the Collection Fund are outlined below:

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.

A total of £37.3million was owed to the Collection Fund from business rate payers in the District for 2013/14 after all deductions and exemptions. Payments from the Collection Fund for business rates were made on the basis of the original estimate for 2013/14, submitted to Government on the NNDR 1 form in January 2013. The Council paid £3.7million (10%) to Hertfordshire County Council and £18.6million (50%) to Central Government as their share of the business rate estimate for 2013/14. £14.9million (40%) was paid to the NHDC general fund as the District share of the estimate for 2013/14. However, the Authority then paid £12.3million from the general fund to Central Government in the form of a tariff, leaving the Authority with £2.6million to help fund general fund activities.

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 £182k for 2013/14.
- Write off of uncollectible amounts and increase in bad debt provision – Debt that is deemed uncollectible is written off. The amount written off in 2013/14 was £381k. A provision is then made for the amount of outstanding arrears that will need to be written off in the future because it is uncollectible. The amount of arrears at 31st March 2014 was £1.9million and the amount of bad debt provision was £786k (NNDR Arrears as at 31 March 2013 were £2.2million and the provision was £500k).
- Provision for Appeals – Regulation requires that the Authority make provision for appeals (both backdated and in year appeals). At the 31st March 2014 there was a total of £18.4million of rateable value subject to appeal. When the multiplier and the back-dating are factored in these appeals have a total potential monetary value of around £33million. 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. This results in a calculated provision of £1.34million for appeals.

The Business Rates Collection Fund is therefore in a net deficit position of £1.99million. This deficit is largely due to two factors; a £600k increase in the provision for appeals and a £1.1million increase in the amount of Small Business Rates Relief (SBRR) granted during the year. The SBRR is funded by the Government and the Council is due to receive a section 31 grant in the general fund. The NHDC share of the deficit position with respect to business rates is £797k. The Council may need to make a payment to the Collection Fund from the general fund in 2015/16 if the deficit position remains during 2014/15. The section 31 grant of £445k will be kept in an earmarked reserve for this purpose.

In contrast, the Council Tax Collection Fund is in a net surplus position of £347k. The surplus during the year was £190k. The NHDC share of this surplus position is £54k. As part of the budget setting process for 2014/15 no contribution to or from the collection fund was planned to or from the general fund budget.

9.0 The Financial Context 2015-20

9.1 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 2015-20.

9.2 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 strategic priority.
- 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
- 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

9.3 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 2015 onwards

9.4 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.

9.5 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 15/16 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 2014/15 budget. Further assessment of fees & charges levels is also proposed. Officers will also plan for the medium to longer term and consider transformation projects which may require some initial investment before delivering benefits from 2016/17 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,

9.6 In line with the original Corporate Plan published in 2005, and the 2014 update titled "Priorities for the District" the Council is still 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.

9.7 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 there an absolute priority that we do this within the next twelve months?
c) What are the risks involved in not proceeding with the project, spending the money or making the proposed reduction?
d) 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?
e) What is the realistic timescale required for the project, one or more years?
f) Does the reduction mirror the reduced priority determined by the Council in its Priorities for the District?
g) Will any cost reduction carry on in future years?

9.8 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

9.9 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

9.10 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 rate achieved on deals in 2015/16 and onwards of 1% on new investments.
- 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 - In February 2014 the government provided an illustrative finance settlement for 2015/16 which resulted in an overall 15% reduction in the SUFA (all taken from the RSG). Funding in 2016/17 is expected to fall by 8% and then by 7% in each year thereafter.
- 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.
- Contract inflation in accordance with the individual contract terms
- Pay inflation at 1% in each year.
- Pay increments due in 2014/15 and future years have been built in to the model (approximately £80k for 2014/15) 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 general principle applied is that discretionary fees and charges income will be increased by RPI at November, currently assuming 2.8% increase. However, some fees may be increased further following actions referenced in para 5.4.
- Use of the special general fund reserve will happen on a phased basis to prevent erratic movements in Council Tax increase.
- The 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.
- The local Council Tax Reduction Scheme will have a cost neutral impact.
- A vacancy savings target set at approximately 3% of salary budget to yield in the region of £0.3 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

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

9.11 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 over £2million by 2019/20 resulting in minimal retained general fund reserves. Appendix 2 demonstrates that a phased efficiency programme increasing from £200k in 2016/17 to £600k in 2019/20 (total efficiencies of £1.7million) would result in a more prudent use of reserves over this period. Appendix 3 demonstrates that this efficiency target reduces to £500k over the same period if there is a council tax increase of 1.9% in each year.

10.0 Risks inherent in the Assumptions

10.1 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 2015/16.

10.2 Figures quoted now will vary by the time the draft budget is set in December, once we have further clarity around key funding changes. 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.

10.3 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.

10.4 More specifically, these can be described as:

- Business Rates were localised from April 2013. Growth above Government forecasts would lead to additional income to the Council, as long as this did not achieve disproportionate growth (classed as more than 10% of NNDR Base), whereas collectable amounts could fall by over 7.5% (£170k) before the "safety net" applies. To date, collection rates have remained high and so no adverse impact has occurred. The impacts from unresolved appeals before April 2013 have yet to be felt and it is also noted that a re-baselining of business rates in due within the five-year time horizon of the MTFS.

- Implications of the Welfare Reform Bill and the introduction of the Universal Credit. A 10% cut in funding was passed on to Local Authorities. The Council Tax Reduction Scheme payments for the District currently total approximately £8.2million, so this reduction of 10% meant approximately £820k (shared by the main precepting bodies in proportion to their share of the Council Tax bill) had to be found from a review of the benefit scheme so there was no impact on funding for other services. The scheme was implemented from 1st April 2013 and indications in the first full year of operation were of no significant adverse impacts on collection rates, however this will be monitored closely. In terms of 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.

- 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 and a new proposal was scheduled to be publicised by Easter 2014. As at mid July 2014 no new proposal has emerged.

- 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.

10.5 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 2014/15 in February, although recent Bank of England output suggests that interest rates could begin to rise in late 2014, although only by small increments. However other commentators state 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.

10.6 In considering the impact of potential variations to the figures presented, Members should be aware that a 1% increase in Council Tax in 2015/16 would generate approximately £100k income.

10.7 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.

11. Conclusion

11.1 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.

11.2 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.

11.3 Due to measures taken in 2013/14, NHDC now 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 2016/17 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

11.3 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.